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

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BADEN-BADEN

PartnerRe's Goldie sceptical about composites' value for cedants

Large global composite carriers created through mergers do not necessarily meet the needs of reinsurance buyers, PartnerRe P&C CEO Charles Goldie has said.

Speaking at the Guy Carpenter Symposium at the annual Baden-Baden reinsurance meeting, Goldie noted there was a variety of factors pushing carriers towards M&A.

He said running a profitable reinsurance company was more difficult than it had ever been thanks to the presence of third-party capital in the market, which he added was "here to stay".

But he said: "Will there be a return to global composites? Insurance and reinsurance in a big way under one big happy roof? I am just not so sure.

"We have seen plenty of M&A. It makes for great press and great gossip. But if it is a trend, where will it go?"

Goldie said M&A activity would be driven by buyers' demands, which will not necessarily be met by a handful of composite carriers writing multiple lines across the primary and reinsurance markets.

He added: "The client partnership is also huge. Trusted partners don't support your business one year and then turn around and compete with you the next year. And trusted partners don't hire your best employees."

He continued: "M&A in the reinsurance space will eventually go where the buyers of reinsurance want it to go – increasingly we see them wanting to concentrate their buying with smaller amounts of reinsurers.

"The willingness and need to fill out reinsurance placements with 30, 40, 60 reinsurers is not there in the way it used to be."

Goldie said successful reinsurance businesses depended on building up customer loyalty and focus; the provision of a broad selection of products tailored closely to cedants' needs; and "efficient and effective operations".

The executive predicted the global reinsurance pool could ultimately shrink to about "five, seven, 10" major worldwide players.

He added that early in this decade, insurers had tended towards buying reinsurance for capital protection. Reinsurance buying for volatility protection was neglected, he noted.

"Capital models held up fine – but capital models were incomplete," he said.

"If you are not thinking about how shareholders react to volatility you are not thinking at all."

Reinsurance buyers today place a higher priority on protection against volatility, Goldie said.

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A small island of global sophistication

A great theme and a happy hunting ground for many stories for us *Insiders* at the Baden-Baden meetings of the past has been the phenomenon of large global buyers centralising their reinsurance spend.

The inexorable trend of the past two decades has been for the likes of Allianz, Zurich, Generali, Liberty Mutual and AIG to reinsure their branches centrally and then aggregate and control external reinsurance buying for optimum group efficiency.

When globalisation began accelerating in earnest in the 1990s these firms acquired entities all over the world, but the only thing truly global about them was their consolidated annual group accounts, which stretched to hundreds of pages.

As these groups have properly integrated their global entities, they have become more sophisticated and have begun to realise the vast capital efficiencies that are available to them.

But this has been a parallel process. You can't have global buyers without global sellers and sophisticated global brokers to advise, structure and place the business.

Back in the 1990s there weren't any global reinsurance brokers and the reinsurers they placed business with were also only global in name and not cohesive entities.

Back to the future in 2018 we have global buyers, global brokers and global reinsurers – game on. At first the game was a slightly frightening one for reinsurers because it was all about savings.

The first rule of volume is that it always earns a discount. The second rule of globally diverse volume is that it earns a second, compound discount on the discount. Reinsurers had the right to feel a little battered and bruised.

> "In the past when new big-cedant demand came into the market reinsurers were often suspicious of getting burned, but these days there is less reason to look a gift horse in the mouth"

But the more sophisticated of them saw an opportunity. The newly sophisticated buyer needed and valued an equally sophisticated seller with the right financial resources to support them. There was a fair trade – reinsurers got nicely packaged and balanced books of business, offering unspectacular but steady returns.

Sophisticated buyers are not generally opportunistic ones. They are around for the very long term and they want their reinsurance counterparties to be equally solid. Both parties know each other's costs of capital and return hurdles and know what a fair price for a deal is going to look like long before negotiations start.

Thus reinsurance at this level has returned to its traditional partnership equilibrium.

Reinsurance works best when there is symmetry. When reinsurers are too big it is their cedants that can suffer, but when the buyers are too big it is the reinsurers that are squeezed by the asymmetrical relationship.

In the past when new big-cedant demand came into the market reinsurers were often suspicious of getting burned, but these days there is less reason to look a gift horse in the mouth. Today such buyers' motives are more transparent.

So when you read in these pages that demand from big buyers is up, it will be of no surprise to their most trusted counterparties in the reinsurance world and it should be of less consequence or alarm to the market than it was in the past.

Capital management has come to the fore for these cedants and reinsurers are well prepared. They have sophisticated capital relationships of their own that are ready to respond and mop up the new demand.

But don't be confused, this world of global sophistication isn't actually where most of us live – it is still a small island of relative calm amongst oceans of chaos.

The rest of us are still scrambling like crazy to keep our heads above water as this, the toughest of all soft markets, continues to drag us down.

Mark Geoghegan

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Hannover Re's Wallin takes shot at ILS market

Hannover Re's retiring CEO Ulrich Wallin has taken aim at the ILS market in an early sign that the traditional reinsurers will look to harness the marketing potential of collateral disputes relating to Hurricane Irma.

Speaking at the company's investor day, Wallin said there was an "interesting dispute" between a ceding company and an ILS fund, without naming the companies.

The Insurance Insider's sister publication *Trading Risk* revealed last month that Lloyd's business Icat Syndicate 4242 was in dispute with ILS fund Securis after collateral was released on a 2017 deal that was subsequently affected by loss creep.

"There the ceding company had returned the collateral to the ILS fund only to find out that months later, the Irma loss was creeping up and increasing," the Hannover Re CEO told analysts.

He continued: "And of course, the ILS fund said, 'We are off the hook because you have given us back the collateral, so you commuted the cover. So there's no cover for you left.'"

Wallin said the ceding company was "a little disappointed" and had requested the return of the collateral.

"But there, you can see that if you buy collateralised reinsurance, it's quite important to pay attention to the fine print."

This is the first known public example of an ostensible reference to the dispute between Icat and Securis, which neither party has been willing to publicly address.

However, the issue has been widely discussed in the industry and traditional reinsurers and ILS funds that employ other structures than forced commutation have already started to reference it informally as they market their businesses.

Collateral release and commutations are more often separately agreed by parties following the end of a risk period, as *Trading Risk* has reported. But some contracts include an automatic commutation based on reported reserves, with a pre-agreed "buffer margin" applied on top that would generally be expected to cover loss development.

Reinsurers still have place in shortened value chain: panellists

Traditional reinsurers will not be disintermediated as the value chain evolves if they can prove they are additive and not just fee generators, industry executives said yesterday.

During a panel discussion at the Guy Carpenter Symposium at Baden-Baden, PartnerRe P&C CEO Charles Goldie said the extended and convoluted value chain meant that risk business was increasingly becoming a fee business.

"We saw this in the US mortgage market 10 years ago," he said during a Q&A session. "It's an ugly game."

All the participating executives agreed that alternative capital was here to stay, and Goldie predicted there would be "real upset in the process" as the industry figured out who was adding value, and who was just taking fees.

At its most basic, the value chain entails one party evaluating risk at the front end, another party evaluating the risk in bulk, and then one other party providing access to capital, the PartnerRe executive noted.

"The number of hangers-on in the middle will sort out over time," Goldie said. "Whether it sorts out in an ugly way or a natural way remains to be seen."

James Nash, president of Guy Carpenter's international operations, said that just as PartnerRe had evolved from its 1993 genesis as a pure-play catastrophe reinsurer with a goal to disintermediate the brokers, alternative capital providers will also change their business model as time goes on.

"PartnerRe has evolved significantly during the last 25 years, and I expect that alternative capital will change and evolve, perhaps not in the same way, but the focus will ultimately come back on the value you can provide to the client," Nash said.

Axis Re CEO Steve Arora said he felt traditional reinsurers enhanced the value chain by their very nature, by providing technical expertise, a solid client relationship and claims handling services.

The industry should take a "paranoid view", he said, and ask itself whether there was room for all the capital enhancers in the market today.

"That's where we just need to challenge ourselves, with the right value proposition in the right market," he said.

Pina Albo, CEO of Hamilton Insurance Group, said that alternative capital was just "one piece of the puzzle" and alone could not provide the full suite of solutions to clients.

"At the moment alternative capital is involved in the short-tail cat space," she said. "There is a whole world of reinsurance out there which is not that."

Earlier in her keynote speech, Albo had said that her company saw alternative capital as "partner capital" and noted that it can present an opportunity for traditional reinsurers.

This capital has now entered a stage of maturity, and the fact that it reloaded so quickly after the 2017 North Atlantic hurricanes shows this, she said.

Amissima to shed EUR90mn Italian med-mal legacy book

Italian insurer Amissima Assicurazioni has approached the legacy market over the disposal of an Italian medical malpractice (med-mal) run-off book, *The Insurance Insider* understands.

The run-off book is thought to hold around EUR90mn ($104mn) in reserves.

The portfolio is likely to be marketed widely. Interested parties may include legacy heavyweights such as Enstar, Catalina and Armour as well as European-focused players such as Compre and Darag.

Amissima declined to comment.

Amissima offers both life and non-life products spanning personal and commercial lines. It is 100 percent-owned by global investment manager Apollo.

Apollo is well versed in the workings of the legacy market, having recently increased its stake in Catalina to 90 percent and committed a further $700mn in equity to the carrier.

Some will interpret Amissima's move to rid itself of old liabilities as a positive sign that the run-off market is opening up in mainland Europe, where carriers have been slow to bring books to market in comparison to the UK and the US.

Sources told this publication that there is a tide of legacy Italian med-mal liabilities locked up in the market, and while run-off carriers see the potential opportunity there, many are currently assessing how much appetite they have for this particular exposure. One source suggested they had seen Italian med-mal run-off books running loss ratios of as much as 300 percent.

