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

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MONTE CARLO

Run-off letters issued as Lloyd's takes on market

The distance between managing agents' growth plans for 2019 and Jon Hancock's hard-line stance is becoming clearer as the planning process advances, and is set to be a key test of will for the Corporation.

Over the past few months, Lloyd's managing agents have been tasked with identifying their worst-performing lines, producing turnaround strategies and submitting business plans that show a path towards an improvement in underwriting results.

And they have done it under the very clear threat that they will be forced out of lines of business, or even entirely into run-off, if they do not satisfy the performance management directorate (PMD).

The Insurance Insider now understands that up to five syndicates have been handed a so-called run-off letter, outlining that the recipient should draw up an orderly run-off plan to be implemented if they are unable to satisfy Lloyd's requirements through the planning process.

Many more letters are believed to have been sent recommending syndicates exit specific lines of business, with property direct and facultative, professional indemnity, hull and cargo among the worst-performing classes.

But as fully aligned syndicates prepare to submit 2019 business plans in early October, there is growing evidence of a misalignment of expectations between Lloyd's and its managing agents as the remedial work continues at 1 Lime Street.

This publication has learned that high-level plans submitted by managing agents in the summer suggested that premium in the Lloyd's market would grow in the mid-single digits for 2019 overall.

This is said to have jarred with the PMD's view of how premium volumes should move year on year given current levels of profitability. Market sources have said that the Corporation pushed back hard against these growth projections.

When questioned by *The Insurance Insider* on Lloyd's expectations for growth in the coming year (see page 6), performance management director Hancock stressed that he and his team would not accept growth plans predicated on "unrealistic" expectations of pricing, distribution or syndicate capabilities.

In addition, he said the Corporation would reject any business plans that did not show a reduction in expenses for 2019.

The market as a whole is broadly supportive of the reform work being carried out by Hancock and the PMD and acknowledges the need for urgent action against the persistent decline in profitability.

Since year-end 2013, Lloyd's gross written premium has grown by nearly a third from £26bn ($34bn) to £34bn in 2017. During that time, the market's accident-year ex-cat ratio has risen by 8 percentage points to 98.4 percent.

It is widely agreed among market practitioners that this position is untenable for Lloyd's if it is to survive.

It is similarly acknowledged that a circa 40 percent expense ratio will seriously threaten the health of the Lloyd's market if it continues.

However, some syndicates will be in an uncomfortable position as they struggle to control their expense ratios in the face of a reduced top line. Some are also likely to be concerned that their critical mass and relevance is threatened by retrenchment.

And although Hancock has stressed that plans will be assessed with each syndicate's own track record in mind, some sources have privately argued that the Corporation has not sufficiently differentiated based on performance, with even top-quartile syndicates under pressure.

There is also some concern that if the drive from the PMD results in a smaller, more profitable Lloyd's, this could create an impression beyond the market that the Corporation is not "open for business".

Lloyd's will need to have given all syndicates a clear answer on their future by the time the capacity auctions for non-aligned syndicates start in mid-November.

By then, it will be clear just how hard Hancock and his team have been willing to push and whether the drive for improved profitability has created more casualties following Fairfax's voluntary dissolution of Advent.

INSIDE

'Festival wash' anyone?

Don't take anything for granted. This morning, the *Insider* team stumbled bleary-eyed into their showers, hoping to rinse away the iniquities of the Riviera night and be clean and renewed before the next round of briefings and round tables began.

But nothing came out.

They pulled, prodded and poked, but all that emanated from the bathroom chrome was an asthmatic hiss, a dribble of remnant fluid and that tell-tale gurgle that confirms water supply failure.

Our team's group WhatsApp chat sprang into life:

"No water coming out of my taps now… *Insiders* be stinky."

"I just went for a run :-("

"Maybe go to the swimming pool?"

"You'll smell of chlorine."

"That's better than how I smell now after my run."

"How about a 'festival wash' with wet wipes? I can get some."

"If anyone is really desperate I have bottled water."

"The press room is going to be fruity today."

The hotel confirms there is a burst pipe in the local area. They are very, very sorry but they have no idea how long it is going to take before the water comes back on.

It is remarkable how easily you can come take something so essential for granted.

Yet when what is missing really is essential, it is also remarkable how quickly people can adapt and improvise.

I am sitting in our press room in the bowels of the Fairmont surrounded by baby wipes and bottles of Evian that some have used for Cleopatra-style ablutions.

The baby wipes make you smell of strawberries. If this continues you won't have to look out for the red polo shirts of the *Insider* team – if you are downwind you will be able to smell them coming.

"If we run our businesses well we can make what evaporates off the surface re-condense as the rain of surplus profit, ready to water and nourish new industry growth"

In our industry it is capital that cascades like water, flowing abundantly down from the capital markets towards risk. It forms pools in ILS, ponds in specialty, lakes in reinsurance and seas and oceans in P&C and life insurance. It flows so abundantly that we take it for granted

If the taps were turned off it would take a while for a shortage to become apparent.

Big seas of capital are ecosystems that can be self-sufficient for long periods.

If we run our businesses well we can make what evaporates off the surface re-condense as the rain of surplus profit, ready to water and nourish new industry growth.

The problem is that our rate of return is not currently good enough to top us up to healthy levels.

Today, if we boil off too much, rationing may ensue.

But as evidenced by the swift innovations of the *Insider* team this morning, scarcity is the true mother of invention.

New pools of capital are sought out: how about the swimming pool?

New delivery methods: will buckets and watering cans be enough, or shall we lay a new pipe?

Then we quickly get into product and quality control: how do we get the swimming pool water to stop smelling of chlorine and what if we could make it drinkable?

Or how about alternatives? Maybe we don't need water at all? Maybe alcohol-based wet wipes will do the job just as well – but how do we stop them smelling so strongly of strawberries?

Any lesson learned should be remembered.

Capital may be abundant today, but it might not always be. Run your business as if there were no new capital available and it will make you much more resilient and innovative.

The indignity of the strawberry-scented *Rendez-Vous* festival wash or traversing Casino Square smelling of chlorine is not ideal – but it is far more civilised than the foul aroma of the alternative.

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Aon continues ReSpecialty expansion with Silies hire

Aon has appointed Christian Silies as head of marine, energy and composite business at its ReSpecialty division, *The Insurance Insider* can reveal.

Silies joins the broker from Hannover Re, where he most recently served as general manager for marine and treaty.

In the new role, he will be tasked with building Aon's specialty reinsurance portfolio, focusing on a range of classes including protection and indemnity, liability, energy and marine.

Silies had worked at Hannover Re for 14 years, according to his LinkedIn profile, initially underwriting facultative casualty business before specialising in marine and energy treaty. It is understood that Silies left Hannover Re in August and will start in his new role on 1 October.

Commenting on the appointment, Tom Wakefield, chief operating officer of Aon Global ReSpecialty, said the hire underlined the broker's commitment to developing its reinsurance operation across all classes of marine business.

The new hire follows a leadership reshuffle at Aon Reinsurance Solutions that saw a number of senior appointments across its UK leadership, as Peter Stubbings took over as CEO of its Global ReSpecialty division.

The broker has appointed Bob Bisset as UK growth leader, with responsibility for all of the division's UK business segments. He moves to the new role next year from the position of CEO of Aon's Global ReSpecialty division. Prior to this, he led Aon Benfield's Bermuda office.

As part of the leadership changes, Wakefield has become chief operating officer of Global ReSpecialty, while Skilton has been named vice chairman at the division, taking responsibility for aviation.

Apollo's newly minted Acra Re nears first deal

Apollo's new Bermudian reinsurance vehicle Acra Re looks set to conclude its maiden deal by the end of the month.

As previously reported, legacy acquirer Catalina is close to finalising a deal to take on Zurich's £1.6bn ($2.1bn) UK employers' liability back book.

It is understood that Acra Re is set to co-invest in the Zurich deal alongside Apollo-backed Catalina.

The $250bn alternative investment manager quietly registered the vehicle in Bermuda in August.

With no announcement of the formation of the business, no rating, no $1bn balance sheet and no full-time executive team, Acra Re defies the received wisdom about what is required to get a successful reinsurance entity off the ground.

As such, the creation of the vehicle has gone largely unremarked, with Acra Re not a subject of discussion at Monte Carlo despite the current focus on Apollo in the wake of its $2.6bn agreed acquisition of Bermudian carrier Aspen.

Nevertheless, the Class 3A reinsurer is said to be a strategic exercise for Apollo and could become a crucial part of the Bermuda market over time, as it continues to evolve away from the traditional quoted balance sheet plays of the past.

The starter deal may come in the form of a co-investment with Apollo's legacy carrier Catalina, but sources have suggested the alternative asset manager has already begun the hunt for other major transactions to feed the vehicle.

Acra Re will look to transact big one-off deals as a means of gathering liabilities without building a meaningful cost base, with both P&C and life likely to be targeted.

It is believed the vehicle will look to strike deals with companies in the Apollo ecosystem, as well as investing alongside them, with Aspen a potential candidate for such a transaction.

Apollo has tended to embrace a total return model with its other insurance assets like Athene and before that Brit, and it seems likely to continue this approach with Acra Re.

Sources have suggested that Apollo will look to rapidly build the asset base of Acra Re, with one pointing to Athene's growth trajectory as a precursor.

The asset manager has a track record of delivering fast growth, with life consolidator Athene Holdings growing from a standing start to around $100bn of investable assets in roughly 10 years.

It is further understood that Acra will employ a funds-managed structure, deploying third-party money into a variety of deals offering investors different projected return hurdles and risk tolerances.

As such, the equity base of the company could remain small over time, even as the firm grows, with the business more akin to asset managers Nephila and Aeolus than Arch and RenaissanceRe.

Covea-Scor: a question of money or culture?

Are you an economist or an anthropologist? Or to put it another way, what wins out in the end: money or culture?

