Insight and Intelligence on the European and International (Re)insurance Markets

21 OCTOBER 2018
DAY 1
SUNDAY

THE INSURANCE Insider

BADEN-BADEN

European cat reinsurers face fresh rate squeeze

Reinsurers writing European cat business may struggle to hold the line in the key 1 January renewals as excess capacity and a benign loss year on the continent put downward pressure on rates.

Reinsurance rates ticked up at 1 January 2018 in Europe as a result of the $140bn of global cat losses, although the effect was relatively muted.

However, through the course of 2018, the rate increases in most lines and geographies have moderated, with indications suggesting the cat market would turn soft at 1 January.

That view, which was prevalent ahead of Monte Carlo, will now be tested by a rush of H2 cat losses including Michael ($8bn-$10bn), Jebi ($7bn+), Florence ($3bn-$4bn), Trami ($3bn-$4bn) and Mangkhut ($1bn-$2bn).

These have been joined by a slew of major risk losses in recent months including the Ituango dam loss; downstream energy losses including Vohberg, NatPet and the Irving Oil refinery; and major marine losses including the Lürssen shipyard fire.

However, it should be noted that these losses still probably only bring the market to a normal or just below normal cat loss year, with European cats below modelled levels.

Record levels of reinsurance capital are likely to be the telling fact at least in the cat renewals.

Rate pressure at 1.1

Downward
- Traditional capital at all-time highs
- Benign European cat loss experience
- Average to below-average global cats
- Reloaded ILS markets supporting global cat market via retro
- Demand broadly flat

Upward
- Absolute returns depressed
- Lloyd's risk appetite may reduce
- Brexit could cut London capacity
- Slim margins on European business

> "The attitude of the continental reinsurers will be pivotal in terms of shaping pricing dynamics"

Demand for cat reinsurance is expected to be relatively flat in Europe, with sources suggesting that the source of growth will again be major new quota share covers for large cedants across both property and casualty lines.

There have been few cat events in Europe this year, adding weight to buyers' argument that a rate increase would be unjustified.

One source said that with growing capacity, stable demand and low cats, "we have all the ingredients for a soft market". Another said that the market was "no prettier" than last year in terms of an oversupply of capital.

A third described the feeling of the market as being similar to that they had seen ahead of the 1 January renewals for 2017 when reinsurers gave up around 2.5-7.5 percent reductions on cat business.

Reductions at around those levels for European cat treaties seem unlikely given low technical margins, but underwriting sources have made clear that flat would be a good outcome in the highly commoditised line.

"We were planning for flat at the start of the year – and I'd take flat today," one said.

A broking source said that reinsurers would see flat cat pricing as "a win". They said: "We think flattish to maybe slightly down."

Cedants and reinsurers may be able to square the circle somewhat by agreeing to flat rates on line so that reinsurers accept slightly more risk for the same euro spend. Although this move would again mean that reinsurers have their already thin margins salami-sliced.

The attitude of the continental reinsurers will be pivotal in terms of shaping pricing dynamics.

Swiss Re and Munich Re are never organisationally monolithic when it comes to pricing and it is still early in the renewal season, but broking sources said they did

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INSIDE

Optimistic by necessity

Why do the longest-established reinsurance gatherings so often take place in towns that are famous for their casinos?

After all, everyone knows casinos are places where fools are very efficiently parted from their money.

The risk is priced wrongly. The payouts you get are too small, so the longer you stay, the more you lose.

Yes, clever folks with outsized memories and wonderful powers of concentration can move the odds in their favour if they can count cards in Blackjack, but let's face it – that is a top percentile occupation that only a Jain or a Buffett can pull off.

And you can only play for small stakes before the casino managers get very suspicious.

You can hardly win big enough to make it worth your while for your own account as a lifestyle business, let alone keep investors on board.

The best casino strategy is to cash in your chips and head for the exit. After all, the only way of avoiding being the chump in the room is not to be in the room at all.

But reinsurance is not supposed to be like being a punter in a casino.

Reinsurance should be a game where the risks and rewards are in better balance. You are supposed to get paid something for taking the risk away on somebody's behalf. You take a 1 percent risk and get 50 cents extra for your troubles.

You're doing a valuable service and are smoothing your customer's earnings, plus maintaining a large and pristine stack of capital for when a series of unfortunate events strikes is not a cheap business.

And because of your global vantage point, you also impart valuable insights – you know lots of useful stuff about risk and are a handy person to have around as a partner/free consultant.

"Reinsurance should be a game where the risks and rewards are in better balance. You are supposed to get paid something for taking the risk away on somebody's behalf"

If truth be told, your best and most loyal customers don't really want cheap. They want seriously dependable and reliable quality at value-for-money prices.

But there are times when our game just isn't well paid enough to be worth all the work that goes into it. And then there is all the potential downside from remote but ever-present risk and all the unknown and unknowable risks you are also almost certainly running.

Once your environment starts looking like a casino, you know you should leave.

The smart money knows when to walk. Is now that time?

When prospective returns don't exceed your cost of capital and prices aren't budging, you know you should shut up shop.

Lots of activist investors seem to think so, or at least they think that any remaining specialist reinsurers should sell while they can still get reasonable premium prices for their seats at the reinsurance table.

But the most honest answer to the big question lies in whether you have sufficient grounds for optimism that over the cycle the good pricing will exceed the bad by enough to make it worth your and your investors' whiles.

In the cold, autumnal light of today, it is becoming harder to answer that question positively with any conviction.

The problem is that the lifestyle is addictive. It's a rush, and over time business and pleasure have merged.

The basic pay is good and when you win, the rewards are even better.

And if you write mostly cat you should win nine years out of 10 anyway.

Plus what else are you good for? You're too old to retrain and too young to retire.

Hope may not be a strategy but sometimes it's all that is left for us.

No wonder we do our conventions in casino towns.

Mark Geoghegan,
Editorial Director,
The Insurance Insider
mark@insuranceinsider.com

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not expect a muscular approach from the market-moving reinsurers that could see them lose market share.

Uncertainty in London caused by the long shadow of Brexit and the Corporation's drive to improve profitability is said to be adding to delays and difficulties as renewal conversations get under way.

Underwriters expressed frustration at having to head to Baden-Baden without a firm idea, in some cases, of which business they will be able to write in 2019 due to the exacting Lloyd's planning process which is now in its latter stages.

London reinsurers are also unclear over whether they will be able to renew all of their continental European books.

The German and Polish regulators are taking a hard-line stance and insisting that reinsurers contracting with cedants under their jurisdiction have Solvency II equivalence, which the UK will be unable to obtain until after Brexit.

London underwriters of German and Polish business have warned that brokers are being asked to line up alternative carriers to Lloyd's players in the event that the issue is not resolved, and there are fears that if business is placed with new carriers at 1 January 2019 it will never return.

"Underwriters expressed frustration at having to head to Baden-Baden without a firm idea, in some cases, of which business they will be able to write in 2019"

At the bottom of the reinsurance chain, retro writers are starting to feel the pain as loss creep on 2017's Hurricane Irma continues, with much of the billions of 2018 deterioration flowing through to the tertiary market.

Further to that, the frequency of cat events in 2018 is starting to have an impact on aggregate retro covers, as well as pillared writer Markel Catco.

The potential for trapped capital is strong, and sources expect retro players to look to raise fresh capital to renew their books. With pricing more sensitive to losses in the retro space, these impacts could start to push pricing higher, which will squeeze reinsurers.

Vohburg refinery loss to cost energy market at least $300mn

The downstream energy market is anticipating another major loss after a fire ripped through a Bavarian refinery at the start of September.

Sources said property damage arising from the blaze was likely to cost the market at least $300mn, with additional costs arising from business interruption expected to be higher still.

The insurance placements for the plant are brokered by Willis Towers Watson, *The Insurance Insider* understands.

Sources said multiple German company markets are preparing to pay out on the claim.

Multiple sources said the final loss quantum could escalate as a result of additional contingent business interruption claims on policies belonging to manufacturers relying on products from the Vohburg plant.

The refinery is understood to supply refined oil products to multinational chemical and plastics firms including LyondellBasell.

Principal carriers on risk for the loss could not immediately be confirmed but are understood to include Germany company markets such as HDI and Allianz.

According to media reports, over 600 police, firefighters and other members of the emergency services responded to the incident, which occurred on 1 September.

The plant has a production capacity of 120,000 barrels per day.

Speaking shortly after the explosion, Bavarian interior minister Joachim Herrmann said police in the nearby town of Ingolstadt and the Bavarian state criminal policy agency had started an investigation into the blaze.

The Bayernoil refinery is 45 percent owned by Varo Energy, while Rosneft Deutschland has a 25 percent stake. Eni Deutschland has a 20 percent stake and BP Europe holds a 10 percent share of the operation.

Downstream market sources said there were concerns over the Bavarian state government's appetite to rebuild the plant as a result of environmental issues.

"There could be issues around the repair of the refinery, as apparently the plant would not be permitted if there were plans to build it in the same location today," a source said.

The claim is one of a number of significant losses to hit the downstream market in recent weeks, eroding the segment's already fragile total annual premium base.

Earlier this month the market was put on notice after a blaze swept through a petrochemical plant belonging to Saudi Arabia's National Petrochemical Industrial Company, killing one worker and injuring 11.

The loss is likely to cost the market in the region of $400mn to $500mn, according to sources.

The downstream market has also been hit by a loss at Canada's largest refinery, which looks set to cost the market between $100mn and $400mn.

In a statement shortly after the Vohburg explosion, Bayernoil confirmed that 15 people had received medical care and that the process plants and other systems at the refinery had been secured.

"The clean-up work has begun. Investigations over the cause have begun," the oil company added.

HDI declined to comment. Allianz and Willis Towers Watson could not be reached for comment.

Liberty Mutual Re's Winkel predicts 1.4 Japan pricing inflection

Industry-wide losses from Typhoon Jebi and other local catastrophes will have a significant impact on pricing at the 1 April Japanese renewals, said Liberty Mutual Re president Dieter Winkel.

Winkel was speaking to *The Insurance Insider* after Swiss Re warned of $500mn of Jebi losses in the third quarter and estimated the industry-wide Jebi damage at about $6bn.

"Jebi probably needs to go to more than $6bn," said Winkel. "There's a bit of time left until the 1.4 renewals but I would certainly expect there would be a correction in the Japanese market."

"It's not going to be a marginal adjustment," said Winkel. The executive said the European pricing picture was more disparate, with deductibles varying from country to country and client to client.

He noted that the fact European wind storm losses typically accumulated only towards the end of the year also made rate movement for 1 January hard to call.

