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

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Storm losses cloud US cat pricing outlook for 1.1

Losses from hurricanes Michael and Florence have created a measure of uncertainty around pricing at the 1 January US catastrophe reinsurance renewals, after the market had looked set to resume its pre-2018 softening trajectory.

A canvass of sources brought little in the way of a consensus on the question of how much influence the losses would have beyond the affected areas.

Some believe that the roughly \$11bn-\$15bn of combined claims will have only a limited effect outside of Florida and North Carolina, with some cedants still able to secure reductions.

Others have suggested that they will halt predicted rate reductions across the US cat treaty market, with price rises confined to loss-struck areas.

And some bullish voices have suggested that there could be some positive impact across the US market.

The Michael and Florence losses have also come alongside billions of dollars of Irma deterioration, which has had a disproportionately heavy impact on ILS markets that typically reserve tightly to best estimates.

With Florida's cat treaties renewing at 1 June, the pricing story in the US cat treaty market will play out over a number of months.

Hurricane Michael's impact on a narrow area in the Florida Panhandle means that it will be an asymmetric reinsurance loss, given the uneven reinsurer appetite for low-lying Florida risk.

With the Florida personal lines market dominated by standalone insurers heavily leveraged to reinsurance, the wind-driven loss will naturally skew to reinsurers, with collateralized reinsurers and a couple of Bermudians set to have overweight exposure on a gross basis.

Some global specialty players are enthusiastic writers of low-lying Florida cat risk while others are largely absent from the market. Collateralized reinsurers such as Nephila and Aeolus are among the biggest writers in the market and have a greater weighting to the high rate-on-line lower layers.

Other major writers of Florida cat excess-of-loss include Everest Re, Swiss Re and RenaissanceRe, although the first and third of these names are likely to have significantly smaller net than gross positions.

Brokers cited Lloyd's players as among the bigger writers of Florida cat which have a limited appetite for risk below the level of the state cat fund, implying that they will be underweight to the reinsurance portion of the loss.

Reinsurers underweight on Florida cat excess-of-loss include Munich Re, Hannover Re, Scor, PartnerRe, TransRe, Axis Re and Aspen.

Reinsurers expect roughly 80 percent of the loss to be concentrated in Florida, and a high proportion of this will come from the Bay and Gulf counties that bore the brunt of the storm. Most of the remainder of the loss is likely to come from Georgia, underwriting sources said.

Smaller standalone players dominate the Florida homeowners' market as most nationwide writers have little appetite for the segment. Market leaders include Universal, Tower Hill and UPC.

However, in Bay and Gulf, Floridian First Protective had 14 percent of insured dollar values, with Federated National and Gulfstream in second and third place respectively with 10 percent and 6 percent of the market by exposure.

Underwriting sources told this publication the combined retentions of the Floridian personal lines insurers were somewhere in the region of \$1bn-\$1.5bn, implying a multi-billion-dollar loss to treaty reinsurers.

Of the carriers with significant Florida market share to disclose losses to date, Universal and FedNat have released gross loss numbers. Grossing these up from market share figures in the worst-hit part of the state points to a Florida homeowners' loss of \$5.6bn, based on Universal's loss number, and \$2.7bn based on FedNat's.

Although there will be losses to commercial and auto policies, as well as impacts outside of Florida, these figures look light given the \$8bn-\$10bn private insured loss estimates that have been circulating in industry circles.

However, with the experience of Hurricane Irma fresh in their minds, reinsurers will be wary of being too optimistic about these early Michael numbers from Floridian insurers.

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Cat losses erode Q3 earnings

Disclosures from early reporters have demonstrated the impact of global catastrophe events on P&C (re)insurers' third-quarter results.

A string of global catastrophe events during the three months to 30 September – including Hurricane Florence and California wildfires in the US, typhoons Jebi and Trami in Japan, and Typhoon Mangkhut in Southeast Asia – dented carriers' earnings.

PCS and Karen Clark & Company estimated Hurricane Florence had cost the insurance market $2.5bn, while AIR Worldwide's range for insured wind and storm surge losses was $1.7bn to $4.6bn. Swiss Re pegged industry-wide Florence losses at about $4bn.

Meanwhile, insured losses from Typhoon Jebi look set to stretch beyond $7bn, and when added to the impact of Typhoon Trami, this could result in at least $10bn of cat claims emanating from Japan inside a month.