Often relevant, the question feels like it is at the heart of determining how the Covea-Scor narrative will play out.

On the one hand, you have a mutual insurer with a huge amount of excess capital run by a board with a vision of building a bigger and more diversified business: a French Talanx.

Covea CEO Thierry Derez and his board do not have to think about the way their share price will respond and they do not even have to think about the return on their investment as such – freeing them from many of the obstacles that traditionally block M&A.

If they do not put their huge amount of excess capital to work at some point, they are probably obliged to return it to policyholders.

All of which means you have a buyer with very large resources who is not very price-sensitive trying to acquire something it considers very valuable.

And that would point towards the conclusion of a deal – not on the first bid, perhaps not even on the second, but certainly on the third.

> "Let's be clear: this isn't just about money"

Weighed against that is culture – and here I am referring to everything that is not a straightforward financial consideration.

And let's be clear: this isn't just about money. Unlike with an Anglo-Saxon company, Denis Kessler and the Scor board are obliged to consider all stakeholders, including staff and clients when they weigh a bid – not just to maximise shareholder value on an all-cash exit.

Kessler has made his arguments at length about the cultural mismatch, the potential downgrade, the loss of independence, the diminution of the Scor franchise, the inability to access post-crisis funding, and so on and so forth.

The strength of those arguments can be judged elsewhere. Here, I am more interested in the way in which he has done it.

Kessler is a flamboyant character, a huge personality. But even given his inimitable style, he has been remarkably outspoken in his criticism of Covea over the last few days.

And I wonder if there is a point at which your defence is so trenchant and the battle becomes so personal that it is not possible to lay down your arms and embrace.

After the things Kessler has said, whatever the brute logic of economics, I find it hard to imagine him being quoted on a press release saying he is "delighted to have reached a deal with Covea to create a French (re)insurance powerhouse".

At the very least, it will be very difficult for him to do so.

At which point you ask whether there is a point – be that EUR46, EUR48 or EUR50 – where the shareholders would take the decision out of Kessler's hands and force him to accept.

One final question is where the ultimate cultural power – government – is in all of this. I have heard so much speculation on this question and more than one conspiracy theory, so let's just say that the French government's influence has the potential to be decisive here.

Every syndicate must reduce 2019 expenses: Hancock

Lloyd's will reject any syndicate business plans that do not show a reduction in expenses for 2019, performance management director Jon Hancock has warned.

While the executive noted that the performance management directorate (PMD) would acknowledge the expense burdens of those syndicates that were still "growing into their own skin", he also said the market should not use top-line growth to address high expense ratios.

"There is a balance between premium growth and managing expenses of course," he told *The Insurance Insider*. "But if you have got a high expense ratio it is rarely a good idea just to grow your premium to manage your expense ratio. Normally, it is a much better idea to reduce your expenses."

Hancock reiterated his previous stance that the market could see a smaller but more profitable Lloyd's in the short term as the Corporation continues its overhaul of performance.

The executive said his team would not hesitate to firmly push back on plans that predicted growth based on unrealistic expectations of pricing, distribution or ultimate profitability.

Lloyd's would also "absolutely" use the powers in its remit to demand that syndicates exit underperforming classes of business where the PMD was not satisfied they could be returned to profitability in the near term.

"If we see plans for lines of business which want to grow and yet show a sudden, miraculous improvement in performance, we will push back hard," Hancock said. "We've got to believe these plans are realistic."

All syndicates will be judged on their own merits and track record, and those best-in-class syndicates which want to grow in their well-performing lines would be supported by Lloyd's, Hancock added.

"I think there is still a lot of appetite for growth and I am sure some of that is well founded, but I am equally sure some of it is not well founded," he said.

The executive would not be drawn on whether the market would, as a whole, grow or shrink for 2019. He promised that the Corporation would give definitive answers to managing agents on 2019 business plans as quickly as possible.

Hancock added that it would be "unrealistic and unfair" to say that by Q4 this year all syndicates would be back in profit. "That would likely destroy as much value as it creates," he said.

But Hancock does expect to see immediate improvement in the underlying underwriting performance of syndicates, as many had already started remedial action on their books before the heavier focus from the Corporation.

However, "there is a reality that in the short term, when you are trying to fix financial problems it can get worse before it gets better", he warned.

The executive said the PMD did accept that for some syndicates, more positive performance could take a while to come through into the financials, but this does not mean syndicates should stop being proactive in addressing profitability.

"We have to be brave, and we – Lloyd's and the market – have to hold ourselves to account," he said. "We must make sure we are not using any excuse to just hope it will all turn out alright."

Axa XL will make greater use of alternative capital: Hendrick

The new enlarged Axa group will look to scale up the alternative capital capabilities it took on in the XL acquisition and match more insurance risk from across the group to that capital, XL president Greg Hendrick has said.

In an interview with *The Insurance Insider* at the Monte Carlo *Rendez-Vous*, the executive said even before the Axa takeover, XL was an extensive user of alternative capital, particularly for property cat risk.

Before the acquisition, XL held one of the largest cat bonds outstanding, made great use of collateralised reinsurance and also was actively growing its New Ocean asset management arm, Hendrick explained.

"We will, as part of the Axa group, seek to move [the use of alternative capital] forward and have those capabilities brought to bear on all of the Axa group, not just Axa XL," he continued.

"Thomas [Buberl] and I very much share a vision that this is the future of the market place and XL Re and alternative capital will be the two main drivers behind how well this goes."

Hendrick said he believed the market has "changed forever", particularly for property cat reinsurance.

"Property cat today is no longer just a sell-and-hold [on your own balance sheet] model, it is a sell and move to the right source of capital model," he said.

"If you assume a similar risk margin to what is available [for property cat] this year, then we will continue to make that move to match more of that cat risk with alternative capital [rather] than retain it on our balance sheet."

Hendrick said it is imperative that the market condenses the value chain so that costs no longer absorb 40 percent of premiums. That means bringing alternative capital closer to various forms of risk, he added.

"We are very passionate about shrinking that chain down in the most appropriate way we can, to get more of that premium to go to the loss for the customer, rather than for expense."

On the imminent close of the deal, Hendrick will become CEO of Axa XL.

The division will comprise XL's insurance and reinsurance businesses, as well as Axa Corporate Solutions and Axa's fine-art business.

The executive reiterated that Axa XL is "firmly committed" to the reinsurance market, despite this publication's earlier revelation that Axa had explored a spin-off of XL Re before the $15bn acquisition.

"It's a core part of our franchise, its $5bn out of our $15bn of gross written premium," Hendrick said.

The reinsurance business allows Axa XL to have exposure to markets and risk it does not access on a direct basis, such as US homeowners' and mortgage risk, he explained.

Mumenthaler warns of capital and risk disconnect

Swiss Re CEO Christian Mumenthaler has made a robust defence of the traditional reinsurance model, warning that the decoupling of capital and risk has echoes of the credit crisis.

Speaking at the official Monte Carlo *Rendez-Vous* conference, Mumenthaler criticised the view that alternative capital is more efficient than reinsurance capital.

"Fundamentally, technically, mathematically, reinsurance capital is much more effective."

He added: "There's a phenomenon that is reminding me of the financial crisis. We have more and more separation of those who understand the risk and those who provide the capital.

"I don't think anybody does the full math on this," he noted. "There is a risk that a lot of capital is pushed this way or that.

"In a long-term horizon, you could get decoupling. I don't see a systemic risk here, but I do see a risk of depressing prices."

Mumenthaler was speaking at a panel discussion with other industry CEOs.

Also on the panel was Scor CEO Denis Kessler, who said there would be no return to a hard market, unless there was a cataclysmic cat event.

Kessler spoke of "extremely limited" rate increases and the influx of third-party capital. "We wait for the return of the Jedi – the market cycle," he joked.

"Maybe there is no Jedi."

His comments set a more negative tone than commentary he made in an interview with this publication before the conference, in which he said he was optimistic that the pricing cycle had turned.

He spoke to *The Insurance Insider* after the reinsurer had rejected an unsolicited EUR8.3bn ($9.6bn) bid from Covea.

At the Monte Carlo event, the Scor CEO also remarked that a cyber catastrophe would be the kind of event that had sufficient scale to have an impact on the market.

"A worldwide cyber attack could be the event that turns the market," he said.

He said a market turn could only be caused by an unexpected event on the scale of Hurricane Andrew in 1992 or the World Trade Center attack in 2001.

Andrew caused over $500mn of damage to oil platforms before making Florida landfall. At 2017 prices, the total insured losses from the storm would have been $28bn, according to data from Swiss Re.

Marsh & McLennan Companies CEO Dan Glaser was also on the panel. He said that a large-scale cyber attack could end some of the current uncertainty about what is covered and what is not by cyber insurance.

He said: "The bigger the loss the more likely the industry gets shamed by its fragmented reaction to if it's covered or if it's not."

Legacy market sees higher interest amid live market efficiency push

The run-off market has predicted greater deal volumes in future, driven by a greater focus on capital optimisation, according to the Insurance & Reinsurance Legacy Association (Irla).

Effective management and disposal of legacy liabilities is gaining more interest across the industry – and is growing in appeal to a wide array of investors.

This week alone has seen Enstar revealed as the front runner for Zurich's US asbestos book, while Catalina is close to agreeing a deal to take on Zurich's £1.6bn ($2.1bn) of legacy UK employers' liability exposures.

MS Amlin also brought a EUR90mn ($104mn) Irish public liability and employers' liability book to market, and the legacy arm of Axa agreed to acquire a EUR85mn portfolio of Sovag's inward reinsurance business and direct business.

Legacy players are hoping that these deals, executed by major live carriers, could instil confidence in run-off and encourage more sellers to bring their books to market.

Irla, the UK trade body for the legacy sector, celebrated its 20th anniversary by holding its first-ever briefing at the Monte Carlo *Rendez-Vous*.