But he downplayed the prospect of a unified pricing reaction in Europe in response to catastrophes in North America, Japan and elsewhere.

"I don't think we live in a world where there will be a global [property catastrophe] price reaction in the overall market. Last year people were talking about huge rate increases worldwide; in Europe rates were up in the low single digits."

He was also sceptical about the likelihood of a surge in demand for aggregate cover after attritional losses eroded the earnings of European carriers including RSA and Lancashire, both of which have issued recent profit warnings.

"I am not so sure that people should readjust their buying philosophy because of a certain loss pattern in a given year. I would like to think we will see a reasonably stable market environment in Europe – a lot is driven by individual experience.

"I would like to see more focused, client-specific reactions but I don't think either side will need to expect any particular overreaction."

In July Liberty Specialty Markets rebranded its reinsurance division as Liberty Mutual Re and announced the launch of an Italian operation, with offices in Rome and Milan.

Winkel said: "We used to market them separately. Syndicate underwriters in London, for example, were seen as Lloyd's underwriters, but we're aiming to demonstrate that we operate as single reinsurer for the Liberty Group."

He said Liberty Mutual Re was considering how to expand in Asia.

"We already write reinsurance in Asia but we need to take a view of where we can use our existing network because we don't have people on the ground.

"It's a market that we can't ignore as it's a big market but it's a difficult market to get into," he said.

Agricultural risk in India is one focal point for the carrier.

Winkel said Liberty Mutual Re had also established a working group to develop its cyber offering.

Treaty reinsurance hitch among Lloyd's Brussels hurdles

Accommodating treaty reinsurance and choosing a new chief are top of the "to-do" list for Lloyd's Brussels, with less than six months to go before Brexit.

The Corporation seized the initiative early with its March 2017 decision to select Brussels as the home of its new European Economic Area (EEA) subsidiary. It secured a favourable arrangement with the Belgian central bank to establish a capital-light subsidiary which will be hooked up to London through a local branch.

But Lloyd's recently hit a late-stage snag with the discovery that insurance supervisors in Germany and Poland are planning to stem the flow of domestic reinsurance risk to London after Brexit in the absence of an "equivalence" designation, since the UK will become a so-called third country.

However, the Brussels platform is not equipped to handle treaty reinsurance from those or other markets.

The treaty reinsurance deficit has caused some frustration at 1 Lime Street, even though the line accounts for a relatively small part of Lloyd's business. Some underwriters and brokers are reporting that German cedants are already shunning the market.

Lloyd's Brussels will from the outset be able to write facultative reinsurance, however. Overall, based on 2016 figures, it will handle an estimated £4bn ($5.3bn) or so of EEA premium.

Sources noted that the treaty reinsurance hiccup is essentially a systems one. Lloyd's had anticipated being able to continue to write EEA reinsurance from London and so has not plugged in Xchanging's reinsurance systems into the platform.

It is working to address the deficit, a representative said.

Rolling out technology that will capture real-time information on the risks it will write up is a wider challenge, one person said. The source noted that Lloyd's has over the years lost systems expertise following the 2001 sale of the old Lloyd's Policy Signing Office to Xchanging.

Another area where market protagonists have concerns is the leadership void at the new venture.

Head of Europe Benno Reischel had been expected to take the helm in Brussels, before he chose to retire. Lloyd's chief commercial officer Vincent Vandendael was co-opted to replace him.

However, Vandendael decided to join Everest Insurance as London-based CEO of its international business instead of returning to his home country.

It is unclear how far Lloyd's has got in the hunt to replace Vandendael. It has, however, continued to add senior managers for Lloyd's Brussels, most recently hiring Jamie Crookenden, a former underwriting review manager at Liberty Syndicates, from a consultancy role.

One senior London market executive said he was "relatively positive about what Lloyd's has done. The fact there are a few clunky bits was to be expected".

Lloyd's Brussels received Belgian central bank approval in May, slightly ahead of schedule, and has in recent weeks finalised nuts-and-bolts arrangements to get the platform up and running to write new business and renewals from 1 January.

Working with the Lloyd's Market Association it has finessed policy wording. It has also confirmed financing plans and arranged for coverholder agreements to be grandfathered from existing approvals used to write business for the EEA through London.

It has also garnered the same ratings from AM Best, Standard & Poor's and Fitch as its London parent.

Significantly, too, it has finally embarked on its mammoth Part VII portfolio transfer process, after many months of deliberation. It anticipates the transfer will close at the end of 2020, which would coincide with the end of the yet-to-be-ratified Brexit transition period.

Earlier this month it declared that it would pay EEA claims during the interim period regardless, noting that it has the backing of the Financial Conduct Authority and that it expects European regulators to fall in with its stance.

Opinion: Lloyd's vulnerable to Brexit vagaries

Lloyd's will be hoping a fractious Brexit doesn't disrupt its preparations to preserve its roughly £4bn ($5.3bn) of European Economic Area (EEA) premium.

Despite a favourable arrangement with the National Bank of Belgium, a hard Brexit could throw Lloyd's on the mercy of the European Commission (EC) as well as the bloc's supervisory authorities.

The Corporation's cherished deal to reinsure 100 percent of the risk its Belgian insurance company writes back to London is one potential victim of European whims.

The plan counters the stance of the European Insurance and Occupational Pensions Authority and of hawkish German financial services regulator Bafin, both of which have specified a 10 percent retention floor.

Lloyd's is also lobbying hard to ensure the UK is deemed "equivalent" from a Solvency II perspective so that reinsurance written from London can continue uninterrupted.

Bafin and Polish regulator KNF have threatened to block reinsurance to the UK without an equivalence designation and it is feared other regulators could follow suit.

But even equivalence, under the Solvency II framework, is revocable by the EU with 30 days' notice, so – with a hard Brexit – the sands could quickly shift.

Data "adequacy" under the General Data Protection Regulation is also an accolade the UK ideally needs – and which the EC is withholding. However, legal mechanisms known as binding corporate rules offer a data-transfer work-around in many cases.

Lloyd's has said it will pay valid claims on EEA policies even though its Part VII transfer to Brussels is unlikely to be complete before the end of 2020.

However, some UK carriers remain worried supervisors will allow the payments to be made but then take them to task for carrying out unauthorised activities in their market.

Some lawyers suggest that arrangements for Lloyd's Brussels should ideally form part of the eventual Brexit Withdrawal Agreement. However, it's safe to say Lloyd's is but a tiny fleck on Brexit negotiators' radar.

Munich Re partners with Gossmann on start-up

Former Darag CEO Arndt Gossmann has teamed up with Munich Re to launch a risk carrier which will assume liabilities for insurance policies still in force.

The start-up, named Gossmann & Cie, will enable insurers to release the capital sitting behind policies which will not be renewed, before the policy expiry date, using a type of portfolio transfer mechanism.

The liabilities can be transferred on an ongoing basis, allowing cedants exiting books to dispose of them more quickly.

The approach takes into account existing outstanding claims reserves as well as prospective risks.

Munich Re has partnered with the start-up as a reinsurance provider and also worked with Gossmann and his team to draw up an algorithm to extrapolate future loss experience.

The product is called ExPro (expiring policy rollover) and will launch in Q2 2019.

Gossmann claims the method developed by his company will soon not only be easier and quicker but more cost-efficient than the sale of legacy portfolios practised to date.

"For the first time, terminated or no longer renewed policies can be transferred to a third-party insurer on an ongoing basis and at a fixed price agreed in advance," Gossmann said in a statement.

"We want to offer insurers an opportunity to optimise their portfolios long before entire portfolios accumulate for run-off."

Gossmann is understood to have provided the start-up capital to launch the risk carrier, but he aims to develop a protected cell structure for the firm so third-party investors are able to invest in specific risk portfolios.

The firm is expected to handle the claims management itself, and on a local basis, as far as it is possible.

Initially, the firm's focus will be on the German, Austrian, Swiss, French and Italian markets, with expansion to other countries also planned in the medium term.

The management team will be brought on board in March 2019.

Opinion: Blurred lines

Arndt Gossmann's start-up concept looks unique in the way that it will transcend the borders between legacy and live business.

The market is already familiar with the concept of legacy-to-live deals, where the cedant wipes its hands of the old book, cuts ties and the legacy carrier or a partner takes the go-forward book.

But the rolling transfer of not-quite-expired policies to another risk carrier takes this concept a step further. The line between legacy carrier and live carrier is blurred.

However, look further across the (re)insurance industry and you'll notice that the boundaries between its different component pieces are increasingly being broken down.

Brokers are becoming underwriters, with broker-led MGAs and facilities. More often than not, they are also taking on broader roles with their clients as consultants and data providers, not just placing cover.

In the same vein, underwriters are looking in certain areas to forego intermediaries and use technology to source risk themselves.

Carriers often offer insurance and reinsurance capacity under one roof. Reinsurance and retro is becoming a blend of traditional capacity and the capital markets.

Some of this ties in with client demand. In the case of Gossmann & Cie, its offer of proactive capital management fits neatly with live carriers' ambitions to optimise their capital allocation.

But for many, this is primarily about diversification and accessing business outside a company's traditional sphere. For Munich Re, the start-up provides access to a new risk niche.

The soft market has made carriers and brokers question the viability of being a niche specialist.

And the more margins come under pressure, the more companies will try to be all things to all people. The more the lines will blur.

MS Amlin Irish run-off process enters second round

MS Amlin has taken four legacy carriers through to the second bidding round for its EUR90mn ($104mn) Irish run-off portfolio, *The Insurance Insider* understands.

Sources said the process, which started in the summer, is progressing quickly. It was suggested Enstar, Armour, Darag and the Randall & Quilter-Axa consortium are still in the frame.

This publication revealed in September that MS Amlin had launched the then-called Project Guinness with TigerRisk as the advising broker.

Sources said the portfolio holds Irish public liability and employers' liability (EL) exposures.

The decision to address MS Amlin's back books comes amid a wider focus on efficiency and performance at the company.

The carrier launched a group-wide strategic review after it ran a combined ratio of 133 percent for 2017, according to financial statements for parent MS&AD. As part of that review, MS Amlin is looking to reduce headcount by 10 percent worldwide.

Some may interpret Project Guinness as a way for MS Amlin to test the use of the legacy market as a way to achieve greater capital efficiency.

If the proposed transaction goes smoothly, it is hoped the carrier will be open to bringing more, larger books of business to market.