Underwriting sources had initially forecast a loss in the region of $5bn for Jebi, with the modelling firms well below this level. RMS estimated a loss of between $3bn and $5.5bn, while AIR Worldwide released a range of $2.3bn to $4.5bn.

Although estimates for the Q3 disasters vary, in aggregate the events are likely to generate insured losses north of $10bn.

This would put them in the same ballpark as Hurricane Michael, which made landfall on the Florida Panhandle on 10 October and was estimated by multiple catastrophe modelers to have caused $8bn-$10bn of insured losses.

"Although estimates for the Q3 disasters vary, in aggregate the events are likely to generate insured losses north of $10bn"

However, while Michael's impact is expected to be concentrated among Florida cat reinsurance writers, the international spread of Q3's natural catastrophe events will mean that global insurers with exposure in multiple risk pockets will bear the brunt of the costs.

One such example is AIG, which pre-announced a third-quarter pre-tax catastrophe hit of up to $1.7bn, net of reinsurance, on 18 October, causing its stock to fall by more than 4 percent in after-hours trading.

The carrier took losses from all the major events in the quarter, with the majority of claims stemming from typhoons Jebi and Trami. AIG is expected to report its Q3 results on 31 October.

Elsewhere, Everest Re estimated a Q3 pre-tax cat loss of $240mn, net of reinsurance. Dom Addesso, Everest Re's president and CEO, said the reinsurer expects "to report a breakeven underwriting result" for the quarter.

The reinsurer will disclose its third-quarter results on 29 October.

Hurricane Michael: company cat loss estimates

Company	Gross catastrophe losses	
Universal	$300mn-$350mn	
NatSec	$10mn-$15mn	
HCI	$6mn-$18mn	
FedNat	$275mn	
Company	**Net catastrophe losses**	**% Q2 shareholder equity**
FedNat	$23mn*	10.7
Universal	$35mn	7.1
Progressive	$120mn	1.1
AIG	$300mn-$500mn	0.5-1.0
HCI	$0-$2mn	0-1.0