Among the topics discussed were the current drivers for legacy disposals – including greater awareness of capital being trapped to support discontinued lines, distractions of Solvency II reporting and removal of poor-performing business lines.

Panellists also considered the increasing interest in legacy acquisitions by capital investors looking to diversify and gain yield; and the challenges this created for both sellers and buyers.

Paul Corver, Irla chairman, commented: "We have seen significant uptick in deal volume, which is reflective of the growing influence of the run-off sector and increasing recognition of the benefit that disposal provides to sellers' balance sheets and capital obligations. It is a very exciting time to be working in an area of growing innovation."

Legacy sources have told this publication they expect further run-off to result from the recent flurry of M&A deals, as mergers are rarely a perfect fit.

The recent crackdown at Lloyd's is also expected to create further reinsurance-to-close (RITC) activity.

Barbican and AmTrust have now both launched formal processes to secure a RITC transaction.

Meanwhile, the legacy market moved a step closer to unlocking the potential high volumes from US run-off this week, after Pro Global secured $35mn in surplus funding from partners including Swiss Re.

The injection will allow the Pro US subsidiary to meet minimum capital requirements in various states and help it gain licences and reinsurance accreditation across all 50 US states and the District of Columbia, Pro US said.

However, the market has been described as extremely competitive, with recent interest from private equity and live carrier investment in run-off acquirers resulting in an increased amount of capital chasing run-off liabilities, causing deal margins to thin.

Legacy carriers at the conference spoke of reputation and excellent claims management skills as a key differentiator in deal discussions.


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With Hurricane Florence still some way off the Carolinas' coast, most of the conversations at Monte Carlo revolved around the traditional talking points of M&A, pricing and emerging risks.

Hannover Re executive board member Michael Pickel was in the glass-half-full camp when it came to the implications of increased M&A, saying that the recent flurry of M&A activity had made Hannover Re "happy", as some of the acquiring companies were clients. That provided an opportunity for the expansion of existing contracts, he said.

PartnerRe, meanwhile, has its eyes set on its own deal pipeline. At its Monte Carlo press conference, president and CEO Emmanuel Clarke said the Bermudian will look to expand through bolt-on acquisitions and organic growth, rather than through a transformational deal.

"We actually see plenty of organic growth opportunities both in the non-life space and the life and health space," he said.

AIG CEO Brian Duperreault said the recent spate of Bermudians being bought up highlighted the quality of their reinsurance operations.

Speaking at a PwC breakfast briefing in Monte Carlo on Monday, Duperreault said the deals, which include his own purchase of Validus and Axa's takeover of XL, should be seen as a positive by reinsurance buyers. That is because putting a wholesale reinsurer into a huge insurance balance sheet gives cedants more faith in the stability of that carrier, he said.

However, one carrier not feeling the M&A vibes was Scor, which batted away an unsolicited offer from mutual Covea in the days leading up to the *Rendez-Vous*.

Scor CEO Denis Kessler was his typical, candid self, when he told this publication there was effectively no price at which the reinsurer would happily sell out to Covea given that "trust is nil right now".

Moving to rates, even before Monte Carlo had begun, Kessler was relatively upbeat.

He told this publication that Scor is currently well placed to produce higher returns and was optimistic the industry is starting a new pricing cycle.

Hannover Re, meanwhile, anticipates potential property cat reinsurance rate increases on Japanese accounts following a series of typhoons.

Head of global reinsurance Juergen Graeber said the recent spate of typhoons to hit the country would lead to "detailed discussions" with Japanese clients about potential rate increases in 2019.

AIR Worldwide has estimated that industry insured losses from Typhoon Jebi could reach between 257bn yen and 507bn yen ($2.3bn-$4.5bn).

Hannover Re also expects increased premium and rates in international property catastrophe primary insurance in 2019, Graeber said, particularly in the Caribbean and Latin America.

In line with previous years, a number of reinsurers also talked to the market about their concerns on emerging risks, particularly cyber.

Torsten Jeworrek, chairman of Munich Re's reinsurance committee, warned that those cyber risks that could accumulate large losses across the industry were simply not insurable, today, but that the market could still provide adequate coverage for less correlated cyber risk.

He added that most significant players were on board although many were holding back on writing cyber until they could analyse the experience of earlier adopters.

Sus

Brokers

For the broking fraternity, the M&A marriage of alternative capital and (re)insurance was a discussion focal point, alongside the perennial topic of rates.

Aon Securities CEO Paul Schultz combined the first two themes, telling journalists at the broker's press conference that he was expecting more (re)insurers 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."

Elsewhere, JLT Re noted that $8.5bn of capital had flooded into the ILS market in H1 2018, and that much of this capacity has been deployed at low rates of return by historical standards, notably in areas where ILS markets are most active, such as Florida.

In areas where pricing had dampened most in the summer renewals, such as property cat, a key driver had been the speed and volume with which alternative capital has come in, the broker said.

David Flandro, head of analytics at the reinsurance broker, told journalists at the *Rendez-Vous*: "I've never seen the capital markets reload that quick."

Flandro added that relatively limited loss development from Hurricanes Harvey, Irma and Maria was also suppressing rates.

Harvey losses have increased by around 11 percent from estimates on landfall, while Maria costs have risen by 25 percent. That compares with a 71 percent hike in claims development from Hurricane Sandy in 2012.

Returning to M&A, Willis Re 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.

Willis Re global CEO James Kent noted that the reduction in the rate of corporation tax in the US had accelerated the pace of M&A among US-domiciled carriers.

At Aon, Reinsurance Solutions CEO Andy Marcell referred to the trend for (re)insurers to look for M&A deals that broadened their capabilities and access to risk and capital as a natural evolution, rather than a revolution.

Both AIG's $5.56bn acquisition of Validus and Markel's agreement to buy Nephila allowed the acquiring companies to build scale and broaden their skill set and product offering, he said, as well as demonstrating a trend for carriers to bring insurance, reinsurance and alternative capital capabilities under one roof.

And on rates, JLT chose to shine a spotlight on casualty renewals saying that an improving economic environment of full employment and rising interest rates could spell trouble for casualty claims inflation, leading to an uptick in pricing.

Ross Howard, JLT Re's executive chairman, commented: "We all sit here at Monte Carlo and talk about cat and property, but really there's a huge book of casualty business out there. There are a lot of different factors out there that may come home to roost."

Willis Re's Kent, meanwhile, said property cat pricing had entered a "new norm" in which highs and lows were muted.

ILS capital not only impacted pricing by providing a wall of capital, it had also transitioned from being a "disruptor" of the industry to an "enabler" of more sophisticated risk transfer, he said.

As the great and the good of the reinsurance industry prepare to depart Monte Carlo, we ask some of the market's top executives to assess the InsurTech scene

How big an impact will InsurTech have on reinsurance versus insurance?

Mark Hvidsten, deputy chairman, Willis Re: The impact for both is set to be significant, and to blur the traditional boundaries between insurance and reinsurance. Some InsurTechs give reinsurance risk capital the opportunity to be matched, somewhat indiscriminately, with insurance-originated risks. Others give reinsurers a plug-and-sell opportunity to provide innovative, currently relevant products digitally, directly to consumers.

InsurTechs focusing on modelling and analytics allow reinsurers to better monitor the performance of their global portfolios, and bring a relative cost reduction. Some of these create a light-touch solution to the challenge of diversification into new lines of business or geographies.

Depending on their focus, therefore, InsurTechs may allow reinsurers to get closer to the end consumer, to deploy more capacity into lines which may be cost-ineffective otherwise, to broaden the width of their respective portfolios, or all three.

Stephan Ruoff, CEO, Tokio Millennium Re: In the short term, the InsurTech impact will be less in the reinsurance market than in insurance. In the long term, it will have an equal effect.

At this stage, InsurTech focuses mostly on distribution and efficiently processing transaction processes and less on risk selection and risk transfer. Naturally, this is more geared towards the insurance market. However, in the long term, when big data analytics become more automated and when artificial intelligence becomes more capable of evaluating risk and risk selection, we will reach a stage where there will be no difference in the impact of InsurTech between insurance and reinsurance.

In the long term, the reinsurance sector will only be as strong as the weakest link, unless of course it actively seeks to shorten the value chain.

Hatem Jabsheh, chief operating officer, IGI: Make no mistake about it, InsurTech is the future of reinsurance. While the direct insurance market has embraced InsurTech, the reinsurance industry has been hesitant to adopt any truly innovative schemes.

InsurTech should be a gamechanger, but I have yet to see any initiative that is truly disruptive. At the moment, any developments, such as various blockchain projects or the Lloyd's of London electronic placement mandate, are focused on using software to improve pricing and underwriting tools, which simply digitises existing processes.

InsurTech will change the culture of reinsurance, but any change needs to come from the top. Any fundamental change in practice requires the buy-in from industry executives and executive boards.

Adrian Jones, head of strategy & development, Scor Global P&C: Every 20 years, waves of technology have affected reinsurers and insurers. It was mainframes in the 1950s, minicomputers in the 1970s, and cat models in the 1990s. Now in the 2010s, we have improved analytics capabilities, new data, data precision, social, mobile and public & private clouds.

The biggest reinsurers continue to invest a lot in keeping their infrastructure cutting-edge, though it is less visible to consumers and not a single big overnight change. The biggest impacts will be quiet – e.g. B3i cutting out a big portion of the expenses involved in trading reinsurance, material improvements in fraud detection for primary companies, access to large volumes of new underwriting data and big data science to process them. Telematics is another obvious example.

Jason Richards, head of casualty underwriting, reinsurance, Swiss Re: Tech and digitisation have become part of everyday life, which means that consumer behaviour and consumer expectations have dramatically changed. We want tech to make our lives easier, preferably modelled around personalised products and services that enable us to live safer and healthier lives.