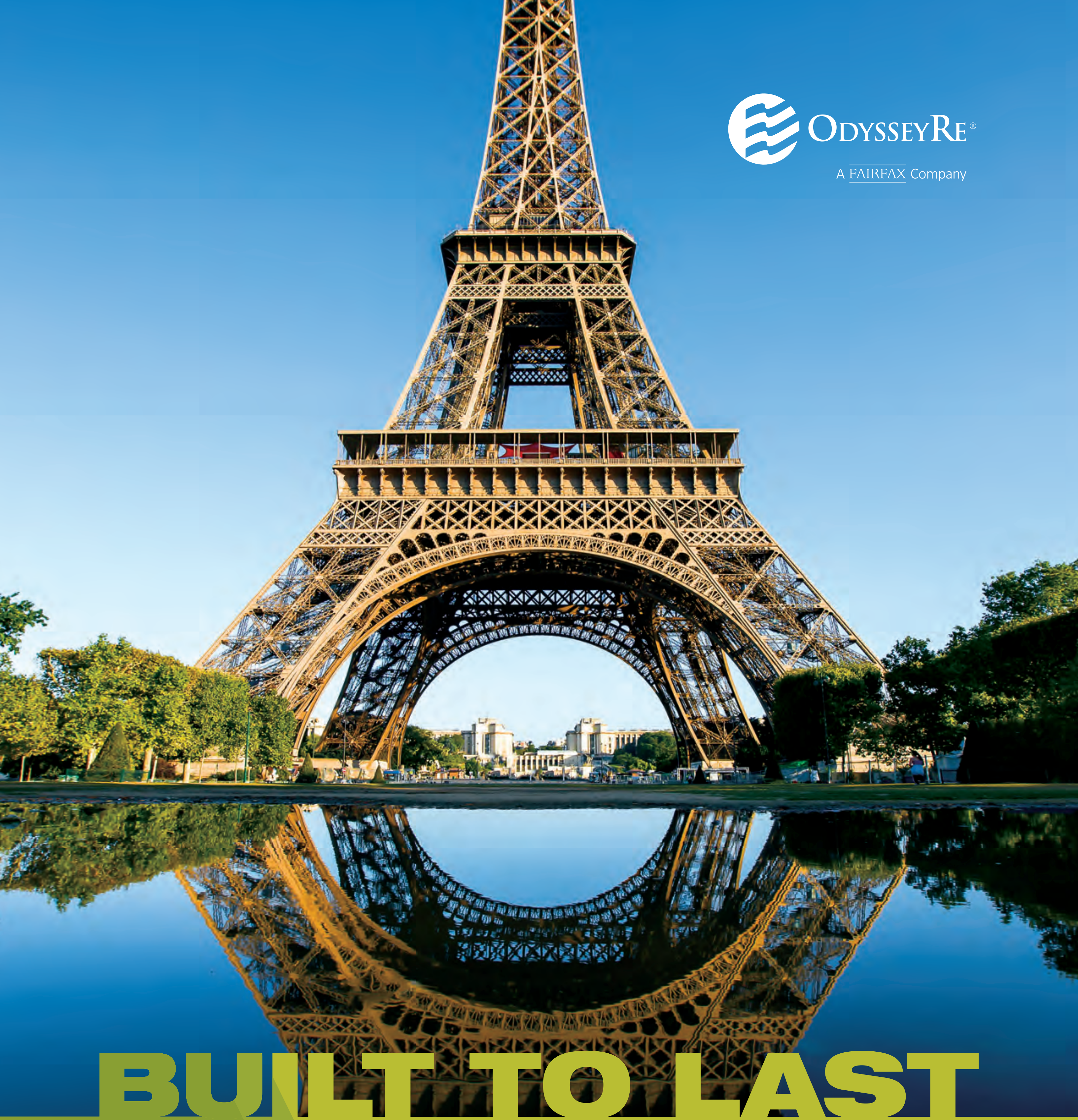
The legacy market has seen a welter of run-off deals in recent years as live carriers have strived to optimise the use of their capital.

Recent deals in Europe have included the sale of a run-off portfolio belonging to German carrier Sovag, which held EUR85mn in gross reserves. After a long process which for the most part had Quest as the frontrunner, a deal was eventually struck with Axa run-off arm Axa Liabilities Managers.

Zurich is also said to be close to signing a deal with Catalina on the sale of the global insurer's £1.6bn ($2.1bn) legacy UK EL portfolio.

This publication revealed in July that Catalina had been awarded exclusivity on the book, although at that point no deal had been fully agreed.

The legacy carrier outbid rival Enstar in the final stages of the bid process, which started in April with the appointment of KPMG as an adviser.



CONSISTENCY AT WORK

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Future-proofing reinsurance

Guy Carpenter's James Nash shares his views on the 1.1 renewals, the new market environment and the optimal model for the reinsurance broker of the future

In the age of the millennial worker, a decades-long tenure at one firm is a rare thing to come by.

And while the younger generation might sing the praises of a wide and varied career, there's definitely something to be said for a company being able to draw on experience and knowledge from someone who has seen it all.

James Nash, president of Guy Carpenter's international division, is now in his fourth decade of working at the reinsurance broker, having started in 1985.

Speaking to *The Insurance Insider* ahead of the Baden-Baden conference, Nash reflects on what has changed during his time at Guy Carpenter.

"The overall scale of the reinsurance market has changed exponentially since I entered the sector," he says.

In 1985, the reinsurance market was much more remote from the client, with few local offices providing any form of on-the-ground presence, Nash explains.

"The industry has today achieved a truly global presence and at Guy Carpenter we now have a much more direct level of contact with our clients through a constantly expanding number of overseas offices."

A trained accountant, Nash first joined Guy Carpenter in 1985, but in 1999 relocated to Asia. There he was an integral part of the regional management team, with responsibility for the specialty practices and the rollout of Guy Carpenter's analytical platform.

By 2008, Nash was made CEO of Asia Pacific and joined Guy Carpenter's global executive committee.

"What I am most proud of having witnessed and made a small contribution to is the evolution which has taken place in the reinsurance market in Asia over the last 30 years," he says.

"I have been extremely fortunate to have worked at Guy Carpenter's Asia office during this time and to have seen the industry flourish across the region."

Nash also claims he learned his most valuable lesson while in Asia.

"That is the importance of capitalising on the diversity of thoughts and opinions that are available to you," he says.

"During my time [with Guy Carpenter in Asia], we had an incredibly diverse leadership across the operation and I really benefited by learning how to embrace that blend of different ideas and perspectives."

Given the executive spent more than 10 years in the Far East, it's perhaps not surprising that Nash has developed a keen interest in Asian art and has become quite the collector. He tells this publication that he has a particular interest in Chinese ceramics, as well as Chinese and Japanese paintings.

> "While the cycle is currently less pronounced, reinsurers cannot afford to be complacent"

Nash's impressive career in (re)insurance makes clear he is a hard worker. However, it's not all work and no play for the executive.

Outside of spending time with his family, Nash says he tends to watch "pretty much any form of sport" to relax.

"I'm also a big music fan," he continues, and admits he enjoys whiling away a few hours listening to bebop jazz.

His love of jazz is one of the main reasons New York is his favourite city to visit, and Nash says that whenever he can, he tries to take full advantage of the numerous jazz venues the Big Apple has to offer.

"New York is a city that thrives on difference and generates a unique energy," he says. "It's such a vibrant and culturally diverse city, yet at the same time has a very strong and clear identity."

The conversation comes back to the market, and the changes Nash has seen over the course of his career.

Nash reflects on how reinsurance as a product has evolved, and how now it has taken on a far better-defined function in

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the strategic activities of clients, both as a capital management tool and a means of reducing earnings volatility.

He notes that a significant development in reinsurance was the emergence of alternative capacity in the market.

"I can remember discussions around the potential for property catastrophe reinsurance to become an alternative asset class as far back as the early 1990s," he says. "However, it was not until after the financial crisis that we started to see alternative capital become a meaningful presence in the reinsurance market."

Overall, innovation in reinsurance has partly been driven by the introduction of alternative capital and also as a result of a more responsive industry that is more willing and able to evolve in line with changing client demands, Nash explains.

In tandem, the role of the broker has also expanded significantly during this time, he continues.

"The role that Guy Carpenter played when I joined the firm was very much as a distribution channel for insurance companies to transact risk," Nash says.

"Today, while this is still an integral function, we have extended our capabilities out from this to provide a much more expansive and encompassing range of services to our clients."

Looking to the 1 January European property cat renewals, Nash says the ample supply of reinsurance capacity will continue to influence the rating environment.

According to AM Best and Guy Carpenter figures, reinsurance industry capital stood at $427bn at year-end 2017, and by 30 June 2018 it had risen by 4 percent.

Guy Carpenter expects this figure to hit $462bn by the end of 2018 – up about 7 percent year on year.

"We would expect the forthcoming 1.1 renewals for European property cat to be a positive environment for buyers," he says. "This year to date, the sector has witnessed a relatively light loss period, particularly in comparison to 2017."

According to Nash, many European reinsurance buyers have already transitioned to a more centralised buying process and the market is now seeing an uptick in reinsurance purchasing activity, rather than a drive to increase retentions.

"What we are witnessing is an evolution in the rationale for purchasing reinsurance with decision-making taking place at a more strategic level," he explains.

Shareholder and investor pressure for insurers to achieve a certain rate of return has made cedants more open to broadening the reinsurance remit, and they are now exploring alternative structures and mechanisms to help achieve their business goals, Nash continues.

"These options can include the increased use of quota share or looking at frequency-based protections purchased on a multi-year basis. Increasing the tenor of reinsurance will ensure that programmes are better aligned to longer-term business plan objectives of the insurers."

Speaking more widely, Nash says there is "no doubt" that the (re)insurance industry is currently undergoing a prolonged soft market.

> "In Nash's view, the (re)insurance broker of the future will be composed of three interlocking components: data, analytics and capital"

Nevertheless, the cycle is still in evidence and a major systemic event or series of large events could still cause a market shift, possibly in conjunction with a deterioration in casualty reserves or a financial crisis or material financial market sell-off, he continues.

"While the cycle is currently less pronounced, reinsurers can't afford to be complacent," he warns.

"Inflationary pressures for example are starting to build again and these could have implications from a claims inflation perspective.

"A rise in interest rates might also result in wider spreads and it will be interesting to observe the impact on the ILS market."

These are potential catalysts for change and market participants need to remain vigilant, he adds.

Reinsurers are looking to adapt to this new market environment by having a greater focus on client connectivity and a greater willingness to facilitate multi-class and multi-year participations, he explains.

"We are also seeing more evidence of product innovation as reinsurers seek to become more relevant at the strategic level in order to create more robust, longer-term relationships and also better insulate themselves against potential market movements," he adds.

Meanwhile, brokers are facilitating that shift to a more strategic role for reinsurance and creating stronger alignment with the overall business objectives of the client.