It was toxic Italian med-mal liabilities that brought Lloyd's carrier Marketform, now known as Neon, to its knees around four years ago.

Syndicate 2468 in 2016 struck a reinsurance-to-close deal with Enstar's Shelbourne Syndicate 2008 for the 2007 open year. The final net reserve number for the book was around £100mn.

By this time, the Italian med-mal book on the 2007 open year had pushed the year of account to a cumulative loss of £201mn.

Other Italian med-mal legacy disposals include Brit's sale of a $65.5mn book to Riverstone in 2015. Brit wrote a portfolio of Italian med-mal between 2007 and 2010 in partnership with agency Faro.

In 2014, QBE purchased a comprehensive reinsurance deal for $390mn to remove the reserving risk from its Italian and Spanish med-mal books.

It was later revealed that Armour took the "unlimited" layer of the deal, in excess of a primary reinsurance layer. At the time it was thought Armour may have partnered with another capital provider to finance what would be a major deal given the size of the business.

Other continental European med-mal deals include Zurich's disposal of a EUR400mn book to Catalina last year.

Zurich is also trailing a book of Spanish legacy med-mal business that has liabilities of just under EUR200mn. However, no move has yet been made to sell this portfolio.

Lloyd's bares its teeth as Standard Syndicate 1884 put in run-off

The decision for The Standard Club's Syndicate 1884 to cease trading for 2019 has underlined the seriousness of intent from Lloyd's in its market-wide performance drive.

This publication reported on Thursday that Syndicate 1884 would be placed into run-off for 2019 after it bowed out of the planning process under sharp pressure from the Corporation.

The Lloyd's market is currently in the midst of receiving feedback on its 2019 business plans from performance management director Jon Hancock and his team, which has taken a hard-line stance in demanding improvement on bottom-line profitability.

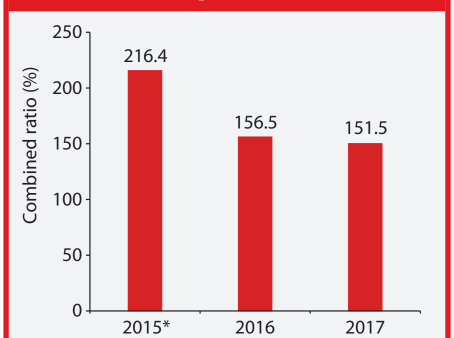
Hancock had previously said that his team would not hesitate to push back on plans that predicted growth based on unrealistic expectations of pricing, distribution or ultimate profitability.

In the case of Syndicate 1884, sources have suggested there was no effective form in which Lloyd's was willing to approve the business plan, even with heavy additional capital loading.

Syndicate 1884, launched in 2015, was arguably yet to reach the critical mass needed to generate an operating profit. In 2017, it wrote only £89.3mn ($116mn) in gross premiums, with earned premiums of just £67.7mn.

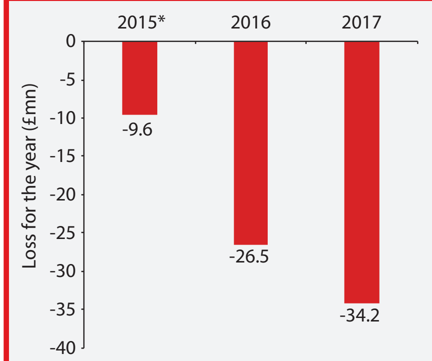
Losses from the North Atlantic hurricanes and the Mexican earthquakes pushed the syndicate to a 151.5 percent combined ratio for 2017. But stripping out these losses, it was still running a 133.2 percent combined ratio.

Syndicate 1884 combined ratio development



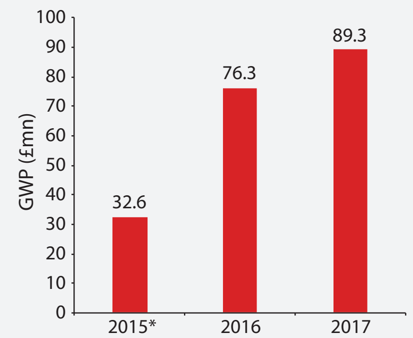
* 9-month result
2017 combined ratio excluding HIMM = 133.2%
Source: Company filings, *The Insurance Insider*

Losses from Syndicate 1884



* 9-month result
Source: Company filings, *The Insurance Insider*

Syndicate 1884 GWP growth



* 9-month result
Source: Company filings, *The Insurance Insider*

The effective closure of the syndicate has put the Lloyd's market on edge, and rumour is now rife in EC3 that there are other syndicates that effectively may be pushed into run-off by the Corporation.

In the statement announcing the run-off decision, the Standard Club – which backed 86 percent of Syndicate 1884's underwriting – hinted there could be a future for the business, which it launched at Lloyd's in 2015.

"The club is exploring alternative approaches to provide its members with additional insurance covers, including establishing an underwriting agency, to build on the strong base established through the Lloyd's initiative," the P&I club said.

It is now further understood that efforts are under way to explore the viability of relaunching the Standard Syndicate as an MGA or via some other structure.

Charles Taylor has a defunct but fully licensed MGA that could be used. Meanwhile, management, underwriters and operational staff are all in place from the Lloyd's operation, which is notionally accepting business through to 31 December.

Sources said the potential paper for such an MGA is unclear at this early stage of development, although the Standard Club has access to Standard & Poor's 'A' rated paper.

Another option would be to look to form an insurance company.

If a subsequent MGA or company launch for the business is successful, this would confirm what many senior sources have long warned would be a consequence of Lloyd's performance drive.

Many in the market feared that Lloyd's tough stance on top-line growth and demands for syndicates to exit business would mean that premium previously written in Lloyd's would move to the company markets and never return.

The Standard Club's potential MGA plans also add strength to the argument that given the high cost of writing business at Lloyd's, some lines of business are simply more well suited to being written on company market paper, where it can generate a higher return.

The news of the closure has also prompted questions about what Lloyd's really is at its core.

Is it merely a platform on which trading entities do business as they please, provided their activities do not harm the central fund?

Or is it a more cohesive entity than that, where the Corporation acts as gatekeeper and regulator, ensuring individual businesses do not act to damage the reputation or collective underwriting profits of the whole?

If it is the latter, some will argue that Lloyd's has to take some responsibility for Syndicate 1884's demise – having approved the business plan in 2014, in the thick of extremely challenging trading conditions.

Whatever the end outcome of the 2019 business planning season at Lloyd's, people will look back at the closure of Syndicate 1884 as a pivotal moment for the market.

European legacy deal momentum shows promising signs

Legacy carriers are still waiting patiently for the cache of continental European run-off liabilities to be released, however recent developments suggest momentum is slowly building.

While market headwinds – including softening rates, still-low interest rates and increasing regulation – have opened doors for legacy acquirers, in continental Europe this perceived opportunity has so far been slow to come to fruition.

PwC's latest quarterly run-off update suggests there have been two continental legacy deals in Q3, bringing the year-to-date total for the region to five. Those five deals have encompassed an estimated $495mn in gross liabilities.

For context, five deals have been done in the UK and Ireland in 2018 so far, accounting for $1.1bn in gross liabilities. In North America the deal count is 10 to date, with an estimated $2.1bn in gross liabilities.

PwC said it expected a flurry of deals in the remainder of 2018, as companies seek to reach agreements before year-end. However, the firm did not suggest which territories these deals would come from.

It has previously estimated that the European market houses around $275bn in run-off liabilities.

In recent years, only a handful of deals involving north of EUR100mn ($115mn) of liabilities have been brought to market, and these have largely been initiated by large corporate sellers, including Zurich, Vienna Insurance Group and Generali.

German carrier Sovag also struck a deal to sell an EUR85mn book to Axa Liabilities Managers in September. However, this process was kick-started by former Darag CEO Arndt Gossmann, then chief executive at the restructuring carrier and already a strong advocate of the legacy market.

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

Legacy sales on the continent are often the result of bilateral conversations, rather than full sales processes, which means legacy carriers often have to put in the hard yards before they even get close to striking a deal.

In light of Brexit, there is also still much uncertainty about how Part VII transfers between UK and EU entities will work in future, and how open regulators will be in considering them.

But one of the largest barriers which has been hindering deal flow in continental Europe has been seller confidence in the market.

Run-off carriers are hoping that the successful execution of the larger deals by the corporates will help smaller outfits to see legacy as a capital management tool, rather than an admission of failure.

In this regard, the disposal of a EUR90mn Italian medical malpractice portfolio by domestic Italian insurer Amissima – as revealed today by this publication – is a positive development for the market, and could be a sign that smaller carriers are changing their mindset.

Sources in the legacy market told this publication there had been more interest coming out of Italy in recent times, and potential sellers were open to having early conversations, even if a deal wasn't yet on the cards.

Italian legislation demands that a company must have some live operations in the country in order to be able to transact legacy business, and the market will be watching how the Amissima deal plays out to assess if the regulator may be open to making the rules more flexible in this regard.

Sources have also said there has been increased interest coming out of western Europe, although again very few concrete developments have been noted.

Legacy carriers are also ramping up their resources in order to take advantage of this perceived opportunity.

Darag secured a EUR260mn commitment from private equity houses Aleph and Crestview, which it will use to pursue further growth in the legacy space.

It has also been building its deal-making capabilities on the continent. Even before it appointed Macquarie to advise on its capital raise, the firm had already acquired Ergo Assicurazioni from Ergo Italia, so as to gain better access to run-off deals in Italy and the rest of southern Europe.

Darag is not alone in lining up its resources in Europe – Arch-backed Premia Re established a European office last year with the hire of former Darag chief liability officer Zsolt Szalkai, and Compre has demonstrated its appetite and capability for larger European legacy deals with the acquisition of EUR300mn of non-life legacy liabilities from Generali's UK branch.