These same expectations are also affecting the entire insurance value chain, for instance driving simplification and reduction of insurance processes and better access to insurance cover. So whether in insurance or reinsurance, inevitably tech will be a way of life for the entire industry.

Sven Althoff, member of the executive board, Hannover Re: Reinsurance is business-to-business. We don't interact with consumers directly. Our clients do. However, that's where most InsurTech activity is happening at the moment. That leads us

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to believe that our clients will experience a more pronounced impact on the distribution side.

However, the reinsurance industry can learn from start-ups, their ideas and agile approaches to our established business model. New technologies such as blockchain, artificial intelligence, data mining or machine learning will undoubtedly affect our industry and we are well advised to embrace them.

James Few, global managing director of reinsurance, MS Amlin: Advances such as the IoT, predictive analytics, blockchain, increased availability of data, and the ability to analyse that data through the use of AI can bring value to both reinsurance and insurance through augmented underwriting, better knowledge of exposure and the development of new products.

InsurTech is propelling significant shifts across the insurance distribution landscape. However, (re)insurers will soon begin to experience a shift as well, as the link between the insured and the capital provider shortens.

The gap between insurance and reinsurance will begin to close as the use of InsurTech tools leads to a more efficient distribution chain. Increasingly, we see the role of the underwriter of the future being to price, package and allocate risk to multiple capital sources.

Brendan Barry, chief underwriting officer, Greenlight Re: Many InsurTech start-ups today are focused specifically on the delivery mechanism and customer experience for the end consumer. Given that insurance is closest to these end consumers, it's likely to be more impacted by InsurTech than reinsurance is, at least initially.

That being said, many reinsurers have been proactively pursuing InsurTech ideas and opportunities through the establishment of labs, accelerators, innovation units and corporate venture capital funds.

What's the best way for reinsurers to get into InsurTech? Are strategic partnerships the way forward? Should they build from the ground up? Or acquire existing businesses?

Hvidsten: Strategic partnerships are certainly an effective way for reinsurers to fortify their incumbent business model by growing into new lines of business or reducing internal inefficiencies. Acquisition is another strategy to consider. However, if reinsurers look to InsurTechs purely for a scaled return on investment, they may well be better off relying on their corporate venture capital investment vehicles or third-party investment houses.

Choosing to build from the ground up depends on the complexity of the problem one is trying to solve. An opportunity cost always arises when a firm with high running costs tries to build something from scratch that either already exists, or can be built more cheaply by a much smaller, more agile entity.

All these considerations are centred around one fundamental question: does the InsurTech provide a solution to an incumbent problem? Time and time again, we see InsurTechs that are simply another inefficiency dressed up as a non-existent digital problem-solver.

Torsten Jeworrek, member of the board of management, Munich Re: I think everyone has to find their own way. Munich Re's Digital Partners is aiming to develop joint business models with start-ups, focusing in particular on new technologies and data, which are able to disrupt parts of our traditional value chain.

It establishes relationships with new and potentially strong players in the market and learns/develops new capabilities. We believe InsurTech will develop by partnering up with insurers and reinsurers, and that insurers and reinsurers will make use of InsurTech to embrace digital evolution. Acquisition will come into play later, but for now we do not see the need.

Ruoff: It does not matter what strategy reinsurers adopt, be it a strategic partnership, an equity investment or acquisition, or home-grown bespoke development. InsurTech will lead to improvements in the way the industry works, by achieving higher transactional efficiency through technology.

Reinsurers have a powerful opportunity to marry up the industry's strong analytical infrastructure and deep customer relationships with the vision and knowledge of the InsurTech firms.

Jabsheh: Building strong strategic partnerships is more powerful than simply acquiring a technology firm. Instead of a tech company falling under the culture of an insurance or reinsurance company, a partnership combines our industry's analytical expertise and customer relationships with the vision and innovation that only a technology company has.

Embracing InsurTech has the potential to completely reshape how reinsurance business is transacted in the future, but to achieve this, the industry needs to get closer to the tech community and speak their language. The reinsurance's version of a tech expert in digitalisation and innovation does not compare to the vision and knowledge of Silicon Valley or London, Frankfurt or New York.

Jones: When dealing with a big industry-wide problem, we believe in industry-wide solutions, which in InsurTech includes B3i, Oasis and the Insurance Development Forum, all of which we actively support, including as a founding member.

Partnerships are appropriate when the in-house technical expertise to solve specific needs or build specific new products is incomplete and can be built in a partnership. Investments can help to secure long-term business relationships and build clients. Internal development is best for systems that give a unique competitive advantage.

Richards: Most players go down the route of investments and of creating innovation units. We tried this approach as well, but it did not work for us. We reviewed our approach, and resolved that we need to focus on improving our business especially in terms of efficiency and on developing solutions for ourselves and our clients to secure access to risk pools through our business segments and strategic partnerships.

We also give particular care to data management in terms of both data access & analysis, and data usage and its controls. With "we", we mean the Swiss Re Business Units and Functions, and ultimately all our employees, as opposed to delegate this important task to some "special units".

Althoff: Among others, we have invested in Berlin-based FinLeap, a company builder specialised in FinTechs in 2016. Through them, we are able to collaborate with or invest in InsurTechs. We also delivered a global innovation program in four international cities, which has spun a few interesting ventures.

Still, it's core to our strategy to focus on the reinsurance-side of our market, so we won't be building new insurance companies from scratch or acquire significant stakes in promising start-ups. We are happy to

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support these start-ups with traditional reinsurance services, knowhow, contacts and capital. This is making us an attractive partner, as we are not building a channel conflict at the same time.

Few: A few years ago, InsurTechs were seen as a major threat to traditional players. However, significant barriers to entry have resulted in partnerships between modern technology and traditional carriers being the most successful model.

We have developed new technologies in-house, but have also formed strategic partnerships with a number of InsurTech firms. While developing technologies in-house has the advantage of owning intellectual property rights, partnering with outside firms enables us to benefit from the knowledge and expertise of others and delivers more powerful solutions faster.

Barry: Every organisation is different, and an innovation strategy needs to be tailored based on a number of considerations (funding, personnel, tech capabilities, infrastructure, customer footprint, brand value) within the organisation.

Will the biggest impact of InsurTech on reinsurance come from improvements to processes, underwriting decision-making or distribution?

Jones: These are the three big areas, but it's too early to rank-order them. Underwriting decision-making is the furthest along, maybe never-ending, just like reinsurers have been building sophisticated Cat models since 1992.

Hvidsten: It will have its biggest impact through distribution and deployment of reinsurance risk capital directly into the primary market.

Jeworrek: For reinsurance, there are two key benefits. First, InsurTech offers us access to wholesale distribution channels that we did not previously have. Second, new technologies will allow us to grow our data, which will have profound implications for the way we underwrite and manage claims.

As a reinsurer, we have the ability to aggregate many data sources and experiment with new ways of underwriting and assessing claims. This could offer us a significant competitive advantage in our traditional reinsurance business.

Ruoff: Initially, InsurTech will impact and improve the processes of a reinsurance company via blockchain distributed ledgers and artificial intelligence solutions. In the medium to long term, developments in big data and AI will help underwriters to improve portfolio management and risk selection.

Richards: Advances in technology are impacting the entire insurance value chain and reshaping the competitive landscape, therefore we shouldn't single out one area over another.

All my comments are based on taking a long-term approach with fundamental changes to the value chain. Again, tech will be a way of life; there is not one part that will be more affected than another.

Megan McConnell, director of underwriting, London, Hiscox Re & ILS: The biggest impact has to be in underwriting decisions. Claims represent the largest outflow of money, so even a 5 percent improvement is significant in terms of dollars.

Advancements in big data and robotics have the potential to materially change the insight available at the time of underwriting, and the first reinsurers to harness that potential will have a big advantage.

We already use augmented data in our underwriting process and believe there is an opportunity to expand the scope to support not just underwriting, but also product development and post-loss response. There is a real need for market modernisation and it's exciting to see the industry shift its view of InsurTech as a disruptive tech to a transformational opportunity.

Althoff: In the short term, I see the biggest impact in distribution, segmentation and automated decision-making. Here you can apply new solutions in sub-sets of your business without having to necessarily change the core of your 'traditional' business activities. As the cost of doing business is ever increasing the medium- to longer-term impact will also be seen in a higher degree of automation in processes along your entire value chain. Here InsurTechs may establish themselves as one of many partners as well but many market participants will work on these topics mainly from within their own organisation.

Few: While the focus thus far has largely been on process and cutting distribution costs, our industry will find even greater benefit in utilising InsurTech to improve underwriting decisions and develop new products. Access to data, and the ability to rapidly analyse that data with AI technologies, will enable us to identify areas where businesses are potentially exposed to losses, and thus provide insight into new products that would be most beneficial to our clients. Increased access to data will also improve underwriters' ability to price policies at a level that is both profitable for the insurer and fair for the end client.

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Stephan Ruoff, CEO, Tokio Millennium Re

Megan McConnell, director of underwriting, London, Hiscox Re & ILS

Jason Richards, head of casualty underwriting, reinsurance, Swiss Re

Casualty cosmopolitan

Jason Richards, head of casualty reinsurance at Swiss Re, calls for clarity on cyber treaties and better tailored cover for cedants

Anyone looking to rebuff the Brexit-stoked perception that the British are insular and don't travel well could do worse than point to Swiss Re head of casualty reinsurance Jason Richards.

After graduating in 1992, Richards started working in Norway and has spent most of his career in continental Europe.

A fluent Danish speaker who also speaks French and German, Richards has worked in various senior roles at Swiss Re since joining the reinsurer after its acquisition of GE Insurance Solutions in 2006.

He started his career as a deputy underwriter at Uni Storebrand in Norway in 1992.

In November last year, he was appointed to the head of casualty reinsurance role, and divides his time between Copenhagen, the company's Zurich head office and wherever else his job takes him.