Much of the business conversation in the market is around how carriers are evolving to fit the new norm, but brokers are also having to adapt their business strategies.

In such an environment, Nash believes the strategic advisory component is becoming an increasingly relevant part of the broker offering, so that brokers may better understand client-specific needs and advise on the best reinsurance solution for that need.

However, there is still a defined role for the placement-only broker in today's market.

"The value of efficient transaction execution has not diminished as a result of the advancement of advisory services. It is still a key component of the broker value chain," the executive says.

"However, to achieve effective transaction execution, brokers must have access to comprehensive data analytics."

In Nash's view, the (re)insurance broker of the future will be composed of three interlocking components: data, analytics and capital.

"The overarching aim of the broker will then be to create greater connectivity with the client and to bring capital closer to the underlying risk by better exploiting the data at its disposal," he explains.

"The sources of capital that the (re)insurance market can access are changing. Where that capital plays in the (re)insurance value chain and how we interact with that capital is also changing.

"As we move forward, brokers must be better able to use ever-expanding data sets and the advances in analytical capabilities to more effectively engage with that capital."

While we are on the subject of the future, and as the interview nears a close, this publication asks Nash where he would like to see the reinsurance industry by the time he retires.

"From an industry perspective, I would like to see reinsurance evolve to become a broader and more relevant part of the overall financial services sector," he says.

However, he has bigger hopes and ambitions for London.

"I would like to see Lloyd's follow the example of the London Stock Exchange, which created the AIM market in 1995," he says. "I would like to see it create a small cap market which would provide a platform upon which innovators and entrepreneurs can flourish, so that the London market can maintain and enhance its relevance on the international stage."


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M&A

After a wave of M&A in 2018, leading market executives discuss the prospects for further consolidation and the resulting impact on the reinsurance industry.

What do you think is the main driver of M&A deals in the market at the moment? Is there more consolidation to come?

Frank Reichelt, market executive for northern, central and eastern Europe, Swiss Re: Our industry is undergoing significant changes to its business model, with "digitisation" being one of its major drivers. If the weak fundamentals of the current market situation do not change – yes, I believe more M&A transactions are ahead of us.

Jean-Paul Conoscente, CEO of reinsurance, Scor Global P&C: Consolidation is a result of the market changes we have seen over the past five to eight years: oversupply of capital and capacity, insurers demanding broader products and services from their reinsurance partners, low financial income, and ever higher, more local and fragmented regulatory requirements. When facing such changes, there is an advantage to scale. We can therefore expect more industry consolidation to take place, perhaps to the point where there are a handful of big Europeans, national champions in each of the largest Asian markets and a couple of US-focused reinsurers, with the rest being niche players.

Mike Van Slooten, head of market analysis, Aon Reinsurance Solutions: We believe there is scope for further consolidation in the sector, driven by the quest for growth, the need to optimise expense and capital efficiency and the compression of the risk-transfer value chain.

Alkis Tsimaratos, head of western and southern EMEA, Willis Re: While diversification remains a key goal for many, with some companies more advanced in their quest than others, size and the need to lower the cost of capital are now driving M&A.

David Flandro, global head of analytics, JLT Re: It is now quite clear that capital over-supply is currently driving most M&A. There is around $340bn of dedicated reinsurance sector capital, which is about double the amount immediately prior to Hurricane Katrina in 2005.

Contrast this with $265bn of worldwide reinsurance premiums and you get a premiums-to-surplus ratio of less than 80 percent. This makes it extraordinarily difficult for carriers to cover their cost of capital, to earn an appropriate return on capital commensurate with other opportunities.

Andrew Beecroft, head of M&A advisory for EMEA, Guy Carpenter: The recent deals in the market are mainly strategic acquisitions, driven by growth through diversification into new lines, new platforms and new territories. While there will be significant synergies in some of these transactions, this has not been the primary driver. There's also an element of talent upgrade in these deals.

Market conditions remain competitive so more consolidation can be expected but, with the current price expectation gap, it is unlikely to be driven purely by scale and expense synergies.

Michael Pickel, executive board member for P&C target markets, Hannover Re: We expect more M&A transactions to occur. Size matters more than ever before and M&A can help companies diversify their existing business revenue streams and mitigate concentration risks in specific business lines and geographies.

Torsten Jeworrek, reinsurance CEO, Munich Re: We are witnessing investments for an increasingly diverse set of reasons, from further diversification of business models to larger deals aiming for additional scale. At the same time, we also see companies (re)focusing their businesses, divesting non-strategic assets or areas with larger loss situations.

Other drivers of transactions include global, political and economic changes such as the Brexit referendum and the impact of US tax reform on Bermudian markets, for example. Increasingly, M&A transactions are also taking place to gain access to technology know-how.

There seems to be a trend of conglomerisation in the market, with carriers seeking to use M&A to bring multiple capabilities under one roof. What effect will this have on the reinsurance market?

Beecroft: One specific example of this trend is Markel's acquisitions of Nephila and Catco to add alternative capital and ILS capabilities. AIG also emphasised the importance of AlphaCat in its acquisition of

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STORY BUILDING - CREDIT PHOTO : GERALDINE ARESTEANU

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Validus. This is likely to further strengthen the market's capability to match risks with the right capital. In the short term, it may have an undesired impact on pricing from reinsurers' perspective, but in the long term it will potentially make the market more efficient.

Van Slooten: Consolidation is creating bigger, stronger companies with broader product offerings that are better positioned to compete in today's marketplace. Reinsurance panels will become more concentrated over time, increasing the need for effective counterparty monitoring.

Tsimaratos: A new second tier of reinsurers will emerge to challenge the historical tier-one players. With a broader suite of services, that new tier will target more long-term, relationship-driven partnerships – but this can only be achieved alongside core commodity capacity support. As a consequence, overall relationship pricing will emerge alongside individual programme pricing. That includes learning to price for a broader range of services, which remains a challenge, even for tier-one players today. At the same time there is the re-emergence of major primary insurance groups seeking to re-enter the reinsurance market, which many exited a decade or two ago.

Reichelt: In general, it is more likely that the traditional reinsurance cake will become smaller than bigger. Larger groups tend to increase their retentions, keep more lines of business net, and just protect their biggest exposures.

Conoscente: To succeed in the new risk-to-capital ecosystem, one needs to either be the best at a particular function or be the best at assembling functions along the value chain. The scope of a global reinsurer is an enormous competitive advantage in this regard. Global reinsurers are differentiated by their networks and their proximity to markets and clients.

Flandro: Conglomerisation has not necessarily led to more efficient combined capital positions – certainly not at the sector level. Carriers must utilise their greater economies of scale to achieve better outcomes. The effect on the reinsurance market is, paradoxically, plenty of capacity, lower pricing, but fewer rated or quoted carriers.

Can pure-play reinsurers survive in the current market?

Tsimaratos: Yes, and insurers need them to. ILS funds are a good example of pure players, and capacity has been growing while consolidation has been taking place. The consolidation and decrease in pure players follows a benign loss environment and increased capital flow in the industry, sustained by low interest rates, diversification and ultimately good returns. That comes at the price of an increased volatility, which hasn't yet shown its full potential at an industry level. When it does, pure players will re-emerge, particularly those which are agile in their use of capital – both their own and ILS markets'.

Pickel: A reinsurer can indeed achieve diversification benefits without moving into primary insurance and competing with its clients. We expect the reinsurance market to grow slower than the primary market in terms of premium, but it is fundamentally growing.

Van Slooten: I don't think they can as standalone, listed companies, but possibly as part of a larger diversified group, where the parent is able to take a long-term view.

Jeworrek: There is room for both business models – pure-play reinsurers as well as service-play reinsurers. If you are focusing on the latter, you might have more options to participate in new business models.

Conoscente: A better question might be whether a retail insurance operation is necessary to survive. Few (if any) companies with reinsurance in their DNA have built high-performing general insurance operations constituting genuine profit engines in their own right. That said, insurers expect reinsurers to know and understand their business, which for us means selectively doing a certain amount of specialty insurance ourselves.

Reichelt: There will be always a certain need for pure capacity providers, however, it is not a significant growing need. It might be not enough for everyone in the future.

If there is further broker consolidation, what impact will this have on the reinsurance market?

Pickel: Everybody in our market has been reading the news on MMC and JLT. It is a huge consolidation of the broker market. For reinsurers in general, consolidation among brokers certainly gives brokers more negotiating power. Given that in most regions we are in a broker market, we believe that we are well positioned. Brokers trust our approach and expertise.

Conoscente: Just as with reinsurers, the market is large enough to have large and smaller brokers co-exist and flourish while mid-size ones are disappearing. As the larger brokers become fewer and bigger, reinsurers have to remain relevant, not just to clients but also to their broker partners.

Tsimaratos: None – the broker market is already highly consolidated and there will (and should) always be a pool of brokers focusing on more niche segments of the markets – either regionally or by activity.