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

This ramp-up of resource in Europe is part of a wider arms race across the global run-off market. Legacy carriers have welcomed private equity interest in their businesses, and a number of run-off carriers have secured investment in order to be able to a higher deal flow they believe is forthcoming.

Private equity houses Stone Point, Apollo and Aquiline have all made significant investments in legacy carriers, while on the live carrier side, Arch, Validus, Axa and Allianz also have exposure to the space through investments, consortia and their own run-off vehicles.

Select continental European legacy books

Seller	Portfolio	Comments
Zurich	EUR400mn German medmal	Deal struck with Catalina
Generali	EUR300mn old London market book	Deal struck with Compre
VIG	EUR100mn Italian motor	Exclusivity awarded to Darag
Sovag	EUR85mn mixed run-off book	Deal signed with Axa
Epikouriko Kefaleo	EUR300mn-EUR400mn Greek motor liability	Legacy market approached
Amissima	EUR90mn Italian medmal	Advisor appointed
Zurich	EUR200mn Spanish medmal	Yet to be marketed
Zurich	EUR200mn German architects' PI	Yet to be marketed

Source: *The Insurance Insider*

Significant corporate developments in legacy

Date	Legacy carrier	Comments
Oct-18	Catalina	Apollo commits further $700mn in equity
Jul-18	Darag	Secures EUR260mn buy-in from Aleph and Crestview Partners
Jan-18	Catalina	RenRe buys minority stake in Catalina
Dec-17	Armour	New PE ownership in Aquiline, establishes $500mn vehicle
Oct-17	Catalina	Apollo takes majority stake investment
Aug-17	Fosun	Launches legacy acquirer SunPoint, led by Karl Wall
H2 2017	R&Q	Teams up with Axa as capital provider on legacy deals
H1 2017	Swiss Re	Establishes capitalised entity in Luxembourg to provide LPTs
Jun-17	Darag	Appoints Macquarie for equity raise to support future deals
Jan-17	Premia	Launches after $510mn initial capital raise
Dec-16	Enstar	Launches total return reinsurer KaylaRe

Source: *The Insurance Insider*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Up for the challenge

The Insurance Insider sits down with TMR CEO Stephan Ruoff to discuss how reinsurers can navigate the ever-evolving market environment

TMR CEO Stephan Ruoff is not one to shirk a challenge.

A chemical engineer by profession, the executive considered a career running isolated oil or gas rigs in the North Sea before choosing the perhaps materially more comfortable world of reinsurance instead.

His love of mountaineering and skiing too mark him out as someone who does not pale at the prospect of a hard slog.

This, perhaps, is why Ruoff considers the expansive development of TMR over the past seven years – and large and complex project – as his greatest professional achievement.

Since 2011, Ruoff explained, TMR has moved from a "mono-line, mono-location reinsurer" to a "client-focused, global specialist reinsurer", which provides cover to clients in more than 50 countries via its five offices.

"It's been a fascinating experience to see TMR evolving from what it was in 2011-12 to what it is today," Ruoff said, adding that although he was proud of his personal role in the project, it had been a team effort.

Ruoff's liking for a challenge will stand him in good stead in the reinsurance industry, given the continued soft market, rising concerns about cyber risk and rapidly changing demands from customers.

As executives gather at the Baden-Baden conference, they will no doubt have more concrete conversations about 2019 pricing than they did at the Monte Carlo *Rendez-Vous* in early September.

After the 2017 run of natural disasters – hurricanes Harvey, Irma and Maria and the California wildfires – there had been some expectation of a rate rise across the board at 1 January 2018. Although loss-affected accounts achieved increases, there was no universal hardening and the momentum behind rate increases in property cat had slowed by mid-year.

The early feeling within the underwriting community is that the situation will remain largely unchanged as we head into 1 January renewals next year. Ruoff certainly expects pricing to continue in the same vein.

"We do see some loss activity in Asia, especially in Japan and the US. However, Europe has not seen big loss activity so far," he said.

"There have been a few small storms, but I do not think this will impact the pricing very heavily."

Even where there have been loss events, capacity will hold down rates, he said.

"We are going to see another very competitive renewal season in the property cat space," he said.

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CONTINUED FROM PAGE 08

Although reinsurers were recovering slowly from 2017, which Ruoff described as being among the costliest years for natural catastrophe losses on record, and despite the fact that "global profitability in reinsurance is dampened", the executive noted that capital was king when it came to pricing.

"We have a larger supply of capital than demand out there, which leads to a certain competitiveness and pressure on prices," he noted.

That said, Ruoff said that in Europe in the last two years, renewals had been handled "responsibly", and for that reason he did not believe 1 January would involve "huge drops or unreasonable increases".

Pricing aside, Ruoff believed that the individual needs of cedants' balance sheets were a significant driver of buying behaviour.

"Buying behaviours changed quite significantly in the mid-2000s, over a number of years, including with the introduction of Solvency II," he said.

"The new regulatory frameworks have led to a much higher focus on efficient use of capital and on reducing earnings volatility.

"Reinsurers adapted their offer to these specific needs of the balance sheets of individual companies," he said.

Although reinsurers have succeeded in adjusting to meet cedants' needs, there remain significant challenges facing the industry, Ruoff said – not least carriers' unsustainable operating expenses.

"Cost efficiency is something that has to be addressed in our industry," he said.

A key part of that is tackling the "cumbersome and high-maintenance" fashion in which reinsurers handle transactions, he added.

"It's not necessarily about cutting cost; it's about refocusing resources to where it adds the most value. For instance, our industry has been incredibly inefficient in transacting business: we do not have data standards, nor do we have data-sharing platforms.

"If we can increase efficiency on the transactional side, this frees up resources that can be invested in better risk analysis and underwriting."

While he believes reinsurers in all locations face a similar expenses challenge, Ruoff added that Zurich, where he is based, is "a relatively expensive platform to operate from".

That said, he added Zurich has other advantages.

"It has a stable political and regulatory framework, it is well located from a geographic perspective from the middle of Europe, it has full Solvency II equivalence, and there will not be any Brexit issues in the short term," Ruoff said.

"I think there is a place for Zurich for the industry and it will continue to have its place."

Another challenge facing reinsurers, as well as primary insurers, is ever-growing levels of cyber risk, Ruoff said.

While offering cyber cover as a "bespoke product, covering a specific need of protection" is an opportunity for the industry, and one that provides potential for huge growth, "silent cyber" presents extensive risks, Ruoff said.

> "Our industry has to do a lot more work in order to get a good grip on silent cyber exposure"

"If it's sold as a bespoke product, covering a specific need of protection, I think it's a risk we can manage as an industry and one we should manage. It also offers an opportunity for growth," he explained.

However, silent cyber – the cyber exposure inherent in policies covering other risks – is an unknown quantity that the industry must get a handle on.

"Our industry is not doing a good job on silent cyber," said Ruoff.

"We still do not understand well the extent of the exposures covered. We do not exclude it from reinsurance treaties through proper contract wording. Our industry has to do a lot more work in order to get a good grip on the exposure."

Ruoff said the cyber risk inherent in many contracts that have not been adequately priced in is reminiscent of under-protected terror risk before the 11 September attacks in 2001.

"[9/11] exposed the full extent of terrorism cover," said Ruoff.

"Following this event, the industry learnt its lesson and adapted contract wording. On cyber risk, the sector needs to be smarter and adapt the exposures proactively as we gain a better understanding of this risk."

The industry is also at a particular point in the cycle making mergers and acquisitions attractive for a number of reasons. Ruoff believed that the M&A frenzy will continue.

"The M&A landscape we currently see is largely driven by three factors: a need for diversification, access to new risk pools and access to knowledge and intellectual property," said Ruoff.

He added that parent company Tokio Marine Group took the leap into diversification through the creation of TMR, to "diversify the group's risk portfolio beyond the domestic Japanese market".

"Tokio Marine had chosen to build first a reinsurance company and then also buy a Lloyd's syndicate and finally expand into the US market," Ruoff explained.

"What we see elsewhere is similar with Japanese peers following the trend."

Access to third-party capital is another driver of M&A that will go on, Ruoff said.

"Two of the most recent acquisitions – Axa-XL and Markel-Nephila – are certainly said to be motivated by accessing capital pools that are not necessarily their own balance sheets but can work alongside their own balance sheet," said Ruoff.

"This is a discipline that is emerging more and more as a risk management tool and as a capital management tool," he said.

"Other facets to the diversification aspect are geographic diversification, but you also have diversification by accessing different parts of the value chain, and diversification in accessing knowledge."

On balance, Ruoff believed that M&A was a force for good in the industry – with some conditions.

"A healthy global competition will always contribute to giving the consumer a better product. If that is the outcome, then M&A is good," he said.

"We do not see monopolies emerging, but we see a globalising insurance and reinsurance world which is kept competitive by an influx of third-party capital, for example, which will help to keep our products competitive for the consumers."

Stephan Ruoff biography

April 2015 – present: Chief executive officer, TMR AG

October 2013 – April 2015: Group chief underwriting officer and head of Europe, TMR AG

October 2011 – September 2013: CEO continental Europe, TMR AG

May 1997 – September 2011: Executive client manager, Munich Re


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• Claims Paying Ability: "AAA (In)" by CARE
• 10th Ranking as per latest S&P Global Ratings.
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Swiss reinsurers deepen underwriting loss in 2017

Record major losses in 2017 pushed the Swiss reinsurance market to post a 125 percent combined ratio for the year

Record catastrophe losses forced Switzerland-domiciled reinsurers to post an underwriting loss in 2017 as their collective non-life combined ratio deteriorated to 125.0 percent, according to data from the Swiss Financial Market Supervisory Authority (Finma).