*$3mn borne by its Monarch National subsidiary
Source: Company announcements

Hurricane Michael: industry loss estimates to date

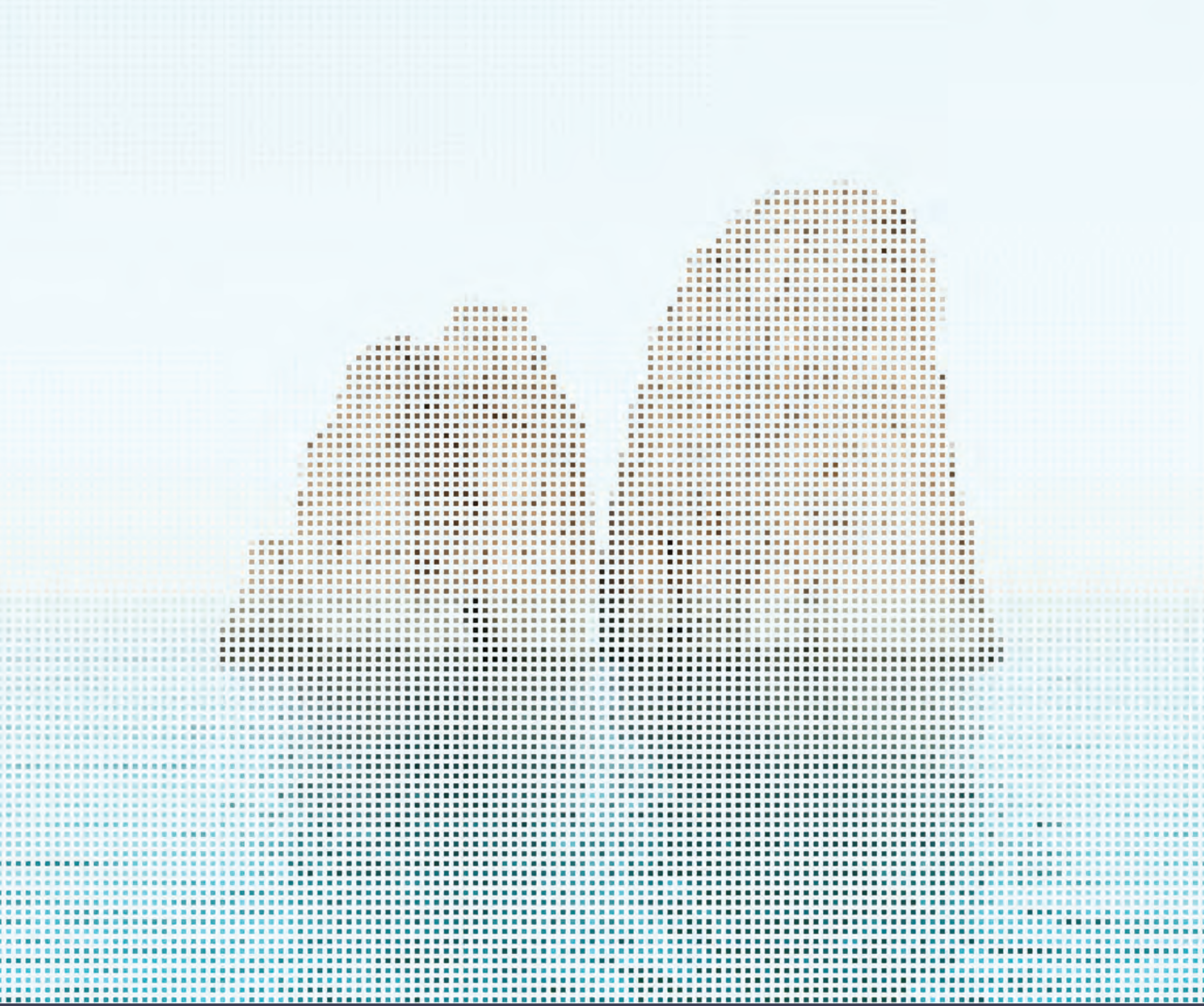
Firm	Date	Low point	High point	Notes
RMS	19-Oct	$6.8bn	$10bn	$0.25bn-$0.75bn of losses to the NFIP and $0.4bn-$1.3bn of storm surge losses; covers property damage and business interruption across residential, commercial, industrial and auto lines of business
AIR Worldwide	15-Oct	$6bn	$10bn	Wind and storm surge losses, including property damage and additional living expenses but excluding marine losses and losses from precipitation-induced flooding; excludes NFIP
CoreLogic	12-Oct	$3bn	$5bn	Includes residential and commercial storm surge and wind losses, as well as contents and business interruption. It compares with an estimate released just prior to landfall of $2bn to $4.5bn
KCC	11-Oct	$8bn		Does not include NFIP losses, but accounts for privately insured wind and storm surge damage to residential, commercial and industrial properties and automobiles

Source: Company announcements

Q3 cat loss estimates

Company	Cat loss (net)	% Q2 2018 equity	Notes
Swiss Re	$1.1bn	6.8%	Includes a $500mn hit from Typhoon Jebi in Japan
UPC	$35mn	6.4%	Includes claims from Hurricane Florence as well as a new Q3 2018 loss and development on prior 2018 catastrophes
Scor*	$240.5mn	3.5%	EUR105mn ($119.7mn) from Typhoon Jebi, EUR50mn ($57mn) from Hurricane Florence and EUR22mn ($25.1mn) from Typhoon Mangkhut
RenRe	$155mn	3.2%	Typhoon Jebi and Hurricane Florence accounted for the bulk of claims
Everest Re	$240mn	2.9%	Losses stemmed largely from Hurricane Florence, California wildfires and typhoons Jebi and Trami, as well as flood losses in Japan
AIG	$1.7bn	2.8%	Events in Japan, mainly typhoons Jebi and Trami, are expected to result in $900mn-$1bn in pre-tax cat losses. Hurricane Florence and revised estimates for the California mudslides will account for approximately $600mn to $700mn of the loss
Allstate	$625mn	2.7%	The carrier said $177mn of pre-tax cat losses were booked for the month of September, including a negative re-estimate of reserves for prior reported cat losses
Aspen	$56.4mn	2.0%	Losses from Typhoon Jebi, Hurricane Florence and various other weather-related events in the US and Asia
NatGen	$35mn	1.8%	Losses from Hurricane Florence and the August wildfires in California
Axis	$92mn	1.6%	Mostly related to Hurricane Florence
Cincinnati Financial	$120mn	1.5%	The carrier said it expected losses from Hurricane Florence to make up $92mn of the estimated figure, including $7mn in claims from its Cincinnati Re reinsurance division
Chubb	$450mn	0.9%	Losses stemmed from more than 20 separate weather events, including Hurricane Florence, a rain and hailstorm in Colorado, typhoons Mangkhut and Jebi and wildfires in California

*calculated as 16.5% of Q3 P&C NEP
Source: Company reports, S&P Global, *The Insurance Insider*



Big question: Renewals, pricing and alternative capital

Assuming a quiet hurricane season, what do you expect the pricing outlook to be in 2019?