CONTRIBUTORS

Andrew Beecroft, head of M&A advisory for EMEA, Guy Carpenter

Jean-Paul Conoscente, CEO of reinsurance, Scor Global P&C

David Flandro, global head of analytics, JLT Re

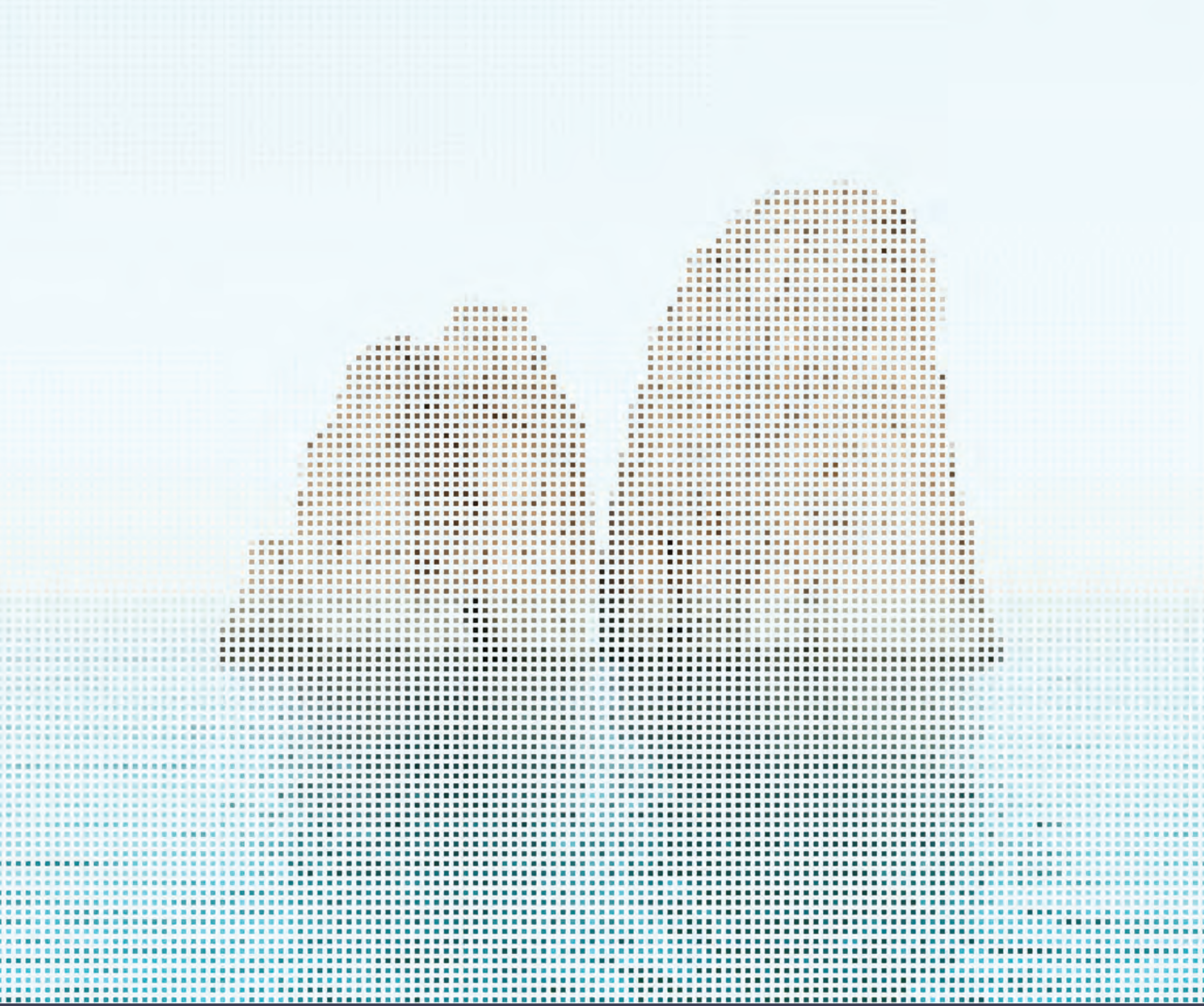
Torsten Jeworrek, reinsurance CEO, Munich Re

Michael Pickel, executive board member for P&C target markets, Hannover Re

Frank Reichelt, market executive for northern, central and eastern Europe, Swiss Re

Alkis Tsimaratos, head of western and southern EMEA, Willis Re

Mike Van Slooten, head of market analysis, Aon Reinsurance Solutions



Reinsurers press for rate rises as marine capacity contracts

Brokers are anticipating low single-digit rate rises on downstream energy and some marine XoL renewals, but uncertainty remains

Marine reinsurance brokers are reporting a varied start to 1 January renewal negotiations as underwriters navigate a contraction in capacity at Lloyd's and a clutch of recent mid-sized losses.

Sources speaking to this publication said the withdrawal of some carriers from classes of primary marine business had created an air of uncertainty, with some cedants unable to enter negotiations with a clear picture of the reinsurance cover they require.

Multiple reinsurance sources said that so far this year they had witnessed a substantive increase in discipline from underwriters and that caution spurred by last year's natural catastrophe losses was filtering through to initial discussions for marine accounts renewing at 1 January.

Hull

Uncertainty around formal feedback on Lloyd's syndicate business forecasts has tempered hull reinsurance renewal discussions, along with a fire that swept through a floating dock belonging to German shipbuilder Lürssen in September.

Sources said the blaze, which destroyed a superyacht under construction, is likely to trigger a marine construction claim in the region of EUR620mn (£544mn).

Commenting on the loss, a reinsurance broking source said: "The Lürssen loss is certainly going to impact lots of carriers across the market.

"For some people it will hit their excess-of-loss (XoL) accounts, and there's definitely a read-across to ongoing discussions in the hull market," they added.

Multiple sources said the current trajectory of discussions could see non-loss hit quota share hull policies achieve high single-digit rate rises.

In a bid to control their exposure, XoL reinsurers are also pushing hard to achieve an increase in the level of deductibles offered to cedants.

According to one source, initial discussions suggested deductibles on some XoL hull programmes would increase.

Meanwhile, some reinsurance programmes for North American brownwater hull business have achieved low single-digit rate increases of between 3 percent and 5 percent in recent months. This compares with class-wide rate movements of flat to down 2 percent in the prior year.

Cargo

Despite an uptick in losses in the stock throughput segment of the primary cargo market, multiple sources reported a decline in demand for cargo reinsurance.

> "The withdrawal of some carriers from classes of primary marine business has created an air of uncertainty"

"I think from a quota share point of view, we're finding demand isn't that high at the moment. Insurers seem relatively happy to retain the risk at the moment," one underwriting source said.

Increasing expense ratios as a result of higher adjusting and administration costs in addition to slim profit margins is making the class of business appear less attractive to primary insurers.

"Cargo is a more expensive class. You have lots and lots of small risks, with high levels of commission and higher claims costs," one source said.

Yacht

In the yacht market, the withdrawal of Brit and Argo from primary business at Lloyd's has created uncertainty for cedants and therefore also for quota share and surplus reinsurance underwriters.

In the North American market a number of MGAs have had to seek new domestic paper following the reduction in capacity at Lloyd's, meaning some MGAs are looking to either delay the purchase of reinsurance or reduce the amount of cover they buy outright.

One reinsurance source underlined the impact of uncertainty around capacity on ceded business. "The MGAs we support have had to switch to domestic paper because of the contraction in capacity at Lloyd's. With quota share business [for those MGAs], which is largely what we write, this means there has been more uncertainty than usual around reinsurance renewals," they said.

Meanwhile, some marine reinsurers reported a more nuanced pricing picture. Proportional yacht treaty programmes in geographies hit by the 2017 hurricanes, such as the Caribbean, are said to be achieving risk-adjusted rate hikes of as much as 50 percent on some accounts.

Another reinsurance source identified Floridian yacht business as another sub-class where rate movements in the primary market were leading to a low single-digit uptick in quota share reinsurance pricing.

"We are seeing risk-adjusted rates [in the primary market] increase by as much as 10 to 15 percentage points, with deductibles going up to between 5 and 6 percent," they said.

Downstream losses could spur rate rises

Excess-of-loss programmes in the downstream energy space are likely to record rate rises at 1 January as the market begins to see some retrenchment and a reduction in appetite from reinsurers.

Primary insurers are anticipating claims from a spate of losses in recent weeks, adding to a first-half claims toll that came to at least $1.48bn (£1.12bn), according to JLT's latest energy market report.

Commenting on the likely trajectory of rate movements at 1 January, one reinsurance broker said: "Generally speaking I would expect us to see a slight single-digit rise on non-loss hit downstream programmes."

Meanwhile, energy market sources suggested that if renewal negotiations continue on their current track, upstream energy reinsurance pricing is likely to remain relatively stable, pending other major losses through this year's hurricane season.

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The Italian job

Swiss Re's Claudia Cordioli explains why closing the protection gap, improving gender diversity and addressing cyber risk are at the top of her career "to-do" list

Claudia Cordioli is an enthusiast. Speaking to *The Insurance Insider* ahead of the Baden-Baden conference, Swiss Re's head of western and southern Europe tells us about her interests with natural Italian passion.

She is a self-proclaimed movie buff, and in her spare time you'll find her in the cinema. She and her husband are also avid travellers and have flown to all corners of the globe (as we speak she is preparing for a trip to California later this year).

She is also passionate about her home country. Her favourite city is Venice, "because it is magic and time stands still… everything moves at a slower pace, no traffic and plenty of art everywhere", and she makes regular visits to Tuscany to enjoy the great food and wine.

But she is also incredibly enthusiastic about her industry, its future and the role it plays in society.

Cordioli joined Swiss Re 15 years ago, initially as a senior accountant before swiftly moving up the ranks to senior roles including CFO of EMEA reinsurance and managing director for Italy, Iberia and the Mediterranean.

She was made head of western and southern Europe for Swiss Re in March this year in a restructure which brought two previously separate regions under her leadership.

The executive jests that learning Swiss German was the biggest challenge she has faced during her career (and any German speaker would agree that it is no mean feat). She continues: "Jokes aside, I am quite proud of mastering many changes during my career, the latest one being the move from CFO to CEO of a large part of EMEA. I enjoy this type of challenge and continue to be attracted to changing environments."

It's clear that Cordioli has big ambitions for her time in reinsurance. She outlines three priorities she would like to see the industry achieve by the time she retires.

Closing the protection gap is something she views as of the utmost importance. Some 70 percent of global losses are currently uninsured, and as she explains, it's not just in the developing world where there is a huge under-penetration of (re)insurance.

"In my home country of Italy, less than 10 percent of the population has flood insurance," she says. "Less than 2 percent of residential buildings are insured against earthquake risk. The last major quakes to hit central Italy in 2016 caused combined economic losses of $6bn of which only $200mn were insured. Many SMEs [small and medium-sized enterprises] were not insured."

> "(Re)insurance needs to play a much bigger role to make societies more resilient to natural disasters"

Historically, the Italian government has intervened with disaster emergency relief and reconstruction measures, she continues. However, in light of already overstretched public budgets, this option is becoming too costly and ineffective.

But this protection gap stretches further than Italy – economic losses from catastrophe events in Europe overall in 2017 were $23.7bn, of which $12bn were covered by the insurance industry.

Farmers in Europe are having to battle with increasingly extreme weather conditions, and this is creating major economic losses for agriculture in Europe. In France, grape yields have fallen to 60-year lows, with around 60 percent of wine-growing areas like Bordeaux now hit by freezing conditions.

"(Re)insurance needs to play a much bigger role to make societies more resilient to natural disasters," she says.

"We need to combine risk prevention and risk transfer measures to ensure that insurance options stay available and affordable. That means working together with the public sector to systematically identify natural catastrophe risks, draw up potential scenarios and raise awareness."

This needs to include wider secondary impacts, such as disruption to business and supply chains, she adds.

Secondly, by the time she retires, Cordioli would like to think gender diversity in the workplace will no longer be an issue.

"Progress has been made, but when it comes to leadership, our industry is still largely a man's world," she says.

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"I experience this regularly, in the interaction with clients and peers in my markets."

She notes that Swiss Re is committed to improving diversity at all levels. Women make up almost half of Swiss Re's global workforce and the reinsurer is working to steadily improve gender balance at management level.

At the end of 2017, 23 percent of those in executive or senior management positions at Swiss Re were women. The percentage of women in all management positions was 33 percent.