The market deepened its underwriting loss year on year, and its 2017 full-year combined ratio settled 19.0 percentage points higher than the 2016 result of 106.0 percent.

A high number of catastrophes had also been the driver for the 2016 underwriting loss; however, 2017 proved to be a record year for major losses.

The Swiss Re Institute estimates total insured losses from both man-made and natural catastrophes at $144bn – what it said was "the greatest loss in history".

The overall 2017 loss ratio for the non-life Swiss reinsurance sector rose by 16.0 percentage points to 77.3 percent.

The Swiss regulator said hurricanes Harvey, Irma and Maria had had the biggest impact on its reinsurers, followed by wildfire damage in the US.

Perhaps unsurprisingly, the loss ratio for catastrophe business written by Swiss reinsurers climbed 35.9 percentage points in 2017 to 86.2 percent.

Premiums earned by reinsurers

Category	2015 (CHF bn)	2016 (CHF bn)	2017 (CHF bn)	% change Y/Y	% of total 2017
Short-tail	13.0	14.9	15.4	3.8%	37.2%
Long-tail	9.9	14.0	13.8	-1.4%	33.3%
Catastrophes	2.7	2.6	2.0	-25.2%	4.7%
Total non-life	25.7	31.5	31.2	-0.9%	75.1%
Life	6.9	10.4	10.3	-0.6%	24.9%
Total net premiums	**32.5**	**41.9**	**41.5**	**-0.8%**	**100.0%**
Asia/Pacific	10.0	11.2	4.9	-56.5%	11.7%
Europe	9.2	9.8	13.2	35.2%	31.8%
North America	11.7	19.1	21.9	14.6%	52.8%
Rest of the world	1.6	1.8	1.5	-13.1%	3.7%
Total net premiums	**32.5**	**41.9**	**41.5**	**-0.8%**	**100.0%**

Source: Finma, *The Insurance Insider*

Short-tail claims for non-life reinsurance business also grew significantly. The loss ratio for short-tail business was reported at 81.7 percent – up 22.5 percentage points year on year.

Meanwhile, the increase in the industry's long-tail claims ratio was comparatively smaller – up 5.6 percentage points, reaching 71.2 percent.

As a result of the heavy cat losses, annual profits for the Swiss reinsurance industry fell by 71.2 percent in 2017 to just CHF840.6mn ($847.3mn).

Reinsurance GWP falls

Gross written premiums (GWP) for the Swiss reinsurance sector – which includes life and non-life – fell by 3.5 percent to CHF49.3bn in 2017. This followed a 25.7 percent increase in GWP in the prior year. Finma said the sharp GWP growth in 2016 was attributed to "very large one-off transactions".

Finma largely attributed the drop in GWP for 2017 to Swiss Re Asia, which moved its domicile from Switzerland to Singapore as of 31 December 2017.

This resulted in a CHF3bn reduction in GWP generated by Swiss Re units for the year.

At the same time, the Swiss regulator said that the GWP of other professional reinsurers grew by 4.9 percent to CHF22.1bn, while the premium volumes of reinsurance captives rose by 3.5 percent to CHF920mn.

The change in domicile for Swiss Re Asia also meant that total net earned premiums (NEP) generated from Asia Pacific-originated business dropped by 56.5 percent to CHF4.9bn.

Meanwhile, NEP from North American business increased by 14.6 percent to CHF21.9bn in 2017.

Finma advised that new tax regulations relating to group companies in the US doing business with group companies outside the country led to changes in intra-group high-volume quota share reinsurance.

The regulator warned: "Available information suggests that a negative effect of around CHF10bn on premium volumes in Switzerland can therefore be expected in the 2018 financial year".

Meanwhile, NEP attributed to European

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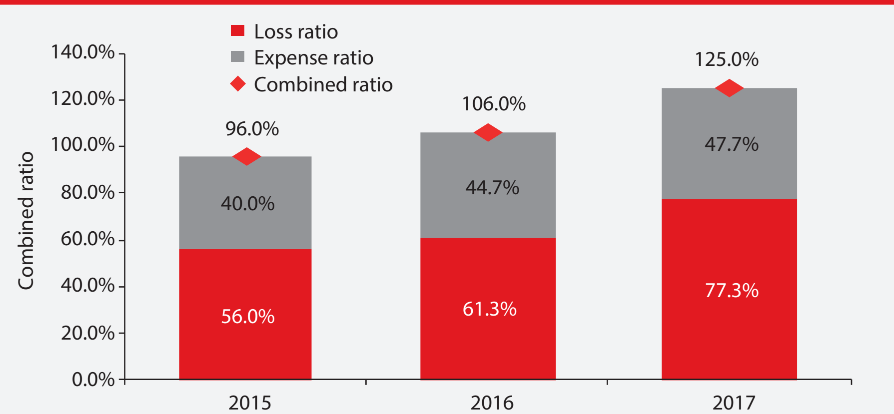
Combined ratio: Swiss non-life reinsurers



Source: Finma, *The Insurance Insider*


STORY BUILDING - CREDIT PHOTO : GERALDINE ARESTEANU

CONTINUED FROM PAGE 13

business grew by 35.2 percent in 2017 to CHF13.2bn.

NEP for catastrophe business fell 25.2 percent to CHF2.0bn for 2017. Swiss Re Asia's change of domicile, lower premium rates and deliberate reductions in cover were contributing factors.

However, it has to be noted that catastrophe business accounted for just 4.7 percent of all premiums earned by Swiss reinsurers in 2017.

Comparatively, there were only marginal premium changes in reinsurance business involving short-tail and long-tail risks. Short-tail business grew 3.8 percent to CHF15.4bn while long-tail business inched down by 1.4 percent to 13.8bn.

In total, non-life reinsurance earned premiums contracted by 0.9 percent from 2016 to CHF31.2bn.

As for the reinsurance market's investments, income in 2017 increased by 73.6 percent year on year to CHF4.0bn. However, the investment gain is still considerably lower than the CHF7.1bn that reinsurers made in 2015.

The average return on equity (RoE) for the Swiss reinsurance market grew by 1.8 percentage points to 4.5 percent – again, significantly lower than the 27.4 percent RoE in 2015.

Despite the market's substantial loss events, the reinsurance sector's solvency ratio grew from 217 percent to 223 percent.

Insurance profits dented

For the entire market, including non-life insurance, reinsurance and life, Swiss insurance companies' aggregate annual profits for 2017 reached CHF7.6bn ($7.6bn) – 31.1 percent lower than in the previous year.

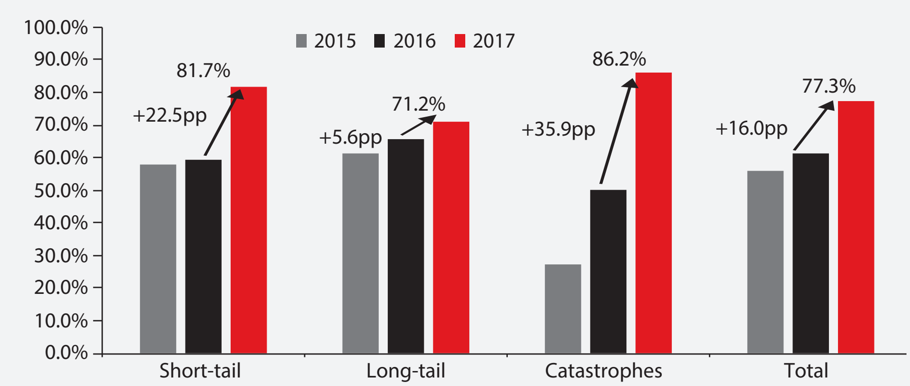
Swiss life insurers were the only sector to report an increase in their profits compared to the prior year – by 31.5 percent – to reach CHF1.4bn.

The non-life insurance sector, like the non-life reinsurance market, was adversely affected by the high natural catastrophes experienced in 2017. Non-life insurers reported a 23.9 percent decline in profits to CHF5.3bn.

Finma also noted: "The strong decline in aggregate annual profits is mainly due to the decline at Zurich Insurance Company, which was hit hard by a range of natural catastrophes."

Increased loss activity along with an increase in expenses caused the non-life

Loss ratio: Swiss non-life reinsurers



Source: Finma, *The Insurance Insider*

> "Finma said the claims made through land vehicles insurance were mainly attributable to hail damage"

direct insurance sector's combined ratio to deteriorate by 4.1 percentage points to 94.9 percent.

The effects of the above-average number and severity of nat cat events in 2017 had a more noticeable impact on some lines of direct Swiss business than on others.

In fire and property lines, the claims ratio jumped up 10.2 percentage points to 55.9 percent. Losses through land vehicles insurance rose by 7.0 percentage points as the claims ratio stood at 71.7 percent.

Finma said the claims made through land vehicles insurance were mainly attributable to hail damage.

Conversely, health and accident lines experienced an improvement in their loss ratios. Health lines reported a 75.0 percent loss ratio, recognising a 2.7 percentage point improvement, while accident lines saw a 6.2 percentage point improvement to a 66.6 percent loss ratio.

The Finma report said tariff and premium adjustments in previous years helped to improve the loss ratios in these two areas.

Premium income from the health insurance market generated the most premiums in 2017, totalling CHF10.7bn and accounting for 38.6 percent of all Swiss non-life insurance GWP. Health GWP grew by 4.3 percent in 2017 – Finma said that the sustained increase is attributable to tariff and premium adjustments, reflecting the trend in health costs.

Finma also recognised other "above-average-growth" sectors as legal protection, financial losses and credit and surety lines of businesses. However, these classes only accounted for 4.7 percent of the overall non-life market.