Swiss Re's casualty offering includes workers' compensation and employers' liability, motor, liability, management and professional liability and personal accident.

The casualty reinsurance business made an underwriting loss of $210mn in the first half, with a combined ratio of 105.4 percent, mainly because of continued reserve strengthening in the US. With first-half premiums of just under $3.9bn, it was the largest business segment of Swiss Re's P&C reinsurance division.

Before Richard's current role, he led Swiss Re's in-force portfolio of business related to P&C reinsurance.

Other areas of expertise include run-off, a specialism that dates back to his time at GE Insurance. After moving to Swiss Re, he spent six years leading its reinsurance asset and liability department.

Richards also remains heavily involved in Swiss Re's activities in the Fintech and InsurTech areas, having previously served as the head of Swiss Re's InsurTech accelerator.

He views start-ups with a healthy scepticism and predicted Monte Carlo conversations this year would adopt a more realistic tone about InsurTech's promise.

"There is a lot of hype around start-ups – that they have new business models and that these will destroy the incumbents. Many of these start-ups will fail and many don't bring new business models, just minor adjustments to the existing ones," he notes.

That said, Richards is a firm believer that technology can disrupt syndicated insurance and reinsurance.

> "Many InsurTech start-ups will fail and many don't bring new business models, just minor adjustments to the existing ones"

He notes: "Technology is causing a shift, blurring industry boundaries and shifting insured risks (for instance, from personal to commercial lines). Meanwhile, digitalisation improves the design and pricing of new and existing insurance products. That will mean true disruption."

Alongside technology, he pointed to capacity, the margin environment and M&A consolidation – with a special focus on Lloyd's and Bermuda – as key concerns for Monte Carlo delegates.

In terms of general buying trends, Richards predicts that consolidated and centralised buying will continue for treaty business, with facilities playing a greater role within facultative treaty.

"We may experience carving out and cession of peak exposures and high-risk coverages, such as nat cat, man-made accumulation, cat-scenarios," he continues.

"'Smarter' buying, or deliberate management of the retention level, based on market price and company need,
will take place," he adds. "In addition, I see an increase of aggregate coverages, taking a more holistic portfolio view versus single business lines.

"Finally, there is new momentum on exploring currently uncovered perils, such as Netherlands flood, storm-surge Germany and emerging risks."

At the mid-year casualty renewals, Richards noted that the reinsurance sector was measured in the rate rises it sought to extract, particularly for loss-affected and low-margin business. That resulted in a largely flat overall picture.

He adds: "US motor has seen rate increases – especially on commercial motor – supported by gradual improvements in the underlying insurance book.

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"We continue to also see improvement on US personal motor rates, although the big rate increases we saw in the last two years have reduced to the low- to-mid-single-digit range.

In terms of quota shares, he said positive momentum for reinsurers decreased during the July renewals.

"Oversized ceding commissions still came down on treaties with adverse development but both the frequency and size of decrease was lower than during the January renewals."

Richards is watching the cyber sector with interest and notes that new products and policy wordings are mushrooming but have yet to be tested.

"Exposures might emerge all of a sudden in unexpected areas, because innovative people have added small changes to a classic property policy. This concerns us, since cyber is also one of the risks that has a significant accumulation potential," he warns.

"On the other hand, cyber is the risk of the digitised world. Currently, the cyber risk insurance market is still very small, but it will not stay small. We believe that all companies, people and institutions need to be able to manage that risk in the future. Cyber enables the insurance industry to support their customers, beyond pure risk transfer."

> "Certain structures, such as event excess of loss treaties, do not provide an adequate form of cyber coverage given the sheer complexity associated with defining a cyber event"

He welcomes the mounting regulatory awareness around the danger of "silent cyber" and noted several areas where casualty treaties fall short in the accommodation of cyber exposures.

"Certain structures, such as event excess of loss treaties, do not provide an adequate form of coverage given the sheer complexity associated with defining a cyber event (e.g. time, place, causation, etc). As reinsurers, we should not satisfy ourselves with this kind of ambiguity, which is bad both for us and our clients.

"Furthermore, the cover provided under a traditional reinsurance treaty does not necessarily meet the need of the ceding company. The claims aggregation resulting from a malware epidemic, for example, or a power blackout, would be best reinsured under cat-type covers, whereas large single-risk losses driven by data breaches would be best covered under a risk excess of loss arrangement.

"There is no 'one size fits all' in reinsuring cyber and therefore we believe it is important to work with our clients and brokers to design covers that meet their needs, and provide value for money. Having a stable and functioning cyber reinsurance market will be a key success factor for our industry."

Richards is a father of three, who likes to spend his free time running, hiking and cycling, as well as reading and travelling.

His favourite holiday destinations are ones where he can switch off and enjoy nature and include Northern Scandinavia and France.

He cites the constantly changing climate (even in the winter) and the ocean as being the nicest thing about living in Copenhagen. He is also an admirer of Danish corporate culture.

"The Danes are very straightforward, transparent, they say things as they mean. They push back and care little about status and hierarchy. And from a gender perspective, the workforce is really diverse and this applies to both junior and senior levels," says Richards.

If he had not entered (re)insurance, Richards says he would have liked to work in architecture or design, interests reflected in his love of Rome.

He says that over his career, one of the key lessons he has learned is to give regular and prompt feedback.

"Feedback is the biggest gift you can give to your team and your peers. People can't grow and develop without feedback. Feedback should be given constantly, when it is fresh and with examples."

He adds: "Many times we save it for the annual performance review when it is no longer impactful. It requires a lot of energy to give negative impact, but as a leader, you have a responsibility to do so."

Curriculum vitae

2017-current: Head of casualty reinsurance – Swiss Re. Responsible for technical underwriting and portfolio management, management of the structured solutions business across P&C, and leading Swiss Re's client solutions start-up across P&C

2013-2017: Head of P&C business management – Swiss Re. Led Swiss Re's in-force portfolio of business related to P&C reinsurance

2006-2013: Managing director, various board roles in Europe– Swiss Re. Led the reinsurance asset and liability management (RLM) department. Also oversaw Swiss Re's audit programme, including client benchmarking, client compliance to contractual terms and conditions

1995-2006: Director - GE Insurance Solutions

1992-1995: Deputy underwriter - Uni Storebrand

A safe harbour?

A combination of higher run-off deal flow and dwindling live market returns is causing private equity money to home in on the legacy market

While live carriers battle with some existential questions around pricing cycles and overcapacity, the run-off market is positioning itself for a new era of growth and opportunity.

As legacy carriers gather at this year's Monte Carlo *Rendez-Vous*, they have much to be positive about.

The pipeline for legacy transactions is gaining strength, as more and more live carriers recognise the benefits of run-off as a capital management tool.

Legacy acquirers are increasingly seen as more effective claims managers with greater operational efficiency than the live market, as well as higher-return asset managers.

At the same time, live (re)insurers are being forced to scrutinise every aspect of their businesses more carefully as their earnings power is squeezed, and are now actively examining ways to free up capital where it represents a drag on return on equity.

As a result, legacy deals are getting bigger, and more frequent. Markets which were seemingly closed to the idea of selling their old liabilities are opening up, and are actively seeking discussions with run-off carriers.

When surveyed by *The Insurance Insider* in May, 74 percent of legacy executives questioned said they saw better prospects in 2018 than the year before.

Since the beginning of 2018, a number of legacy books with liabilities in the hundreds of millions of dollars have come to market and are in the process of being sold.

Live carriers looking to dispose of liabilities during this time have included Arch, QBE, the German carrier Sovag and Axa.

But the highest-profile deal of the year to date has been the long-awaited disposal of Zurich's £1.6bn ($2.1bn) UK employers' liability book. Catalina has been granted exclusivity on the book but, at time of writing, an accord had not yet been signed.

Since the end of June 2017, the running tally compiled by *The Insurance Insider* of known large legacy deals at various stages stands at 24. Of that total 18 have involved the sale of more than $100mn of liabilities.

Capital inflow

As a result of this increased deal flow, returns at legacy carriers are better than ever, and the market has caught the eye of private equity.

The past 12 months have been monumental for legacy as fresh investment has come in to bring the run-off market to a new level of maturity.

This has come via private equity buy-ins, partnerships with live carriers and third-party capital structures, and legacy carriers are taking advantage by using this source of funding to grow in scale and bid for bigger deals.

Buy-out firms Stone Point, Apollo and Aquiline have all previously made significant investments in legacy carriers.

In July, Aleph and Crestview joined that roster by committing a combined EUR260mn ($300mn) to European run-off carrier Darag to support future growth.

And in August, private equity house Carlyle Group acquired a 19.9 percent stake in AIG's circa $40bn legacy vehicle DSA Re as part of a larger effort to build the vehicle into a standalone legacy acquirer.

On the live carrier side, RenaissanceRe's minority investment in Catalina, revealed by this publication in January, is the most recent example of the live market seeking exposure to legacy. But Arch, Validus, Axa and Allianz have all sought exposure to the space via joint ventures, investments, the creation of their own run-off vehicles or assumed reinsurance.

In *The Insurance Insider*'s 2018 legacy survey, 36 percent of respondents said they had seen an uptick in the number of approaches from potential buyers. Of those who responded yes, half said the approach had come from a private equity company, and 13 percent from a live P&C carrier.

Dynamics in the legacy sector are distinct from those in the live market, but some have started to question whether over-capitalisation and the increasing number of bidders for legacy deals are materially impacting conditions, and levering down returns.