Swiss Re has a number of in-house initiatives, including the implementation of flexible working structures, to improve the gender balance at the firm, but Cordioli said the reinsurer still recognises that women continue to be underrepresented in executive or senior management.

"Diverse recruiting panels, shared parental leave and more flexibility will all certainly help," she explains.

"Diversity is often a decisive factor when choosing a job. We need to make sure that more is done going forward to ensure that our industry attracts the young, diverse talent it needs to be relevant in future.

"Not to forget that our various clients are on the lookout for partnering with businesses that have a similar mindset and diversity is definitely one criteria they are evaluating us against."

As a third priority, Cordioli hopes the reinsurance industry will manage to develop good solutions to address growing cyber risks.

Cyber risk creates challenges but also opportunities, the executive says.

"There is potential for significant accumulation due to the way the risk is currently treated in policies. We are working towards better understanding and quantifying those risks in an insurance portfolio, so they can be better managed."

Developing a resilient solution for (re) insuring cyber risk will require cooperation among a number of public and private stakeholders, she notes.

The conversation moves to the upcoming Baden-Baden conference and the 1 January renewals.

While she notes it's early to be making predictions about rate movements, Cordioli says in general terms, Swiss Re expects broadly stable price development in European property cat, with some individual trends depending on lines of business and market.

"In some instances, there will be gradual improvements, depending on emerging loss experience and level of rate inadequacy," she says. "Underwriting margins in major non-life insurance markets need to improve more to deliver sustainable return on equity."

The ongoing consolidation among (re)insurers means reinsurance is increasingly being bought in a more centralised way, Cordioli explains.

She points to recent man-made losses in European property, and notes that a number of clients will have taken these losses net.

"As a result clients may have a look at the multi-line, multi-year structure in the P&C space," she says. "As a development this is not a united European market move, but rather client-specific, depending on to what extent these clients raised their attachment points in the last few years."

In the casualty space, many clients – particularly global insurers – are budget-driven, Cordioli explains.

"Sometimes this means that they adjust the structure according to what they get. As budgets are defined, some adjustment in the covers might be needed. There's a slight tendency towards higher retentions."

The conversation turns to Brexit, and while there is no suggestion yet that the UK exit from the EU on 29 March next year is affecting 1 January renewals, Cordioli says there is still uncertainty.

"The reinsurance sector benefits from geopolitical stability, and current political developments – affecting many countries, beyond Brexit – creates uncertainty."

A hard Brexit might have more profound business and operational implications for all market players active in the EU and the UK, she says.

Swiss Re has submitted applications for UK third-country branch licences for the existing UK branches of its Luxembourg entities – Swiss Re Europe SA, Swiss Re International SE and iptiQ Life SA – as it believes this is the best way to ensure business continuity and to continue servicing its clients after Brexit, Cordioli explains.

Cordioli goes on to say that a new market environment has evolved in reinsurance, where the market pricing cycle is less exaggerated.

"Reinsurers need to adapt, and expanding access to risk pools is key to our growth over the long term," she says.

"We're doing that by applying our risk knowledge, partnering with our clients and harnessing technology to develop innovative solutions."

She goes on to explain that getting the most out of financial innovation is one of the main strategic objectives at Swiss Re, and that this frequently involves exploring and testing emerging technologies.

Swiss Re was one of the five founding members of B3i, a cross-company blockchain initiative in the (re)insurance sector with the aim of exploring the potential use of the distributed ledger technology in smart contract clearing, and to develop common industry standards.

As the interview comes to an end, we ask Cordioli which lesson has been the hardest to learn in her career.

"It's important to learn to say no at the right time. This has not been always been easy for me: I am an optimist by nature so I'd like to find a way to make things work," she says.

"But sometimes being honest to one's self and others means that 'no' is the right answer, and we should not engage in a deal, or continue a project."

When we asked Cordioli what her second career choice would have been, she points back to her hobbies and says she would have loved to have been behind the scenes in the film industry, as a producer or script writer.

But judging by her enthusiasm for the (re)insurance industry, it seems like she's glad she said no to a life behind the camera.

Biography

1996-2003: Held various finance and accounting roles at a range of financial services firms across Italy, Germany and Switzerland

2003-2006: First joined Swiss Re as a senior accountant

2006-2008: Head of P&C reporting, Swiss Re

2008-2013: Head of external reporting, Swiss Re

2013-2016: CFO for EMEA reinsurance, Swiss Re

2016-2018: Managing director for Italy, Iberia and Mediterranean, Swiss Re

April 2018 – present: Head of western and southern Europe, Swiss Re

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Driving the market forward

The Insurance Insider caught up with Odyssey Group president and CEO Brian Young for his perspective on what we can expect in the coming months and the factors that will drive the market forward

With the lack of price increases post-Harvey, Irma and Maria (HIM) and the 2018 hurricane season upon us, what is your take on the cat market?

The pricing environment for cat business showed little sign of meaningful recovery despite more than $100bn in losses in 2017 and significant rate cuts in recent years. While the lack of movement is disappointing, it's frankly not surprising given the abundance of capital in the market and the expanding risk appetites of many (re)insurers. We've seen the most corrective action in the Caribbean as more than 20 years of regional industry profits were wiped out from the combined effects of Irma and Maria. In the US, while the cumulative impact of HIM and the California wildfires was substantial, rate increases were more modest than they otherwise could have been for two reasons: most reinsurers are still holding sizeable profit balances since Katrina, Rita and Wilma in 2005, and the rolling multi-year structures of many US cat placements had a dampening effect on rate increases. Elsewhere around the world, pricing was largely flat. While this was frustrating following five years of heavy rate reductions, at least prices didn't fall further as they were expected to in the absence of any losses in 2017.

Beyond property cat, what was the impact on other lines?

The hull and cargo market has been hit hard and prices are rising in this sector. Rates are increasing in the health sector due to poor results and rising medical inflation. Select motor markets are experiencing price corrections as a result of increased loss activity. In other lines, pricing and commission terms have improved modestly, but not enough to move the needle all that much.

Casualty business remains very challenging after more than a decade of intense competition. Prices more than halved over that period, while coverages expanded and commission levels rose by 5 percent to 7.5 percent. Casualty is the sector in greatest need of a correction; without it, we are heading towards another debacle similar to what the market experienced at the turn of the century.

Are there any bright spots in the market?

In a globally diverse market there are pockets of opportunity in many parts of the world – you just need the network and the capability to take advantage of them. Odyssey Group fortunately has both of these. Last year we grew our top line by 18 percent, and through the first six months of 2018 our gross premiums written rose by 25 percent. We have seen profitable growth in crop, health, credit, property quota share, cyber and niche segments of the casualty market, but perhaps the largest area of expansion for us has come from our motor business. There has been considerable dislocation in the commercial and non-standard motor sectors in the US and in other motor markets around the world. This has created opportunity for us on the direct side, through our US insurance division Hudson, as well as on the reinsurance side for OdysseyRe in the US, UK and Europe, Middle East and Africa.

> "The largest area of expansion for us has come from our motor business"

What are your expectations at the next 1 January renewal?

I expect incremental improvement in insurance pricing globally. We have seen an uplift in pricing in many markets in 2018 and there is too much pressure on underwriters' bottom line for it not to continue. The degree of improvement will vary by class, territory and results, but there is no doubt in my mind that we are in a rising insurance market. The notable exception is workers' compensation in the US.

The last few months have been noisy from a property catastrophe perspective. Hurricane Florence is not likely to impact reinsurers materially, but Typhoon Jebi and Hurricane Michael, among others, almost certainly will. Is it enough to elevate global cat pricing? Probably not, but I wouldn't expect rates to fall either. Moreover, where we have seen losses, I would expect to see increases and that includes the multi-year elements of US placements renewing in 2019 that were affected by 2017 events.

Casualty placements have met increasing resistance from reinsurers in 2018, and this will likely continue as the tail starts to wag on the more recent accident years. Consequently, I would expect to see improvement in rates, as well as another point or two reduction in commission terms in 2019.

Why, after more than 20 years, have you rebranded from OdysseyRe to the Odyssey Group?

When Fairfax Financial Holdings Limited formed OdysseyRe more than two decades ago, we were exclusively a reinsurance business. Today, the Odyssey Group writes more than $1.5bn of insurance business through our Hudson and Newline platforms. By rebranding, we are clarifying that we are more than just a reinsurance company. We chose Odyssey Group as our new corporate identity so we can more easily demonstrate the diversity and power of our three franchises: OdysseyRe, Hudson and Newline. OdysseyRe is our global reinsurance business, Hudson Insurance Group is our US insurance division and Newline Group is our international casualty insurance arm and Lloyd's vehicle. While we will continue to convey the unique qualities and capabilities of each of our three businesses separately, we think it is important for our clients and business partners to appreciate that the value of Odyssey Group is greater than the sum of its parts.

Brian Young
President and CEO, Odyssey Group

After the ILS reload

Christian Bruns, partner and portfolio manager at LGT ILS Partners, outlines the ILS opportunity post HIM

Collateralised markets and ILS capacity still carry a novelty element, and despite the market developments over the last few years, some voices still describe ILS capacity as opportunistic. How would you respond to this?

LGT's insurance-linked funds have been providing capacity for peak reinsurance risks since 2001 and we have been offering collateralised reinsurance protection since 2006 – that is longer than a good number of traditional carriers. The initial scepticism around capacity provided by ILS funds and the classification as "opportunistic" and short-lived has simply been proven wrong. ILS funds currently provide almost 25 percent of global catastrophe reinsurance capacity. Dedicated ILS funds with an established footprint have taken on a vital role in the industry. In the aftermath of the 2017 catastrophe events, ILS funds were able to reload quickly to meet the capacity requirements for the next renewals.

Speaking of 2017, it was a difficult year for the ILS market and many investors experienced negative returns on their ILS investments – can you elaborate on the impact to your fund offering?

At LGT ILS, we have a clear focus on peak insurance regions and risk associated with extreme catastrophe events. The 2017 cat events have had indeed a negative impact on our portfolios as a number of our US-focused reinsurance transactions paid out, mainly because of hurricanes Harvey, Irma and Maria and the wildfires in California. In addition to that, the higher frequency of attritional losses from tornado and hail events in the US during the first half of the year contributed to the loss burden. Yet, given that we write a globally diversified book, the losses were still very much in line with expectations considering the significant event activity. The overall impact to our funds from the 2017 events was therefore limited to single-digit drawdowns for our higher risk/return strategies while our more conservative funds even generated a positive – albeit lower – income for the year.

Can you comment on who makes up your investor base, and how they responded to this performance in 2017?