Financial losses insurance produced rapid GWP growth of 14.3 percent, with total GWP for this class reaching CHF433.3mn during the period. Credit and surety insurance followed with an 8.7 percent GWP expansion to CHF332.4mn.

Finma also said above-average growth in other industries was driven by social trends like higher litigation risk and increased risk awareness such as with regard to cyber risks.

Marine, aviation and transport lines were the worst performing in terms of GWP growth. Premiums reduced by 3.3 percent to CHF351.6mn. It was a similar story in 2016, where the Swiss market wrote CHF363.6mn – 7.5 percent less than in 2015.

Axa leads direct market

The relative domestic market share of the direct Swiss insurers has changed little over the past three years. None of the eight companies that Finma reports on has changed their position in the overall ranking – sorted by market share – in the last three years.

Axa Insurance continues to lead the domestic market with an 18.5 percent share of the non-life Swiss insurance market. The carrier wrote CHF3.3bn in premiums in Switzerland during 2017 – this has hardly changed over the last three years.

In second place is Swiss Mobiliar, which wrote CHF2.8bn in premiums during the period, taking a 15.1 percent market share.

Global insurer Zurich took the third spot after writing CHF2.5bn in premiums in 2017.

MARKET CONDITIONS

Ahead of the Baden-Baden conference, leading reinsurance executives share their thoughts on reinsurance pricing, demand and buying strategies in the run-up to 1 January

What are your expectations for European property cat rates at the 1 January renewal?

Mike Van Slooten, head of market analysis, Aon Reinsurance Solutions: There is still an imbalance between supply and demand. Rates will come under renewed pressure, absent any major catastrophe or capital market events between now and then.

Torsten Jeworrek, reinsurance CEO, Munich Re: Overall, price decreases across regions and lines of business have been halted. In some markets – depending on loss amounts following last year's HIM events – price increases could be achieved. Munich Re is observing a shift towards greater discipline in the market, which is positive.

Some market participants have had to strengthen their prior-year casualty reserves recently. In contrast to past reserve releases, we now observe more reserving concerns that increase pressure on earnings and could lead to original rate increases.

The growing demand for adverse loss development covers also underlines the pressure in and willingness of the original market to protect future earnings.

Jean-Paul Conoscente, CEO of reinsurance, Scor Global P&C: Demand for reinsurance will remain robust as insurers continue to shed volatility in their P&Ls and balance sheets.

Absent enough cats in sufficient number and size to have an impact, supply will also remain high, with financial markets and smaller reinsurers angling for increased shares, despite taking disproportionate losses in 2017 and now struggling with adverse development on live or commuted contracts.

Dirk Spenner, managing director of Willis Re EMEA North/East: The indications from Monte Carlo are that pressure on European cat rates is re-emerging, which continues a trend from earlier renewal dates in 2018. Our current expectations are for risk-adjusted rate reductions at the 1 January renewal. The level of rate reductions will vary and will depend on individual circumstances.

Frank Reichelt, market executive for northern, central and eastern Europe, Swiss Re: It is unlikely that we will experience one single trend during a renewal season. Our clients expect individual assessments and proposals for next year – and they are right in doing so.

On the other hand, current profitability of the reinsurance market and investors' expectations on their return on capital do not really match in today's market – that certainly will influence the upcoming renewal season as well.

David Flandro, global head of analytics, JLT Re: The answer is of course than anything can still happen. This said, the supply of capital today is larger than it has ever been, and absent any large events, upward momentum would be firmly resisted for most European property cat business.

Charles Whitmore, managing director, Guy Carpenter: We anticipate that the upcoming 1 January renewal season in EMEA will continue to offer excellent buying conditions for our clients. The combination of excess capacity, a lack of significant loss events across the European region and an evolving ILS fund appetite means that reinsurance rating should continue to be attractive from a buyer's perspective.

Michael Pickel, member of the executive board for P&C target markets, Hannover Re: Inflation is already rising in the US and Europe will follow. That means claims costs will be increasing, especially on long-tail business. Overall, we remain at a rating level which is actually lower than reinsurers need to see it. I expect this will continue into 2019.

If losses from natural disasters remain benign in the second half of the year, as they did in the first half, we might be struggling to achieve modest increases at the renewals in January 2019.

Are European cedants buying more reinsurance than before? If so, where and for what purpose?

Flandro: Yes, they are. Our analysis shows that European insurers' average cession rate (ceded premiums divided by gross written premiums) troughed in 2015. Since then, the rate has risen due to higher cessions in several business lines and in particular in longer-tail lines including liability.

Marginally worse reserving trends have clearly played a role here. Lower property catastrophe pricing since 2015 has offset the increase, but demand for reinsurance generally is off its lows at the exposure level.

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Lumen Re

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CONTINUED FROM PAGE 17

Jeworrek: In general, this depends on the individual financial needs and buying strategy of the cedants. Overall, we currently do not see major changes regarding their buying behaviour. In terms of cyber, additional covers are currently bought for affirmative cyber.

Conoscente: Most European cedants tend not to take an "opportunistic" approach to reinsurance buying, and generally stick to their strategic covers throughout cycles.

Over a period of years European clients, particularly the larger groups, have optimised their reinsurance structures by aligning covers with their capital means, and by creating synergies through more centralised or centrally controlled reinsurance buying.

Solvency II requirements have led to some additional cover being bought on top of programmes, but overall the amount of strategic reinsurance bought in Europe has not increased in a significant way.

The more sophisticated buyers have developed a demand for fewer core covers on specific lines or segments of business, and ad hoc protections on selected legacy exposure portfolios. More recently, growing concerns over volatility management and reporting have led to an increasing demand for aggregate covers and structured contracts.

Whitmore: One consequence of the unprecedented spate of losses that hit the US in 2017 is that it caused European buyers to kick the tyres of their own reinsurance purchasing. The sort of questions they asked themselves were: do we buy enough cover vertically? Do we have enough sideways cover if we experience a similar annual frequency of windstorms? Is what we buy sufficient to protect us from an equivalent series of large losses?

Where the answer to any of these questions was "no", buyers have sought to purchase additional coverage as appropriate. Equally, the continued increase in available reinsurance capacity has in part fuelled additional demand from cedants for both strategic and tactical reinsurance covers.

Pickel: We are observing that primary insurers in Europe and elsewhere are reducing their retentions as reinsurance rates have been getting more economical over the past few years and thus cedants are getting more protection for the same premium. Solvency II has also helped to make reinsurance more attractive, but the opportunities here have probably been realised for the most part with the exception of some markets such as Italy.

How have the European winter storms changed buyers' strategies?

Reichelt: Aggregate covers have been part of buyers' strategies for quite a while. Buyers will continue to protect their yearly earnings – both against severity and frequency. But with the recent loss activity under aggregate covers reinsurers might need to adjust their assessments.

Flandro: Clients have sought greater aggregate coverage really since the days of Lothar, Martin, Anatol, and more recently Kyrill and Xynthia. But it wasn't until 2013 and 2014 that aggregate covers began to become more widely available.

This corresponded with a worldwide trend pursuant to declining property catastrophe pricing generally after 2012. Since then, appetite has remained strong and happily, the sector has been able to provide.

Whitmore: In recent years European buyers have not suffered significant cat events that have eroded large sections of their programmes. Instead they have experienced a series of smaller, attritional cat events that have either been retained net or have impacted the bottom cat layers. This has led to an increased interest in the purchase of aggregate covers, and often these covers will include other lines of business to make the purchase as efficient as possible to the buyer.

Pickel: Mid-sized storms are currently a bigger challenge for primary insurers in Europe than major storms, which we haven't seen for a while. Thus, more cedants are buying aggregate excess-of-loss (XoL) cover to help protect against a frequency of mid-sized losses. Solvency II has helped increase demand for natural catastrophe coverage during the past two years, but the focus was on the top layers in cat-XoL programmes, so it didn't materially impact market premiums.

Are you seeing any harder pockets of opportunity outside of property cat reinsurance?

Conoscente: Demand is rising in several lines of business, such as nat cat, casualty, mortgage and specialty risks like cyber and agriculture in certain high-growth markets. It is also noticeable for broad multi-line and often multi-year covers and structured solutions. Larger insurers are driving demand more than smaller insurers.

Jeworrek: We have seen a tightening of casualty terms and have witnessed changes in the way reinsurance protection is being bought. At least in some markets, such as the US, we observe a shift back to proportional covers.

Whitmore: There are many other profitable lines of business for reinsurers to underwrite aside from property cat, not least the emerging risk classes of cyber, terror and flood. These classes represent significant opportunities for reinsurers to add non-correlating classes of business to aid the diversification in their risk portfolio.

CONTRIBUTORS

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David Flandro, global head of analytics, JLT Re

Torsten Jeworrek, reinsurance CEO, Munich Re

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

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

Dirk Spenner, managing director of Willis Re EMEA North/East

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

Charles Whitmore, managing director, Guy Carpenter

WeFox Group and Coya lead German InsurTechs

People in Berlin are getting very excited about insurance.

A question is being asked in the cafés and bars of Berlin, the continent's premier tech hub: could European InsurTech have its first unicorn – a business worth more than $1bn – on its hands?

Behind the scenes, (re)insurers like Munich Re and Scor are playing a crucial role in helping some of the fastest-growing companies in Europe prosper.

There appear to be two contenders for the unicorn title: broking platform and insurer WeFox Group; and personal liability and personal accident specialist Coya.

WeFox Group

Founded three years ago, WeFox already works with 1,500 brokers, serving 250,000 customers in Germany, Switzerland and Italy.

The start-up, rumoured to be raising more than EUR100mn ($114mn_ from venture capital investors, is looking at expanding into Spain.

German business daily *Handelsblatt* has said the business is worth EUR1bn, though this publication has not verified that figure.