Axel Freiboth, managing director, North America, Hannover Re: Current rating levels do not fully reflect the fact that exposures are continuing to increase. We have significant and previously unanticipated impacts from rising loss adjustment expenses. Also, business interruption losses keep increasing as well. As such, we will need to carefully monitor rate levels.

We would not have expected any further deterioration even if the hurricane season had remained quiet. We are seeing a good number of hurricanes develop every year and we don't expect a reduction of that trend any time soon.

Brian Secrett, chief underwriting officer, Tokio Millennium Re: All other things being equal, with a quiet hurricane season we would normally expect above-average results in the reinsurance marketplace and little movement in pricing for the catastrophe product.

The difficulty is that all other things may not be equal. There are three things we need to factor in. First, the 2017 hurricane losses are far from mature. There have been widely publicized indications of development on some of 2017's losses. Second, the prior year's hurricane season isn't the only economic contributor to the subsequent year's reinsurance pricing. Emerging credit concerns sit alongside the slowing of reserve releases as bellwethers for other possible issues in the (re)insurance marketplace. Third, there are economic cycles in lines of business mutualized under one capital base in the traditional (re)insurance model; these other lines will also have a bearing on brokers' and clients' appetites to expect rate relief in their reinsurance.

David Priebe, vice chairman, Guy Carpenter: Given the industry's capital level and the performance of convergence capital following the 2017 events, I'm not sure the traditional cycle of price hardening in response to a loss event, even a significant one, is still valid. Last year was only the third year on record with losses over $100bn, yet we saw only moderate hardening of loss-affected portfolios at 1 January, and even that tapered-off through the June and July renewals. And with $8.7bn in new catastrophe bonds already issued through 24 transactions in the first three quarters of 2018 – a pace similar to last year – investors continue to show appetite for new perils and sponsors while also strongly supporting repeat issuers.

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 cats, supply will remain high too, with financial markets and smaller reinsurers angling for increased shares, despite taking disproportionate losses in 2017 – losses which continue to develop adversely for some.

Meanwhile, pricing has improved for "diversifying" exposures, which have historically been cross-subsidized by cat profits – profits that have been competed away. The realization this year that a cat loss doesn't always improve cat prices should make it clear that expected profits from cat cannot subsidize losses expected in "diversifying" perils, and that the current level of expected profit for cat excess-of-loss treaties is likely to be the new normal. Overall, it sets up a business environment that is to the advantage of the big global reinsurers at 1 January 2019.

Jerome Halgan, CEO, Arch Re: 2018 will be another year of below average results for reinsurers due to elevated global cat losses. How it will materialize in pricing is however still difficult to call. On the one hand, it appears there is still an ample supply of reinsurance capacity across pretty much all lines of business. On the other hand, there is a strong feeling that reinsurance pricing is very low and that there is not much (if any) available margin for reinsurers to give away. This is especially true on US long-tail lines where the combination of the soft original pricing cycle of the past three to four years, record high ceding commissions and recent increases in claims inflation have been particularly damaging for reinsurers' combined ratios. We are also seeing a real pick up in reinsurance demand coming from multiple factors, including a renewed interest in earnings management covers, rating agency pressures as well as the perception of a very reasonable pricing environment. As such, 2019 pricing will be determined on an account-by-account basis, with underwriters looking at technical factors, account history and relationship considerations.

Jon Colello, president, Axis Re North America: For long-tail lines of business, we expect continued pressure on underlying loss ratios driven by loss emergence in commercial auto, liability and professional lines. We expect this to be somewhat offset by primary rating increases in certain lines. While reinsurance capacity is plentiful and competition is robust, pressure on ceding commissions for pro rata business will continue. For property, we expect a flat rating environment in the absence of losses.

What lines will be attractive at 1 January? Are casualty lines a bright spot?

Steve Levy, president and CEO, reinsurance, Munich Re America: We do not expect any major rate movements on the property side at 1 January unless a major event were to occur. There is still plenty of capital available. We would not see casualty as a bright spot at all. In fact, we believe rate changes have not kept up with loss inflation for quite some time now with the obvious effect on price adequacy. This is true for both the primary sector as well as reinsurance. Reserve releases are likely to fade, which would show in calendar-year results.