Our investor base consists of institutional investors such as pension schemes, family offices and sovereign wealth funds – all professional investors with a profound understanding of the asset class. These investors allocate only a small share of their portfolios to ILS in order to benefit from effects of diversification and low correlation of returns. The 2017 cat activity and the corresponding impact to our funds were very much in line with our investors' expectations for such a series of events. We think it is very important to be transparent with investors. As a result, the 2017 events and the corresponding impact to our funds did not come as a surprise to our investors; if anything, we received a series of inquiries asking if they should increase their allocation, as such events may also generate opportunities.

> "Dedicated ILS funds with an established footprint have taken on a vital role in the industry"

You are attending the Baden-Baden conference; why should an insurance company meet with you today?

As already stated, we are an ILS manager in the purest sense – we fundamentally believe that the core value proposition of ILS is the superior credit quality of the capacity and that it is a different, non-traditional source of capacity. All our capital is held in short-term government bonds, which serves to mitigate the potential credit risk associated with the reinsurance purchase. That is very different to most traditional reinsurance carriers or even many other ILS markets. We realise that not every client wants to deal with collateral. In order to work with insurance companies wishing to access ILS capacity but which still prefer a rated reinsurance carrier for ease of the transaction process, we have upgraded our well-established Bermuda carrier Lumen Re in 2017 and obtained an A/Excellent rating. This innovative solution combines the best of both worlds – the ease and speed of transacting traditional reinsurance with the superior credit quality of collateralised markets. Insurers which have no desire to manage the collateral process associated with ILS managers now simply face Lumen Re as a rated reinsurer. Our capacity remains collateralised within Lumen Re and provides our clients with the highest possible security. Purchasing cover from LGT ILS/ Lumen Re serves to optimise and diversify the reinsurance panel and mitigates any potential credit risk significantly.

Another hot topic is cyber risk. Can you comment on potential risk transfer to capital market investors, and your appetite for this type of risk?

When investing in insurance-linked strategies, institutional investors are looking for the low correlation of ILS to other asset returns. We have to assume that a catastrophic cyber event is likely to trigger negative results in the capital market as well, and the correlation to financial markets may be significant, especially when trading systems or entire stock exchanges are exposed to an attack. While investors understand that there may also be a correlation in the aftermath of a natural catastrophe event, such as a strong earthquake in California, the uncertainty around a cyber attack makes the assessment and risk management for this line of business difficult. Lastly, investors understand that certain elements around a cyber attack are already part of their allocation in the form of silent cyber – if for instance the attack is aimed at a hydroelectric plant and results in a flood, the water damage may be picked up through standard property contracts. While we clearly see the need for such protection, we believe that the collateralised market is not yet ready to transact such affirmative cyber covers in meaningful size.

Christian Bruns
Partner and Portfolio Manager, LGT ILS Partners


SPEAKERS INCLUDE:
• Kathryn Gifford, Head of Claims, Chubb Global Markets
• Andrew Horton, CEO of Beazley and Chair of London Market Group
• Clare Lebecq, CEO, London Market Group
• Bronek Masojada, CEO of Hiscox and Chair of PPL Ltd.
• Trevor Maynard, Head of Innovation, Lloyd's
• Matthew Moore, President, Liberty Specialty Markets
• Julie Page, CEO, Aon UK Ltd.
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European carriers cede more premium in 2017

Analysis supports market commentary that after a trend of more centralised reinsurance buying, cedants are now buying more reinsurance

European cedants' appetite for reinsurance increased slightly in 2017, as carriers continued to take advantage of favourable buying conditions.

Analysis of AM Best data on the top 20 cedants in Europe found that their cessions increased by 6 percent for 2017, up to EUR41.1bn ($47.4bn).

The data supports market commentary that after a period of greater centralisation in reinsurance buying, cedants were buying more reinsurance, typically for earnings volatility or capital optimisation purposes.

During 2017, reinsurance rates were still favourable for buyers. At the 1 January and subsequent renewal dates, pricing had again softened across almost virtually all lines and territories as a benign 2016 loss year and overcapacity continued to depress rates.

Europe's largest reinsurance buyers by ceded premium tend to be those that are focused on underwriting low-frequency, high-severity exposures.

The largest cedant by ceded premium was the Lloyd's market, which collectively ceded EUR9.8bn to the reinsurance market in 2017, equivalent to 26.0 percent of gross written premium (GWP) that year.

The volume of ceded premium in 2017 was also 23.8 percent higher than the previous year.

Two of the listed Lloyd's carriers – Lancashire and Hiscox – ceded away more premium than the Lloyd's market average in 2017.

Lancashire is one of the largest cedants in terms of cession ratio in our analysis, with a 2017 cession ratio of 32.7 percent. This was 5.1 percentage points higher than in 2016.

The increase in ceded reinsurance premiums was due to additional limit purchased plus reinstatement premiums in connection with hurricanes Harvey, Irma and Maria (HIM), the firm said in its annual report.

The Lloyd's carrier has been an open advocate of the use of reinsurance as a way to manage its way through the market cycle. According to its 2017 annual report, over the past few years Lancashire has reduced its top line and increased its reinsurance spend in order to do this. The decrease in top line will have also fed into the carrier's increase in cession ratio.

Beazley, meanwhile, kept its cession ratio flat year on year, at 16.1 percent – below the market average.

The carrier with the greatest cession ratio in 2017 was UK personal lines insurer Admiral, with a 67.4 percent ratio. In the list of top 20 cedants by ceded premium, it ranks eighth.

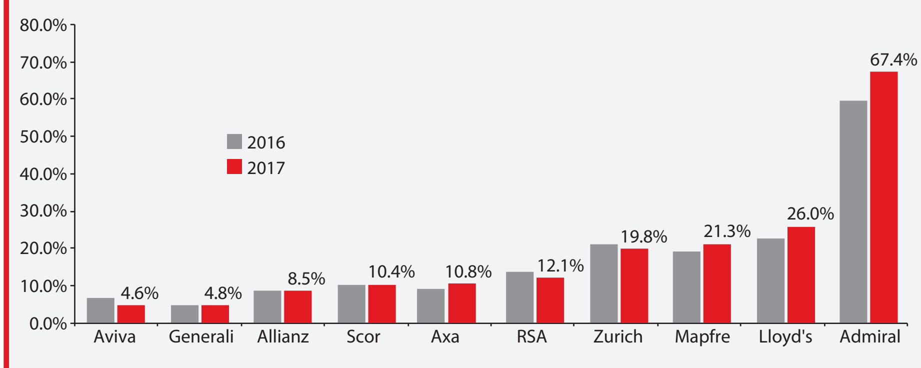
In its 2017 annual report, the firm highlighted the use of reinsurance for both loss protection and capital relief.

Admiral has proportional reinsurance and co-insurance arrangements on its UK motor and home insurance books with Munich Re and Swiss Re. The two reinsurers cover up to 70 percent of the home insurance book while Munich Re has an agreement to underwrite 40 percent of the UK motor book up until 2020.

The group has other quota share reinsurance arrangements confirmed to the end of 2019 covering 38 percent of UK motor business written. Overall, the group reduced its net underwriting share from 25 percent to 22 percent with effect from 2017.

It also purchased additional excess-of-loss coverage for 2017 for protection against large claims, in anticipation of the anticipated change in the Ogden rate. However, the firm said it planned to drop this additional coverage from 2018 onwards.

Top 10 European cedants by cession rate



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

Top 10 European cedants by premiums ceded

Group	Reinsurance ceded (EURmn) 2017	2016	YoY % change ceded premium	2017 cession ratio
Lloyd's	9,825	7,936	23.8%	26.0%
Zurich	5,420	6,837	-20.7%	19.7%
Allianz	4,442	4,397	1.0%	8.5%
Mapfre	3,880	3,404	14.0%	21.4%
Axa	3,789	3,346	13.2%	10.8%
HDI	3,080	2,931	5.1%	14.4%
Munich Re	1,630	1,286	26.7%	6.2%
Admiral	1,464	1,032	41.9%	67.4%
RSA	1,037	1,146	-9.4%	12.1%
Generali	999	995	0.4%	4.8%

Source: AM Best, *The Insurance Insider*

On the household book, it also buys non-proportional reinsurance to cover the risk of catastrophes stemming from weather events.

H1 2018 spend

The trend to spend more on reinsurance appears to have continued into 2018, with cession rates increasing virtually across the board for those carriers for which the breakdown is available.

Lancashire and Hiscox again have led the way in terms of percentage of GWP ceded, with cession ratios of 40.4 percent and 37.2 percent, respectively. Both of these

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were increases on the previous year.

It should be noted that H1 2018 should be the first data set that would capture the impact of rate increases following the string of catastrophe losses in the second half of 2017 – although rate rises in reinsurance were not as high as expected, and quickly tapered off as the year progressed.

When this publication interviewed Lancashire CEO Alex Maloney after Q1 2018 results, he stressed that Lancashire had exactly the same reinsurance programme as in 2017, and that rates had increased on "pretty much every line" on its inwards book.

Zurich's H1 cession ratio has also increased year on year, and stood at 20.9 percent for the period, seemingly reversing last year's move to decrease the proportion of GWP ceded to reinsurers.

One carrier that has publicly said it will look to buy more reinsurance protection is Axa, which is looking to de-risk following its $15.3bn purchase of XL.

AM Best's data shows Axa as the fifth-largest cedant on the continent in 2017, having ceded 10.8 percent of GWP, or EUR3.79bn, in the year.

In its H1 2018 results, Axa said it had already bought an aggregate reinsurance cover for the combined Axa-XL entity and taken underwriting actions to reduce its cat exposure.

It has decreased its cat exposure by about 40 percent relative to 2017, based on a 1-in-30-year return period, Axa said.

For a 1-in-50-year return period for all perils worldwide, Axa now expects nat cat losses to be EUR800mn in excess of normal levels of around EUR1bn across the whole group. This was a 47 percent reduction relative to 2017.

> "One carrier that has publicly said it will look to buy more reinsurance protection is Axa, which is looking to de-risk following its $15.3bn purchase of XL"

AIG

AIG, although not a European carrier, is one of the largest cedants in the market and has reported a major change in its reinsurance buying strategy for 2018.

The inadequacy of its reinsurance buying was exposed in 2017 after 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 swallow a loss worth up to 5 percent of contributed equity for commercial insurance at the start of the year.

In addition, 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 as Irma made its approach.

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.