The company works across two businesses: WeFox, a broker platform; and One Insurance, a start-up carrier.

WeFox's core product is one that belies the traditional InsurTech approach of going direct to consumers. Instead, it relies on independent retail brokers for distribution.

Insurance buyers are screened digitally before being pointed towards an independent agent.

The InsurTech surrounds brokers with technology. They talk to customers through video chat system developed by the start-up. Data about customers is managed through a WeFox-built system, developed by Salesforce, an investor in the company.

The company is also a wholesale broker and within three years it has become one of the largest intermediaries in the German retail market. It pulls together retail premium flows from its agent network to get the best wholesale deal from carriers.

As Utena Treves, vice president of strategy and business development at WeFox Group, explains: "The bigger we become, the better the terms and conditions we can get from insurers."

He describes the strategy as "merging the old world with the new world".

He says: "Our intellectual property is developing continuously. It's not just some crazy idea. It's a real business. We've got real customers, real brokers, real consultations, real claims."

Now WeFox Group also has a balance sheet business. The company owns One Insurance, a Liechtenstein-domiciled insurer.

Treves explains the company decided to create its own insurer as it wanted to be able to move more quickly than incumbent carriers when creating new products.

One Insurance is a Munich Re cedant. Treves insists the start-up is retaining risk, rather than acting as a fronting operation.

The reinsurer is one of the leading capacity providers to InsurTech firms worldwide, including InsurTech stalwart Lemonade.

In June, Munich Re announced a new partnership with One Insurance to offer hyper-personalised insurance.

Buyers can take out monthly household and liability insurance, with the insurer collecting data more usually associated with fitness tracker Fitbit than a carrier. Cover will be based on data such as a customer's location, how long people are at work and how much sleep they get.

Google Maps founder Stefan Muff is involved in the project.

Tobias Sonndorfer, executive director at Munich Re, said at the joint-venture launch: "Our strategic alliance allows for usage of data entirely unknown to the insurance industry as yet."

But the One Insurance initiative raises ethical questions. A KPMG report on privacy in a digital age offers a useful way of analysing technology: is it "creepy or cool"?

As the KPMG report puts it, "unsurprisingly, people draw the line in dramatically different places: one person's 'creepy' is another person's 'cool'. Gender, age, wealth, nationality and education all bend and twist its course … often in surprising ways".

Treves is confident WeFox Group complies fully with GDPR, because clients can choose how much data to share with the company, and can withdraw consent at any time.

Coya

Another InsurTech looking to reshape Europe's insurance landscape is Coya.

The company's business model takes a disruptive, rather than collaborative, approach to the role of brokers.

Coya has built from scratch an insurer that sells personal liability and personal accident cover direct to consumers online.

While the UK general insurance market has seen brokers bypassed by aggregators and direct sales, countries like Germany are dominated by broker distribution.

South African fintech entrepreneur Andrew Shaw launched the business in 2016 after facing a struggle to file a travel insurance claim from his sick bed, when he fell ill while on holiday in Bali.

Coya received approval from Bafin in June to sell insurance after a long approval process. It began writing business in September.

While most InsurTechs, including Lemonade and One Insurance, started as MGAs, Shaw has built a balance sheet insurer from day one.

He told *The Insurance Insider*: "We believe that with the full-stack model you are able to build new product faster. A lot of companies wanted us to take the MGA route but we stuck to our guns."

He argues that having the flexibility to build products around a new generation of consumers and not having to rely on legacy systems give InsurTechs with their own balance sheet an advantage. "In the long term, this model will win," Shaw said.

The Berlin-based InsurTech is a cedant of Scor's. He said that unlike other reinsurers, where decision-making is centralised, he found the French reinsurer's more localised approach to client relationships useful.

"With Scor, decisions are made locally. They seem very good to work with," he said. "They are very quick."

Shaw is a critic of incumbent general insurers. "There's big problems with the industry," he said.

"With 80-90 percent of risks coming in through brokers, insurers don't really understand customer behaviour."

He favours a direct route, so that insurers have more control over customer data.

He sees "proactive insurance" as the future for the insurance industry, with customers receiving push notifications for new products as and when they need it.

His vision has appealed to investors, who have already put $40mn into the start-up. Peter Thiel's fund Valar Ventures is a lead investor. Thiel's track record includes PayPal, Facebook and Transfer Wise.

Whether it is WeFox Group or Coya, Europe may not have long to wait for its first unicorn.

Rules of the reinsurance road

Laurent Montador talks cyber, cat pricing and the opportunities created from the carve-out of the operation from the French state reinsurance pool

CCR Re is coming to its second year of operations. What were the main challenges of setting up and running as a separate underwriting entity from CCR?
We spent lots of time and energy resolving regulatory matters for one thing and we also dedicated a lot of effort to communicating with clients so they would have the confidence to follow us. Generating a team spirit and harnessing highly skilled staff was important. We needed to create collective momentum and that needed strong project management.

And what have the main benefits been?
We managed to explain the peculiarities of our structure to the rating agencies and we've got a strong rating because of that. We have changed our procedures and tools – we're essentially a ReinsurTech, and have used technology and various tools to create a leaner structure.

That helps the bottom line and also helps to manage expenses. We've achieved growth through existing clients, new contracts and also new clients.

How has CCR Re's performance compared with the business plan?
In terms of bottom line and turnover, we are a year in advance of our initial business plan.

Our combined ratio was below 100 percent in the first half of 2018 and we forecast this to fall to the region of 95 percent including all the expenses in future years. In one or two years' time, this is really achievable but we won't be releasing reserves to make us look better than we are.

How about premium?
We are not chasing premium for the sake of premium but think this could be in the range of EUR600mn ($700.6mn) in one or two years.

How is CCR Re handling the challenge of reinsuring cyber and what kind of growth do you see in this line?
We have a dedicated group of people in the company and we are well aware – as more and more people are – of "silent cyber" and its existence in different types of policy. The main issues with cyber are accumulation control and loss definition. With cyber, you can't think in terms of "If you don't provide cyber, you are unfashionable". It is too dangerous and too serious. There's obviously a need for solutions and we will provide them, but only highly professionally, with not only insurance but also prevention and crisis management products, and with reasonable limits.

What are the major trends emerging in non-life reinsurance?
Carriers need to accept and provide cover transversally. There is more and more aggregate cover and you have more and more things that are difficult to model. Otherwise, major trends include M&A and also a growing role for alternative reinsurance, which is converging more and more with traditional reinsurance. At CCR Re, though, we are focused on providing a long-term commitment to our client with all our tools available.

About 70 percent of CCR Re's premium already come from outside France – where do you see growth?
Again, we are not premium chasing and we want to be cautious in our development.

It is question of being able to expand from the bases we have. We think we could have a greater presence in Asia. Africa, Latin America are also interesting for expansion; Eastern Europe potentially as well. We are also looking for partnerships to add value – industrial, rather than capital, partnerships.

What kind of rate movement(s) are you predicting for the 1 January renewals?
Up! For cat, climate change is increasing the risk yet cat business is inappropriately priced. Because of the oversupply of capital, positive rate movements are not as large as they should be. I've been disappointed this year – there should have been a stronger reaction to last year's cats. This should improve in future – especially when you see short-tail losses are becoming longer-tail.

Specialty lines and the London market desperately needs a reaction. Marine pricing has been inadequate for years and needs to pursue its way towards profitability.

How have reinsurers' relationships with cedants changed throughout your career?
It is still a people business and I like that – we are not robots. But with the emergence of risk, you have many new positions. Before, you were talking to the reinsurance buyer. Now, you are dealing not only with the reinsurance buyer but the CFO, CRO, CEO. There's also been a change in underwriting skills – much more transversal now.

Does the reinsurance industry in general have a reserving issue?
We think it does and the fact there is a need to present a good picture is an element of this. You can see from the figures there is less and less ability to draw down reserves. The portion of net profit stemming from reserves movement in some cases accounts, as stated by a recent Willis report, for 25 percent.

What are the most pressing issues facing the industry?
Profitability and pricing: we can see the M&A phase.

Climate change; cyber protection; and digitisation as a society/with the internet of things, which provides many indicators in order to prevent claims.

The industry's move into preventing incidents, as a service, is good in any case, because claims will decrease but in the end so will reinsurance premium so, new sources of revenues are needed.

What has been your most important lesson?
Reinsurance is a people business and you have to take a human approach with a recognition of cultural differences. Above all, building and maintaining trust is the most important thing.

Laurent Montador
Deputy CEO, CCR Re

M&A boosts the Insider 50 to record growth in Q3

The Insider 50 recorded its highest-ever quarterly gain in the three months to the end of September

The Insurance Insider's index of P&C (re)insurance companies, *The Insider 50*, grew by 6 percent during the third quarter to 1,150 index points, the largest quarterly gain since its inception in November 2016.

During the same period in 2017, the index grew by 3.8 percent.

The majority of the companies in the *I50* performed well in the quarter, with only eight firms posting negative share price movements.

However, the Q3 gains have only offset the declines sustained in the previous two quarters of the year, with the index flat for the nine months to 30 September.

Other major market indices also produced positive results during the quarter. Out of the benchmarks this publication tracks, the Dow Jones US Nonlife Insurance Index was the biggest riser with an almost 10 percent gain.

The *I50* was broadly in line with the S&P 500 Insurance index, which grew by 6.4 percent during the quarter.

European stocks lagged behind US shares as the Stoxx Europe 600 eked out only a 0.7 percent Q3 gain, while the FTSE 100 contracted by 1.7 percent.

The picture is similar over the nine months to 30 September, with European stocks trailing while the S&P 500 led with a 9 percent gain.

M&A buoys Q3 stocks

M&A dominated third-quarter news, and that was reflected in the share price movements of the companies in the *I50*.