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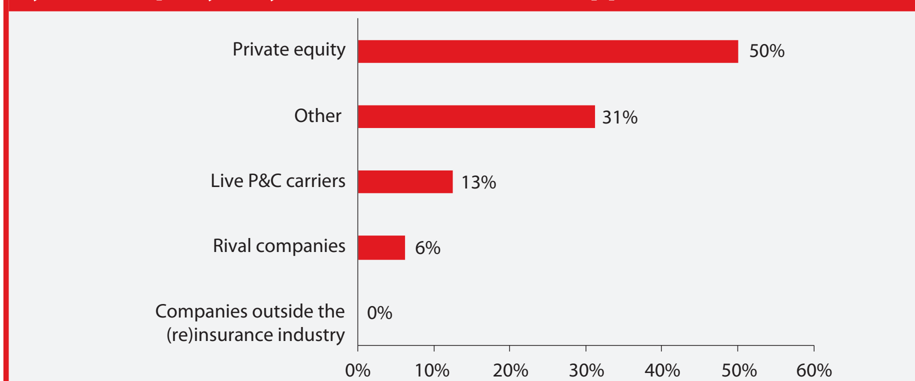
Significant corporate developments in legacy

Date	Legacy carrier	Comments
Aug-18	DSA Re	Carlyle acquires 20% stake in AIG legacy vehicle
Jul-18	Darag	Secures EUR260mn buy-in from Aleph and Crestview Partners
Jan-18	Catalina	RenRe buys minority stake in Catalina
Dec-17	Armour	New PE ownership in Aquiline, establishes $500mn vehicle
Oct-17	Catalina	Apollo takes majority stake investment
Aug-17	Fosun	Launches legacy acquirer SunPoint, led by Karl Wall
H2 2017	R&Q	Teams up with Axa as capital provider on legacy deals
H1 2017	Swiss Re	Establishes capitalised entity in Luxembourg to provide LPTs
Jun-17	Darag	Appoints Macquarie for equity raise to support future deals
Jan-17	Premia	Launches after $510mn initial capital raise
Dec-16	Enstar	Launches total return reinsurer KaylaRe

Source: *The Insurance Insider*

Have you seen an uptick in approaches from potential buyers of your company? If yes, where have these approaches come from?



Source: *The Insurance Insider*

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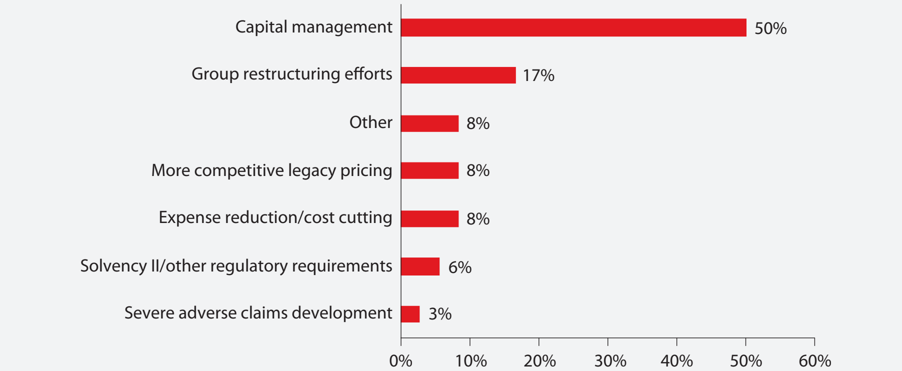
In your experience, what has been the most common driver for legacy book disposals by sellers over the past 12 months?



Source: *The Insurance Insider*

Generali's EUR300mn legacy sale last year was said to have been extremely competitive from the outset, with as many as 28 parties initially registering their interest in the book – some of those being small unestablished consultancies backed by private equity money.

Instances of gazumping and 11th-hour bids have also become more commonplace.

While some well-executed legacy deals are still believed to be offering investors double-digit returns – which exceeds those returns achievable in the live insurance market – some argue this does not reflect the totality of the legacy space.

Some seasoned observers in the market are privately arguing that some of the deals being done now are being priced to such a fine margin that they will be not just low-return but eventually loss-making.

This raises the question of how long new capital will be drawn into the space as margins narrow.

European opportunity

Nevertheless, the legacy market still seems confident in the volume of legacy liabilities which should eventually come to market in the coming years – which should work to balance the available capital ready to take them on.

PwC's annual legacy survey, published in January, estimated the global value of non-life run-off liabilities at $730bn.

Most of the global respondents to the survey predicted they would undertake restructuring or exit activity in the next three years. This included 89 percent of continental European respondents, 81 percent from the UK and 68 percent from the US.

Continental Europe is expected to be the most active territory for legacy deals, with 61 percent of all respondents believing there would be at least 10 transactions in the region in the next two years.

It was also the region perceived to hold the greatest opportunity by respondents in *The Insurance Insider*'s legacy survey, with 48 percent labelling it as the most promising territory for run-off deals.

With its EUR260mn private equity buy-in, Darag is positioning itself to take advantage of this opportunity.

Arch-backed Premia Re also established a European office last year with the hire of former Darag chief liability officer Zsolt Szalkai, and Compre has demonstrated its appetite and capability for larger European legacy deals with the acquisition of EUR300mn of non-life run-off liabilities from Generali's UK branch.

Randall & Quilter (R&Q) also injected capital into its Maltese unit last year in preparation for what it called a "strong" pipeline of acquisitions.

However, the perceived opportunity has so far been slow to come to fruition, with only a handful of deals involving north of EUR100mn of liabilities brought to market.

Aside from Generali's disposal, Zurich has also sold its EUR400mn German medical malpractice portfolio to Catalina, but there have been few other legacy book sales to grab the headlines.

In both these cases, discussions were said to be largely initiated by the London operations of the selling entity: a market far more at ease with the concept of legacy management as a capital efficiency tool.

German carrier Sovag is also in the process of selling around EUR170mn in gross run-off liabilities.

However, this process was kickstarted by former Darag CEO Arndt Gossmann, now CEO at the restructuring carrier and already a strong advocate of the legacy market.

Smaller book disposals involving liabilities in the tens of millions of euros are more commonplace, but momentum even at this end of the scale is described as slow.

Legacy sources depict the continental European market as far more cautious in its approach to legacy, with many choosing to simply absorb the cost of holding run-off liabilities on their balance sheet rather than "admit failure" and appoint a legacy acquirer to take on their run-off.

Sources said that while live carriers are slowly opening up to the idea of selling their old liabilities, the stigma around legacy still persists.

The successful execution of the Zurich, Generali and VIG deals are hoped to build confidence in the legacy market, but legacy carriers are having to work hard to educate sellers about the benefit effective run-off management can bring.

Rhode Island

Meanwhile, across the Atlantic, the US run-off market is waiting patiently for the first deal to be executed via Rhode Island's run-off legislation.

Rhode Island inked the 2015 legislation, which aims to mimic the Part VII transfer and solvent scheme of arrangement laws in the UK.

The framework would give full legal finality to those looking to exit run-off business, an option which has previously been unavailable to US carriers. It had been hoped the new legislation would unlock a flood of US run-off liabilities for the legacy market.

However, the rules are yet to be properly tested. Pro Global has been working with Swiss Re and Berkshire Hathaway for almost two years to do the first transfer under Rhode Island's Regulation 68, but at time of writing, nothing had been concluded.

The Insurance Insider's 2018 legacy survey found confidence in the Rhode Island framework is dwindling among the market.

Just 29 percent of respondents questioned were hopeful the Rhode Island legislation would serve as an effective transfer mechanism for them in the next 12 months.

This was a sharp turnaround from the 2017 survey, when 50 percent of respondents said they were optimistic about using the framework in the year to come.

R&Q chairman Ken Randall also went on record in May to warn that the legislation may not live up to expectations.

Cat bond market rebounds from 2017

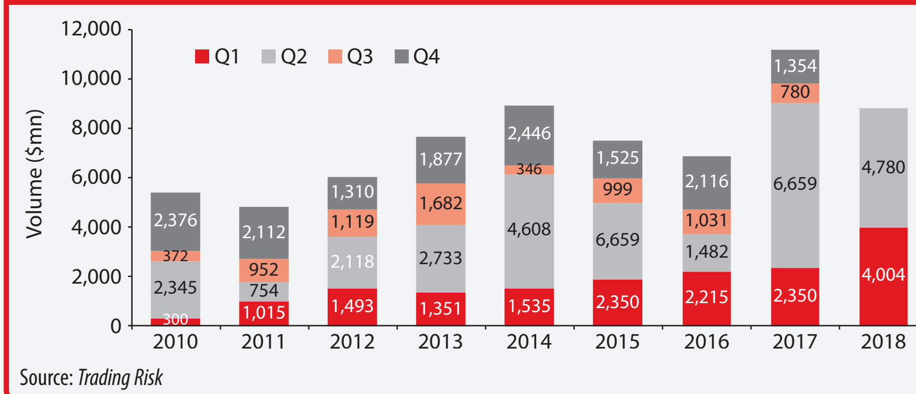
A year on from the devastation of Harvey, Irma and Maria, and catastrophe bond pricing has quickly settled back to pre-hurricane levels

It is almost exactly a year since the cat bond market was faced with its biggest threat yet: a Category 5 hurricane hitting Miami directly. Had Hurricane Irma continued on its predicted path, up to $12bn of the total $27.8bn market could have been wiped out, AM Best said at the time.

A year on, the cat bond market shows little sign of ever having faced such a large threat, as pricing has returned to prior levels after an initial increase.

This is despite losses climbing to nearly $1bn due to rising aggregate losses from USAA and Nationwide Mutual, as well as Irma losses from Heritage.

ILS volumes approaching $10bn after H1



Source: *Trading Risk*

Volumes rise

Indeed, the cat bond market has benefited from strong levels of new issuance this year as sponsors used the market to manage post-loss pricing expectations.

The $10bn of issuances predicted in January has already been exceeded, as cat bond issuances climbed to $10.74bn by the end of August.

The 2018 tally for the end of August has already outpaced volumes issued over the same period in the previous two years ($9.79bn in the first eight months of 2017 and $4.00bn in 2016). This has put 2018 on course to quickly topple 2017 as the ILS market's busiest yet.