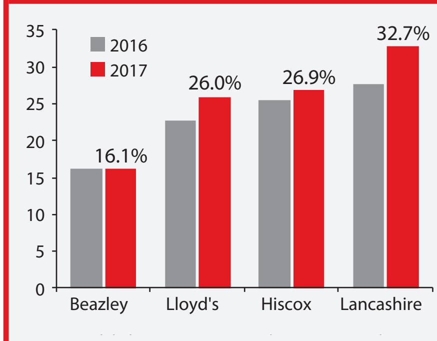
As this publication also revealed, AIG has also approached the market to discuss the purchase of two new major US casualty treaties.

AIG began marketing the proportional and non-proportional covers for its US general casualty book in Monte Carlo. Aon was handed the mandate to place a 30 percent quota share on a general casualty book with $2bn of subject premiums. The book includes primary casualty, general liability and mid-excess business.

The deal will be the largest new US quota share cover brought to the open market in years.

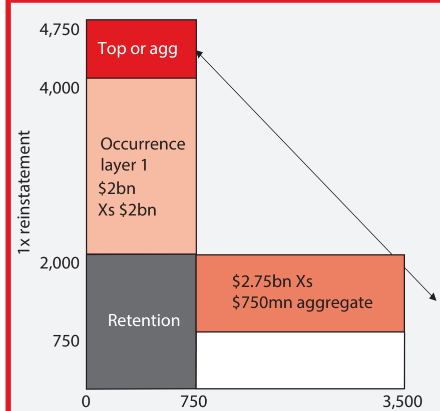
Willis Re was picked to market a non-proportional treaty to cover AIG's excess casualty book, with substantial vertical limit believed to come in excess of around $25mn.

Annual cession rates: Lloyd's carriers



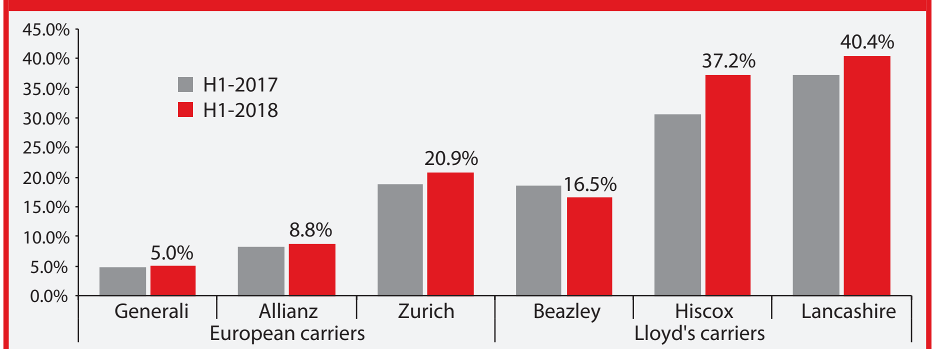
Source: S&P Global, Company reports, *The Insurance Insider*

AIG 2018 programme



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

H1 cession rates



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

EDITORIAL DIRECTOR
Mark Geoghegan
mark@insuranceinsider.com

EDITOR-IN-CHIEF
Adam McNestrie
adam@insuranceinsider.com

MANAGING EDITOR
Charlie Thomas
charlie.thomas@insuranceinsider.com

EDITOR
Laura Board
laura.board@insuranceinsider.com

NEWS EDITOR
Catrin Shi
catrin.shi@insuranceinsider.com

ASSOCIATE EDITORS
Christopher Munro
christopher.munro@insuranceinsider.com
Christie Smythe
christie.smythe@insuranceinsider.com

FEATURES EDITOR
Gavin Bradshaw
gavin.bradshaw@insuranceinsider.com

SENIOR REPORTERS
Fiona Robertson
fiona@insuranceinsider.com
Lucy Jones
lucy.jones@insuranceinsider.com
Rachel Dalton
rachel.dalton@insuranceinsider.com

REPORTERS
Bernard Goyder
bernard.goyder@insuranceinsider.com
John Hewitt Jones
john.hewittjones@insuranceinsider.com
Laura Sanicola
laura.sanicola@insuranceinsider.com
Sofia Geraghty
sofia.geraghty@insuranceinsider.com
Marissa Page
marissa.page@insuranceinsider.com

DIRECTOR OF RESEARCH
Gavin Davis
gavin.davis@insuranceinsider.com

SENIOR ANALYST
Iulia Ciutina
iulia.ciutina@insuranceinsider.com

ANALYSTS
Gianluca Casapietra
gianluca.casapietra@insuranceinsider.com
Dan Lukpanov
dan.lukpanov@insuranceinsider.com

COMMERCIAL DIRECTOR
Sajeeda Merali
sajeeda.merali@insuranceinsider.com

SALES DIRECTOR
Rob Hughes
rob@insuranceinsider.com

BUSINESS DEVELOPMENT MANAGER
Benjamin Bracken
ben.bracken@insuranceinsider.com

KEY ACCOUNT MANAGER
Oliver Nevill
oliver.nevill@insuranceinsider.com

SUBSCRIPTION SALES EXECUTIVES
Annie Lightholder
annie@insuranceinsider.com
Georgia Macnamara
georgia.macnamara@insuranceinsider.com

SUBSCRIPTIONS ACCOUNT MANAGER
Luis Ciriaco
luis.ciriaco@insuranceinsider.com

SUBSCRIPTION SALES SUPPORT
Paul Mansfield
paul.mansfield@insuranceinsider.com

MARKETING MANAGER
Aimee Fuller
aimee@insuranceinsider.com

HEAD OF EVENTS & MARKETING
Jennifer Lord
jennifer@insuranceinsider.com

CONFERENCE PRODUCTION MANAGER
Matthew Sime
matthew.sime@insuranceinsider.com

EVENTS PRODUCER
Sally Kramers
sally.kramers@insuranceinsider.com

EVENTS & MARKETING EXECUTIVE
Holly Dudden
holly.dudden@insuranceinsider.com

MARKETING ASSISTANT
Luke Kavanagh
luke.kavanagh@insuranceinsider.com

PRODUCT MANAGER
Carlos Pallordet
carlos.pallordet@insuranceinsider.com

DATA ANALYST
Khilan Shah
khilan.shah@insuranceinsider.com

PRODUCTION EDITOR
Ewan Harwood
ewan@insuranceinsider.com

SENIOR SUB-EDITOR
Tim Peters
tim.peters@insuranceinsider.com

SENIOR DESIGNER
Mike Orodan
mike.orodan@insuranceinsider.com

3rd Floor, 41 Eastcheap, London, EC3M 1DT, UK, Tel Main: +44 (0)20 7397 0615, Editorial: +44 (0)20 7397 0618, Subscriptions: +44 (0)20 7397 0619, Fax: +44 (0)20 7397 0616

Overcoming model inertia

As Solvency II-based capital regimes further impact internal capital models, providing greater clarity around a company's view of risk is becoming ever more critical, believes Eddy Vanbeneden. Yet optimising existing model infrastructures is a challenging task often limited by platform inflexibility, insufficient computational power and lengthy approval processes.

Creating a model framework that supports the determination of an accurate and dynamic assessment of risk requires expanded functionality, improved performance and greater transparency for all parties, from management through to the regulators.

The desire for capital models to become a part of the strategic thought process is palpable across the (re)insurance industry. However, in the case of Solvency II-generated internal capital models, expanding the remit to promote a more strategic function is an extremely burdensome process.

Making any significant changes to the existing model framework under the Solvency II Directive requires the redocumentation of all related processes. The approval and validation processes are cumbersome and require a comprehensive audit trail, while the actions required to conduct the necessary recoding and testing of the model are intensive and time-consuming.

Expanding the model remit can also expose the data limitations of the current platform. For example, many companies are looking to embed their underwriting activities into the internal capital model functionality. However, this requires the model to handle much greater data resolution than required under Solvency II and would put existing frameworks under significant strain.

This stringent nature of the Solvency II Directive has also hindered the advancement of the technology which underpins the capital models, reflecting the reticence on the part of companies to seek approval for hardware or software changes to the infrastructure.

The technologies at the core of current capital models were leading-edge at the time that the platforms were developed. However, as new technologies have become available across other parts of the (re)insurance process, we have not seen this happening to the same level in the context of the internal capital models.

Increasing data demands

The implementation of the International Financial Accounting Standard 17 (IFRS 17), which comes into effect for annual reporting periods beginning on or after 1 January 2021, may well serve to expose data deficiencies in current model setups, particularly for (re)insurers operating in the life sector.

While IFRS 17 is an accounting rather than a capital standard, internal capital models can form an integral part of the reporting requirements. However, the standard places much more stringent data demands on organisations, with requirements for much greater resolution.

Companies will have to look at how they can adapt their internal capital model and process to fit with the requirements of IFRS 17. This will require them to look at ways to greatly enhance the technology which underpins their capabilities in order to take the data strain that it imposes. Further, from a resource-efficiency perspective, companies will be keen to avoid instances of data duplication and data divergence if they are operating multiple reporting models.

Many organisations, particularly those maintaining both life and non-life portfolios, are juggling the data outputs from multiple different capital models. The ability to combine these via a single platform would instantly create both process efficiency and ensure data consistency, and thereby facilitate a much more effective means of meeting these new requirements.

Making the move

Guy Carpenter is currently working with clients to better optimise internal capital models, create a more integrated model environment and implement necessary technological performance upgrades.

A central part of this is the implementation of platform-based solutions which can greatly enhance model flexibility, support the unification of model outputs, enhance overall data consistency, reduce duplication and improve overall data management capabilities in a more cost-effective manner.

We recently announced a multi-year partnership with Reynolds Porter Chamberlain Consulting LLP to license and develop applications to run within its Tyche software.

Through Tyche, we are able to help our clients integrate a vastly more powerful computational engine into their model framework, enabling the processing of huge data sets in almost real time, and facilitating analysis across the model framework – underwriting, pricing, reserving and capital management – on a single platform. More powerful platforms will also increase the ability to run multiple detailed stress-test scenarios, which we believe will become increasingly important.

Such technologies will mean that our clients will have, for example, the opportunity to review their reinsurance capital model outputs daily. Greatly improved analysis speed means complex optimisation scenarios can be modelled in minutes, with results directly influencing live discussions on capital-related decisions and on broader risk strategy.

This platform approach can help overcome many of the current Solvency II factors that are limiting model advancements. For example, such infrastructure is designed to integrate seamlessly into existing systems and processes, thereby greatly reducing the need to alter current practices.

The inherent flexibility of the construct also means that it can be continually adapted and upgraded to meet evolving demands of management, clients, the financial markets and regulators.

As the data demands placed on internal capital models increase from multiple directions, both internal and external, companies must take the necessary steps to augment current capabilities and overcome model inertia if they are effectively to take the data strain.

Eddy Vanbeneden
Managing Director and Head of GC Analytics, Continental Europe at Guy Carpenter

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