JLT was the quarter's biggest riser by a wide margin with a 48.1 percent share price increase. The London-based broker's stock was boosted by the announcement of its acquisition by Marsh & McLennan Companies (MMC).

Conversely, shares in MMC grew by just 0.9 percent.

MMC has agreed to buy JLT for £4.9bn ($6.4bn), which translates to 1,915 pence per share. Shares in JLT ended the quarter just below the MMC offer price, at 1,896 pence.

Meanwhile, shares in Scor soared by 25.7 percent during the quarter to close at EUR40, following takeover interest from French mutual insurer Covea. In late August, the French reinsurer rejected an all-cash offer of EUR43 ($49.85) per share from Covea.

The mutual is already Scor's biggest shareholder with an 8.2 percent stake, according to Scor's website. However, Covea has said it will abide by a standstill agreement that prevents it from lifting its holding in the reinsurer above 10 percent until April.

Scor described the public takeover attempt as "hostile and unfriendly". Covea CEO Thierry Derez has since temporarily stepped down from his position on the target company's board until Scor's next shareholder meeting in 2019.

US specialty carriers outperform

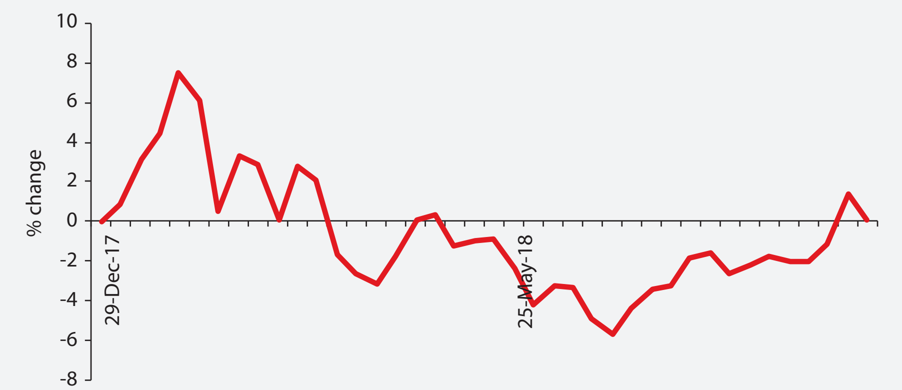
Elsewhere, US specialty carrier Navigators was boosted by news of its acquisition by The Hartford, as its shares jumped by 21.2 percent to $69.10. The insurer is now trading at 1.7x book value.

The Hartford has agreed to pay $2.1bn for Navigators, which values the deal at $70 per share. News of The Hartford's offer, along with better-than-expected Q4 2017 results, has seen Navigators' share price rise by 41.9 percent over the nine months to 30 September.

AmTrust is still the best performer over the first nine months of 2018 with a 44.2 percent gain, although the stock was flat in Q3.

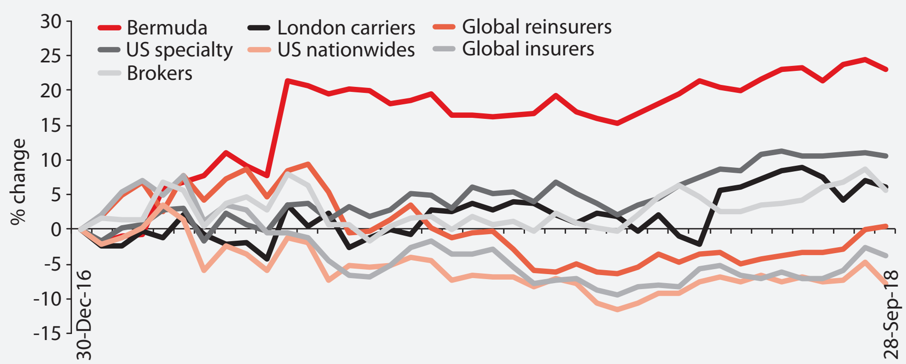
CONTINUED ON PAGE 27

I50: year-to-date performance



Source: *The Insurance Insider*

I50 sub-groups: year-to-date performance



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

CONTINUED FROM PAGE 25

The cohort of US specialty insurers climbed by 8.2 percent on a weighted average basis, making it the best performing sub-group in the quarter.

Fellow US specialty carrier RLI also put in a strong performance during the quarter and made it into the top five as its stock gained 18.7 percent.

The share price increased by 7.2 percent following the company's Q2 results announcement, as the specialty carrier reported earnings of $0.60 per share compared with the average $0.55 per share estimate of six analysts polled by MarketWatch.

RLI trades at the highest price-to-book value among the companies in our coverage with a multiple of 4.1x – up from 3.0x at the end of 2017.

Meanwhile, in *The Insurance Insider*'s wider coverage universe, shares in Universal Insurance Holdings climbed by 38.3 percent during the quarter. The carrier's stock rose over 14 percent the day after it reported a 56.8 percent year-on-year growth in Q2 net income to $46.1mn.

The fallers

As previously mentioned, there were only eight companies that experienced a downward movement in share prices during the quarter.

Greenlight Re recorded the most notable sell-off as its shares continued to plummet during the quarter. The hedge fund reinsurer lost 12.7 percent of its share price value in the period and was down by 38.3 percent over the nine months to 30 September.

During the quarter, Greenlight Re reported that its hedge fund manager, Greenlight Capital, posted a 6.5 percent net decline for August, which was the largest one-month loss for the fund management company in 10 years.

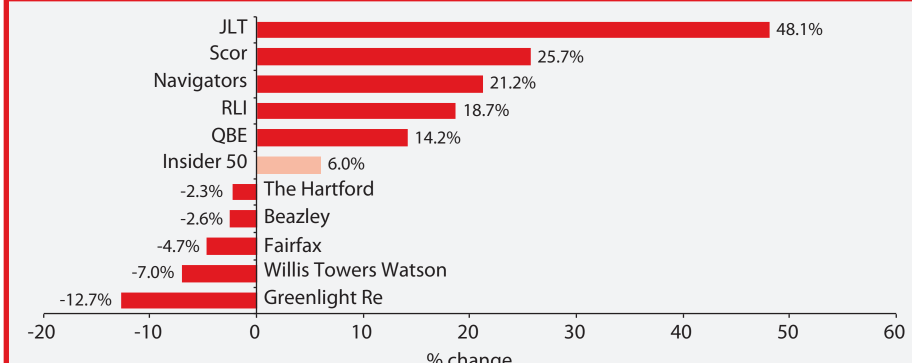
In addition, the company also posted a second-quarter net loss of $37.4mn that widened from $35.5mn for the same period last year.

Greenlight Re's capital erosion also weighed on the stock, leading to uncertainty as to whether the reinsurer's renewal book may come under pressure in the run-up to 1 January.

Greenlight Re's price-to-book value is just 0.7x.

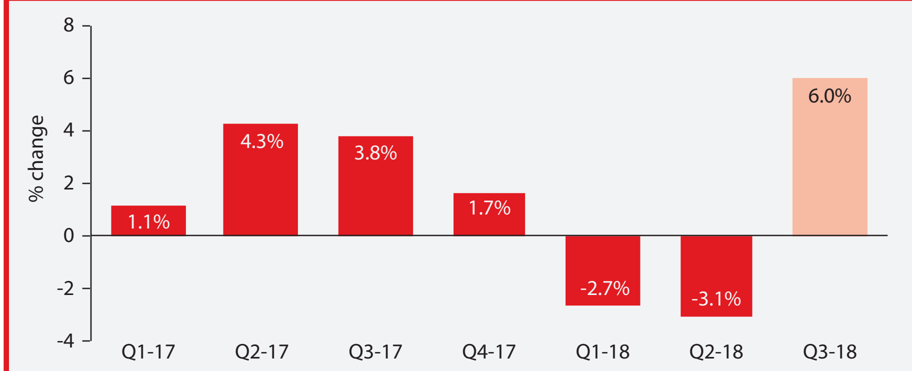
Moving on to the brokers, Willis Towers Watson was the only intermediary in the *I50* to post a drop in its share price as it fell by 7 percent during the quarter. Comparatively, shares in AJ Gallagher and Aon grew by 14 percent and 12.1 percent, respectively.

I50: Q3 2018 biggest movers



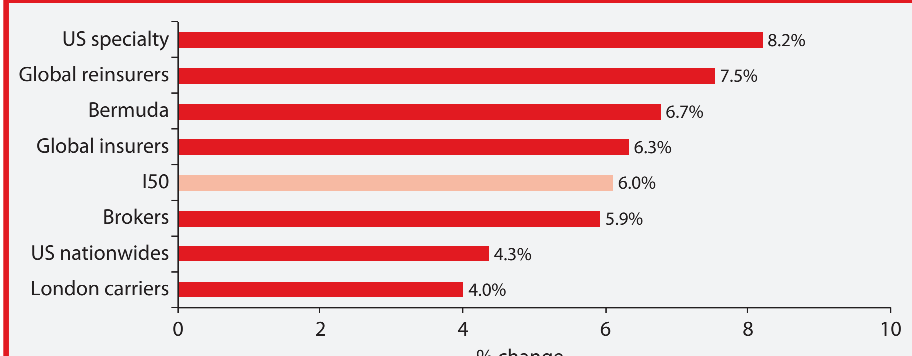
Source: S&P Global, *The Insurance Insider*

I50: quarterly performance



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

I50: Q3 2018 sub-group performance



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

Maiden falls

Meanwhile, AmTrust sister company Maiden Holdings, which is not in the *I50* index but is part of the wider group of companies this publication follows, saw its share price plunge by 63.3 percent during the quarter.

The carrier's share price more than halved over the nine months to 30 September, falling by 56.8 percent. The company launched a strategic review of its business in April.