Looking forward, there are only half a dozen bonds due to mature in the second half of the year, worth $1.1bn in total.

Cat bond veterans predominate

The first two quarters of 2018 brought forth contrasting types of cat bond sponsors.

The first quarter was dominated by Japanese risk and Central American risk. The latter involved multiple Latin American countries sponsoring first-time earthquake bonds in conjunction with the World Bank, in a series of deals that ultimately raised $1.36bn of reinsurance cover.

Meanwhile, the second quarter of 2018 was predominately the domain of cat bond veterans.

Everest Re was one of the biggest players in the second quarter of the year, issuing $525mn of Kilimanjaro Re cat bonds, while Travelers closed its Long Point Re III cat bond at $500mn, in the insurer's largest ILS issuance since 2009.

Meanwhile, Nationwide Mutual, which had several of its Caelus cat bonds impacted by the 2017 events, issued $400mn of Caelus cat bonds.

Despite last year's losses, Nationwide was able to secure this year's cat bond cover at rates below its initial targets. However, it is paying higher rates on the high-risk layers of this year's ILS cover than last year.

USAA, whose Residential Re cat bonds were also impacted last year, also returned to the market with $300mn of Residential Re 2018 issuances.

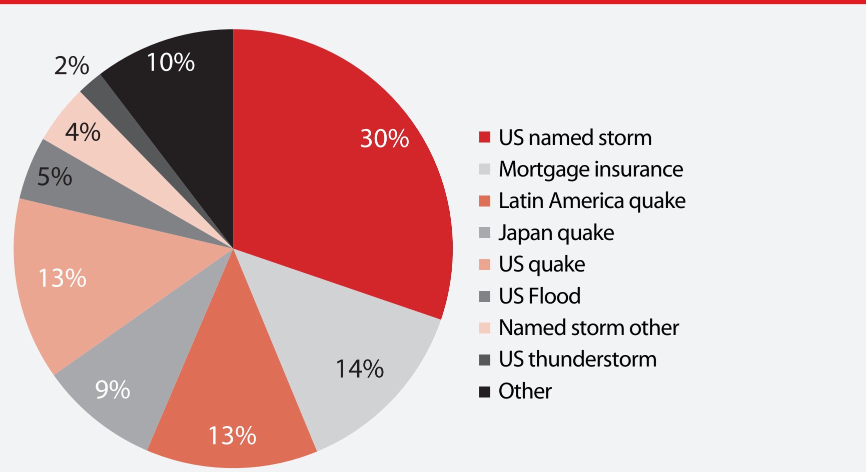
In early third-quarter deals, a landmark deal was the ILS market's first indemnity flood bond, the $500mn FloodSmart Re. This will protect the US government's National Flood Insurance Program.

More than 35 investors participated, said GC Securities, which structured the deal and acted as joint bookrunner.

Florida-based insurer First Protective also joined the cat bond market for the first time in the third quarter, with its $350mn Frontline Re 2018-1 cat bond, which will provide it with protection against named storms initially in the southeast states of Alabama, Florida, North Carolina and South Carolina.

First Protective's Frontline subsidiary is the seventh-largest carrier in Florida based on premiums.

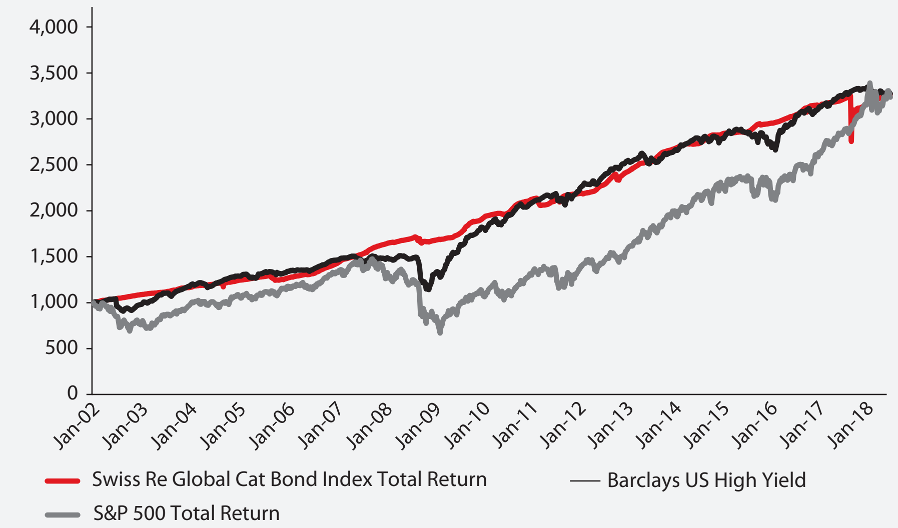
Standardised perils: Jan-Aug 2018



Source: *Trading Risk*

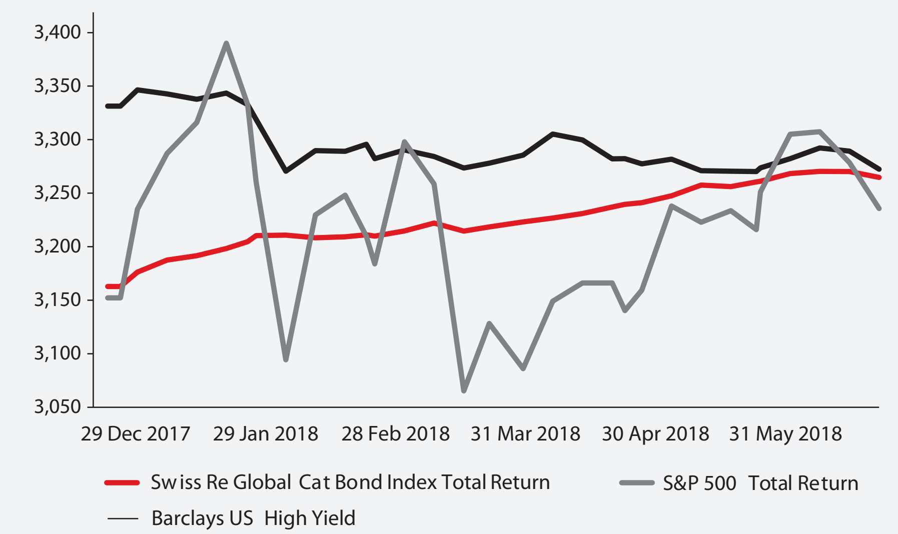
> "The cat bond market has benefited from strong levels of new issuance this year as sponsors used the market to manage post-loss pricing expectations"

Comparative index returns (as of June 30, 2018)



Source: Swiss Re Capital Markets; Swiss Re Capital Markets pricing indications only; underlying data for Barclays US High Yield is Barclays US Ba High Yield Index via Barclays Live website; underlying data for S&P 500 Total Return is S&P 500 Total Return Index via Bloomberg website.

Comparative index returns (29 Dec 2017 – 30 June 2018)



Source: Swiss Re Capital Markets; Swiss Re Capital Markets pricing indications only; underlying data for Barclays US High Yield is Barclays US Ba High Yield Index via Barclays Live website; underlying data for S&P 500 Total Return is S&P 500 Total Return Index via Bloomberg website.

Competitive pricing reigns

Pricing has quickly settled back to levels seen before the 2017 hurricanes, with slight increases on loss-impacted renewals.

As sponsors brought new deals to market ahead of this year's hurricane season, they were consistently able to obtain premium rates that were below their target levels.

During the second quarter, the insurance spreads on new ILS deals settled on average 7 percent below the initial targets set by sponsors during the marketing process, according to data tracked by *Trading Risk*.

The average spread of second-quarter deals came to 441 basis points (bps), offering investors a 1.9x multiple of their expected loss level. This compared with a 2.0x multiple and average spreads of 496 bps for cat bonds closed in Q2 2017.

But one deal that bucked the trend was another new peril for the ILS market. The Cal Phoenix Re cat bond covering wildfire for Pacific Gas and Electric (PG&E) priced at 750 bps, 20 percent above the midpoint of the initial guidance of 600-650 bps.

Utilities company PG&E has been blamed for the multiple wildfires across California last October.

Meanwhile there were also signs of cat bonds spreads tightening on the secondary market.

The Swiss Re Cat Bond Global Total Return Index, which takes into account the price and coupon element of yield, rebounded to a return of 3.22 percent in the first half of this year, putting the index back to its pre-Irma levels.

This included an 0.26 percent increase in the index's price return, indicating softer rates, compared to an 0.84 percent decrease in the first half of 2017 when the market was hardening slightly.

Diversification

Protection for US named storms continued to dominate cat bond covered perils in 2018 with 30 percent of the total market originating from this risk, although US quake was significantly down on last year.

While 25 percent of cat bond limits arose from US quake risk in 2017, only 13 percent of this year's issuance came from US quake risk. These figures are derived from the modelled contribution to expected loss of deal limits.

One of the biggest gainers this year was mortgage risk. While mortgage insurance accounted for only 2 percent of the market in 2017, this year it accounted for 13 percent of the entire market, as a series of large Bellemeade mortgage deals helped create a mortgage insurance total of $1.45bn.

These deals are likely to be distributed to a different investor base outside the main ILS managers.

Latin American quake also had a substantial market share, accounting for 13 percent of this year's total risk.

European reinsurers grow in H1 as margins improve

European P&C reinsurers have experienced increased top-line growth, underlying margin improvements and a benign level of catastrophe losses in their first-half results.

As the June/July renewal season passed, which is more focused on US business, reinsurers experienced improvements in pricing conditions, albeit marginal ones, after years of rate softening.

Three out of four reinsurers decided to take advantage of better pricing conditions to grow their book, with Hannover Re and Munich Re recording double digit growth in the six months to 30 June.