As part of the review, Maiden agreed to sell its North American reinsurance unit to Enstar for $307.5mn in cash, which includes a $45mn adverse development cover that may reduce the deal's already discounted value.

Maiden also sold the treaty renewal rights on its $800mn diversified book to TransRe for an undisclosed consideration. This effectively makes Maiden a captive reinsurer to AmTrust, which increased investor concern.

ILS sector considers future reloads and valuations

Panellists at the *Trading Risk New York Rendez-Vous* this month discussed the capital reload post-HIM, the importance of accurate valuations and why ILS will be essential for reinsurers going forward

Modelling miscalculations after hurricanes Harvey, Irma and Maria (HIM) were a key topic at this year's *Trading Risk Rendez-Vous*, held in New York on 10 October.

The HIM storms resulted in initially high loss estimates and higher-than-sustainable price increase predictions.

But subsequent loss creep may mean future capital reloads will be less "enthusiastic", said Michael Millette, founder and managing partner of Hudson Structured Capital Management.

"I believe the fund complex as a whole lost $12bn to $15bn in the events and probably raised about twice that," he said.

If the Maria loss estimates had come out firmly in the $20bn range, and the group loss estimates at $60bn to $70bn, Millette said he would not have been surprised if the industry had raised $5bn to $7bn less.

That number is significant as those funds went to the retrocession market, according to Millette.

"That's kind of rocket fuel," he said, noting that it likely cut several points off the price change year to year.

Reflecting on last year's hurricane losses, Aon Securities CEO Paul Schultz said the orderly way the market responded to the events was at least partially responsible for the relatively flat renewals this year.

Meanwhile, total cat bond losses from last year are expected to climb upwards to nearly $1bn as claims continue to develop, the CEO said. While total cat bond payouts currently stand at $326mn, this number is expected to rise to $919mn as losses escalate, Schultz added.

Panellists also stressed the need for more standardisation when it comes to loss valuations in the industry.

Aaron Koch, director of the P&C division of the ILS group at Milliman, said ILS managers had varied performances after last year's catastrophes, in part due to fundamentally different approaches to valuations.

In terms of Irma and its loss creep, most managers have been trying to establish an appropriate "mark-to-model" approach to valuing losses from major cat events, he explained.

Significant loss creep might be indicative of "problematic practices" such as model estimates or industry numbers being delayed when that relevant information was incorporated into valuations published to investors, Koch added.

"Under a fair-value paradigm to produce market-consistent values, the onus is on the funds to get information in to the best of their ability as soon as possible," he said.

Speakers at the event also discussed what reinsurance would look like in the future.

The "reinsurer of the future" would be an institution that puts more focus on transferring risk by sharing and hedging risks with investors, said Daniel Brookman, head of alternative capital at Axa XL.

"There exists a need for the (re)insurer of the future to quantify for its own stakeholders and management the virtues and value proposition of holding risk versus sharing risk versus hedging risk," he said.

The end state will be a combination of techniques including short-term hedging transactions, partnership transactions and longer-term partnerships. Risks will also be more modularised and customised for the investor, he predicted.

Hiscox Re & ILS chief operating officer Richard Lowther went as far as to say that reinsurers need to build relationships with end investors if they are to survive.

He said in his estimation only three or four reinsurers were managing true asset management platforms.

Many were simply packaging risk and passing it onto other fund managers that owned the investor relationships. "If you are not dealing with the end investor, you are dealing with fake ILS," he said.

Traditional quota-share deals could be strategically valuable for reinsurers, he emphasised.

But he said his concern was that if an ILS platform was part of an outwards hedging programme and made up of predominantly quota-share deals or sidecars feeding other ILS asset managers, then these units were acting as "just another intermediary in the chain".

The Insurance Insider EVENTS

London Market Conference
8 November 2018 | 08:15 – 15:30
(followed by networking drinks)
etc.venues, Liverpool Street, 155 Bishopsgate, London, EC2M 3YD
www.insiderlondonmarketconference.com

Subscriber delegate rate – £495
Full delegate rate – £695
(All prices exclude VAT)
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#InsiderLMC

Insider London
7 February 2019 | 08:15 – 15:30
(followed by networking drinks)
America Square Conference Centre, London, EC3N 2LB

Subscriber delegate rate: £495
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#InsiderLondon

Insider US*
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(followed by networking drinks)
New York, USA

#InsiderUS

*Insider*Tech New York*
March 2019 | 08:45 – 16:50
(followed by networking drinks)
New York, USA

#InsiderInsurTech

*Exact dates and location TBA

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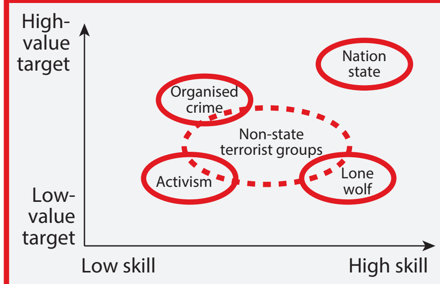
Global cyber terrorism incidents on the rise

Guy Carpenter's Siobhan O'Brien explains how the terrorism risk landscape is evolving

Quadrant threat intelligence model of cyber capabilities



Source: Guy Carpenter

The nature of the terrorism threat facing society has changed considerably in recent years. Previously, governments and (re)insurers structured their mitigation strategies and responses to deal with large-scale attacks.

Recently, though, we have seen a spate of smaller, less sophisticated, yet no less appalling acts of terrorism that involve mass casualties and fear-inducing events. And the type of threat will continue to change as new technologies and opportunities reveal themselves to terrorist organisations – notably including cyber terrorism.

Guy Carpenter has produced a report, "Terrorism: A Maturing Market Meets an Evolving and Expanding Peril," which focuses on the changing and evolving nature of terror attacks globally and the innovations and solutions developed by the (re)insurance industry to meet these changing needs. Here, we present the themes around the cyber peril discussed in the report.

Traditionally, most cyber-attacks have been carried out by criminal organisations, with the majority of incidents failing to register on an enterprise risk scale of businesses that faced significant setbacks. In 2017, this dynamic changed with the WannaCry and NotPetya incidents. These two attacks affected organisations in more than 150 countries, prompted business interruption and other losses estimated at over $300mn by some companies, brought reputational damage and resulted in destruction and/or corruption of data.

In December 2017, the US government took a rare step and attributed the WannaCry attack to hackers backed by North Korea. WannaCry and NotPetya exposed a systemic risk and affected a broad cross-section of businesses without specific targeting, demonstrating the potential for escalation in the threat of cyber terrorism.

There are four observations on how the terrorism threat is evolving.

1. The landscape for points of attack is growing. Traditional physical processes carried out by industrial control systems – including critical infrastructure industries such as power utilities, water treatment services and health and emergency systems – are coming online. Guy Carpenter affiliate Oliver Wyman forecasts that 30 billion connected devices will be in use by 2030, creating more assets susceptible to attack and adding more vulnerabilities to be exploited.
2. Cyber threats are becoming more advanced. The upsurge of highly skilled hackers, often nation-state supported, is coinciding with the development of more sophisticated tools that are seeping into the broader environment through a thriving black market.
3. The consequences are high. Companies are now deeply dependent on their systems and data. Interference with those assets can materially affect market capitalisation, endanger executive leadership, reputations, sales and profits. Failures in cybersecurity have the potential to destabilise an enterprise overnight.
4. The nature of cyber incidents is shifting; from affecting primarily consumers to having an impact on global political or economic systems as a whole. Examples of this changing trend are the recent headlines covering the banking industry. Large-scale cyber-attacks on the banking industry can result in stolen money and personal information entrusted by consumers to these institutions and also, in a worst-case scenario, cause a "run" on the global banking system.

Terrorist groups have ambitious goals for cyber-induced attacks. The industrial control systems supporting the electricity industry were at one time largely sealed off from external threats. However, with the introduction of automated controls managed through interconnected network systems, those protections have dissipated. As automation grows, so does the opportunity to manipulate an industrial control system through a cyber-attack. In a recent Marsh/Microsoft Cyber Perception Survey, some 61 percent of energy executives who participated rated cyber in their top five risks, with many rating it as their highest risk.

For utilities and other infrastructure facilities, the potential costs of a power grid interruption as a result of a cyber-attack can include: lost revenue; additional expenses to restore operations and to improve cybersecurity defences; regulatory fines; legal liabilities; and reputational damage.

Such attacks, though rarely made public, are occurring more frequently. As can be seen in the chart above, the potential perpetrators of acts of cyber terrorism can be separated into five categories.

Although the motivations, capabilities and priorities vary among these groups, each can wreak havoc on a global scale. With ever-increasing funding, these attacks can become more catastrophic. As these factors converge, opportunity could combine with existing motives to inflict catastrophic cyber terrorism losses for businesses.

Over time, cyber insurance policies have evolved to cover the failure of technology and the resulting interruption or loss of revenue. Insurers are also increasingly recognising the interdependence of businesses, especially through technology. Many cyber policies now contain provisions for business interruption and contingent business interruption, including those involving disruption of an organisation's supply chain from a breach event.

Solutions in the cyber space follow both the security and privacy coverages and the business interruption coverages offered in the insurance market. Although reinsurance contract wording varies, cyber insurance typically covers network security incidents regardless of the political or ideological beliefs of a non-state actor.

Siobhan O'Brien
Head of Cyber Centre of Excellence for International and Global Specialties, Guy Carpenter

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As the public sector seeks greater catastrophe protection and new terror and cyber threats emerge, data and analytics are advancing our understanding of previously uninsurable or underinsured risks. Guy Carpenter is deploying new modeling platforms, dedicated capital resources and specialized distribution channels that help our clients achieve profitable growth.

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