Hannover Re produced the largest top-line improvement of the group as P&C reinsurance gross written premiums (GWP) surged 19.2 percent to EUR6.5bn ($7.6bn). This compared to growth of 17.3 percent a year ago.

It said the main driver of growth for H1 was from new business written through its structured reinsurance products and in worldwide treaty.

During the June and July renewal season, the carrier grew its renewal book by 16 percent. The North American treaty book saw an overall premium increase of 15 percent, while Hannover Re doubled Australian renewal premium due to new partnership deals. Global cat premium grew 6 percent at renewal.

CEO Ulrich Wallin noted significant rate rises in the Caribbean but emphasised that market conditions remained competitive in the US.

"In the Caribbean, these were rather significant ranging from about 10 percent to 40 percent, but in North America, even on loss-affected business, rate increases were largely contained to single-digit percentages," he said.

Fellow German reinsurer Munich Re reported first-half GWP of EUR8.8bn – a 13.2 percent increase from the prior-year period mainly due to growth in motor and property treaty business.

This was a bounce back from the 3.7 percent contraction in GWP in H1 2017, when Munich Re had chosen to cancel or scale back some large treaty business, particularly in agricultural, fire and liability.

At the mid-year renewals, Munich Re reported a 41.6 percent increase in premium volume, a figure which RBC analyst Kamran Hossain said showed the reinsurer was "getting more aggressive" in renewals.

The strong increase was mainly due to a large-volume treaty in Australia and profitable growth of reinsurance quota share business in the US, the firm said.

However, just 0.9 percent of the increase in premium volume was attributable to price increases, excluding interest rate effects.

Meanwhile, Swiss Re returned to modest growth in GWP to $9.6bn for H1, up 1.8 percent year on year after contracting 15.5 percent in H1 2017.

It said the reduction in 2017 was due to "a reduction in deployed capacity where prices did not meet Swiss Re's profitability expectations". Pricing picked up slightly this year, management said, although not to desired levels.

In the year to date, Swiss Re has grown its book 9 percent at renewal to $14.4bn in premium, and with risk-adjusted rate improvement of 4 percent. The increase in price quality was more pronounced in loss-affected property lines.

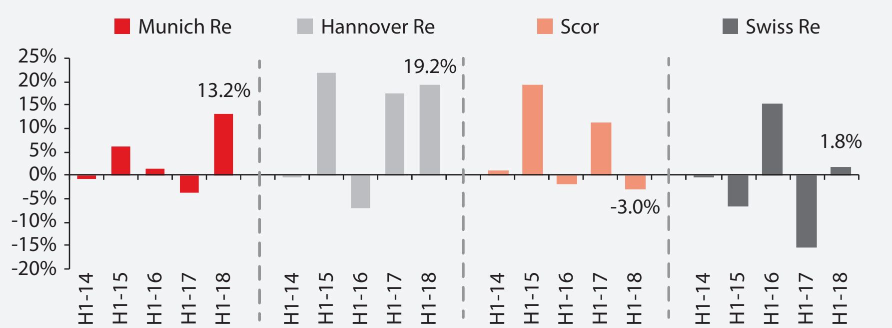
Scor was the only carrier in the group to report a dip in GWP for the first half of the year. Compared to the prior year period, its P&C reinsurance GWP fell by 3.0 percent to EUR3.0bn.

However on a constant currency basis, Scor said this translates into a 4.9 percent increase – it said the growth mainly came from business in the US.

In H1 2017, the reinsurer had booked GWP growth of 11 percent.

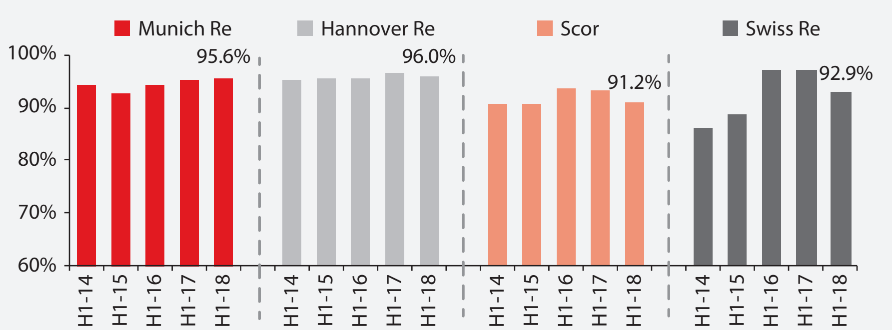
Scor reported price improvements of 2.9 percent year-to-date, and 2.3 percent for the mid-year renewals. During the same

P&C reinsurance GWP movements



Source: *The Insurance Insider*

P&C reinsurance combined ratios



Source: *The Insurance Insider*

renewal period in 2017, rates were down 0.5 percent for Scor.

For the June and July renewals, Scor grew its renewal book by 22.7 percent. Growth at renewal was partially driven by winning increased shares in US treaty and credit and surety reinsurance, Scor said.

At Scor's most recent earnings call, Jonathan Urwin from UBS questioned why pricing wouldn't fall again if the remainder of this year's hurricane season remained relatively quiet, as it has been so far.

Scor Global P&C CEO Victor Peignet went on to explain that US cat business was not the main driving force behind improving pricing conditions.

"I would say that you're looking at things through the prism of the US cat business," he said. "I mean, US cat business is only part of the overall, it's not driving the overall, and it's not even driving the US market as a whole."

Underlying improvement

Reinsurers set about growing their top line as their underlying underwriting performance improved. This was largely due to lower attritional loss ratios, which dropped across the board in the first half the year.

Scor was the best performer here as its accident-year ex-cat loss ratio improved by 5.1 points on the prior-year figure to 55.5 percent, the lowest in the composite. During the same period last year, the company was burdened by the change in the Ogden rate.

Munich Re and Hannover Re reported similar accident-year ex-cat loss ratios, at 63.5 percent and 63.9 percent respectively. Hannover Re reported the greater year-on-year improvement, at 2.1 points compared to Munich Re's 1.9 points.

Swiss Re does not provide breakdowns of its combined ratio, but its calendar year H1 combined ratio made a 4.5 point improvement to 92.9 percent – the highest change in our coverage on this basis.

This was thanks to a 4.7 percentage point

> "Profitability at European reinsurers also benefited from a largely uneventful natural catastrophe loss period"

improvement in the Swiss reinsurer's loss ratio, largely due to lower large losses.

More widely, profitability at European reinsurers also benefited from a largely uneventful natural catastrophe loss period. Cat ratios ranged from just 0.6 percent to 2.3 percent of net earned premiums (NEP).

However, Munich Re's losses from man-made claims significantly exceeded the anticipated amount for a single quarter.

A large portion of its losses stemmed from one of the largest losses in the construction market – damage to the Ituango Dam in Colombia, which gave rise to a EUR501mn loss. Major losses, which are defined as losses of more than EUR10mn each, came to EUR605mn for the Q2 2018.

It reported a 35 percent slump in its Q2 profits as a result.

Swiss Re defines a major loss at more than $20mn – nothing was reported on the P&C reinsurance side that exceeded this limit.

Similarly, Hannover Re also reported a low cat period as net losses from natural and man-made catastrophes totalled just EUR93mn – or 1.8 percent of NEP. The carrier reported just five major losses for the first half of the year with the largest loss from Storm Friederike totalling EUR31.1mn on a net basis.

Scor also experienced low levels of catastrophe losses with its cat ratio at 2.3 percent for H1 2018. Q2 cat losses stood at 2.8 percent of net earned premiums, but after accounting for the improvement in 2017 losses, this dropped to 0.7 percent.

Q2 man-made losses were unusually high for Scor at EUR142mn. However, this offset the low level of man-made claims in the first quarter of the year.

The relatively quiet first half drove earnings above market expectations for three out of the four reinsurers in our coverage.

Munich Re was the outlier, delivering a much lower-than-expected operating income for its P&C reinsurance division because of the Ituango Dam loss in Colombia, as previously mentioned.

Scor's EUR207mn second-quarter P&C operating income was well ahead of the consensus estimate of EUR183mn.

June/July renewal outcomes

Company	Price increase	Premium volume increase at renewal
Munich Re	+0.9%	42%
Swiss Re	+4.0%	9%*
Hannover Re	not disclosed	16%
Scor	+2.3%	23%

*year to date
Source: Company filings

Beat and misses

P&C reinsurance operating income – Q2 2018

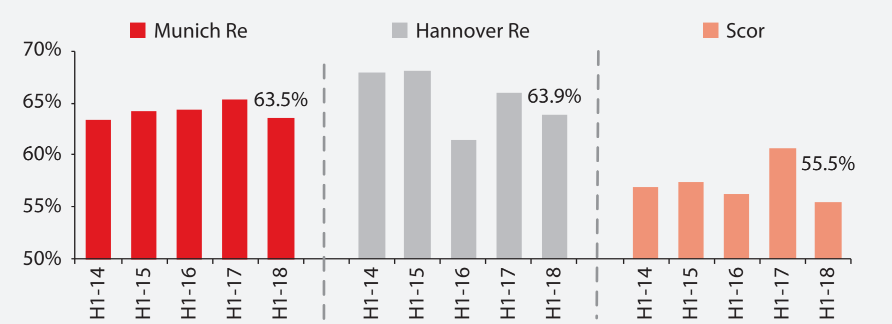
Company	Reported	Consensus	Beat/Miss	Q2 2017
Munich Re	EUR378	EUR675	-44.0%	EUR720
Hannover Re	EUR350	EUR320	9.3%	EUR324
Scor	EUR207	EUR183	13.1%	EUR186

P&C reinsurance net income – H1 2018

Company	Reported	Consensus	Beat/Miss	H1 2017
Swiss Re	EUR752	EUR732	2.7%	EUR546

Source: *The Insurance Insider*

P&C reinsurance accident-year ex-cat loss ratios



Source: *The Insurance Insider*

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