Amy Maconachy, executive vice president, professional lines segment leader, Willis Re: Casualty is a growth opportunity for the reinsurance market. We are seeing improvement in the underlying rates and conditions, the degree of which varies by product and region. We have also observed a shift in purchasing where past performance revealed significant volatility emanating from long-tail business. Many carriers are more focused on protecting against this volatility via new or expanded reinsurance purchases. Finally, with organic growth in underlying products, like cyber

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and transactional liability, there will continue to be growth opportunities for reinsurers.

Secrett: There has been pressure on casualty reinsurance markets, which I expect to continue. Some reinsurers have reported reduced reserve releases, and some deficiencies, following challenging market conditions. Some have been responding with at least lip service to increased rates. But there is clear evidence that some underwriters are borrowing from the yield curve to maintain income. A long period of low interest rates is coming to bear on casualty reinsurance results.

Erik Soria, vice president – casualty, Sirius Bermuda: On the casualty side there has been a firming in the market with improved terms on roughly three out of every four deals, kick-started by property cat losses in 2017. This market change can be observed on auto deals, high excess casualty and even professional lines treaties. I would expect continued pressure in casualty lines in the new year due to loss emergence from prior years, numerous emerging risks and a healthy frequency of large loss settlements.

Will alternative capital continue to be the main driving force behind a low rate environment? How will traditional reinsurers adapt to that landscape?

Conoscente: ILS managers have reloaded and actually had more capital to deploy in 2018. Investors have not appeared to discriminate between managers, with everyone reloading. In turn, managers appear not to be discriminating between risks, particularly in markets like Florida. And investors don't seem to have been demanding much higher returns post-2017 than those they were asking for before.

John Welch, CEO, North America, Axa XL: There is no doubt that alternative capital will be a driving force going into 2019. I would expect the allocation to the catastrophe asset class to continue the kind of growth seen in 2018. Traditional reinsurers will look for ways to partner with this cheaper source of capital to maximize their gross offering to clients, while holding their net retained property catastrophe risk constant.

Halgan: The influence of alternative capital continues to be limited to modeled short-tail lines. That said, its influence in property cat is quite significant given its penetration in the retro market, which ultimately drives the price across the distribution chain. As a result, it has been the driving force behind the less than originally anticipated rate improvements for property cat in 2019 as it didn't really change its cost of capital, view of risk nor did it seek payback from clients. Whether this is a just a 2017-18 story or something to stay is unclear.

Secrett: While I wouldn't say it was the main driver, the availability of new, permanent alternative capital has clearly impacted reinsurance economics over several years. This is not a temporary phenomenon. The market saw well over 20 percent of capital derived from alternative sources in some segments last year. The make-up of the business' capital structure is being redefined. New means of risk transfer have galvanized reinsurers into innovation, and into looking for ways to grow relevance. It's helping shape how business will be written in the future.

Priebe: It will certainly be one of the driving forces. To adapt, reinsurers need to use advanced analytics and cat models to allocate resources to the most profitable lines of business under the solvency regimes in which they operate, while leveraging InsurTech to improve efficiency, distribution and risk selection. With these tools, they can match the most efficient capital with emerging risks and depend less on equity capital to support the customizable solutions today's clients demand.

What did we learn from 2017 that we didn't know before?

Freiboth: First, the losses were a confirmation of the models we have in place. Second, we got some sort of proof that alternative capital has evolved from being a short-term pool of capital to an alternative source of capital that is committed to reinsurance markets for a longer period.

Chris Donelan, president and CUO North America reinsurance and head of global casualty reinsurance, Sompo International: The biggest takeaway from 2017 was about flood and the transformation from a government market to the private market and the risks and rewards – mostly the risks – that come with that change. Flood is much more difficult to underwrite than previously thought.

Priebe: That convergence capital is here to stay. Despite the loss activity and resulting principal write-downs of some ILS, as well as impairment of others in the secondary market, the ILS market remained resilient. The outstanding transactions proved to have robust structures and the underlying coverage was responsive to cedants' needs.

CONTRIBUTORS


Jon Colello, president, Axis Re North America


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


Chris Donelan, president & CUO North America reinsurance & head of global casualty reinsurance, Sompo International


Axel Freiboth, managing director, North America, Hannover Re


Jerome Halgan, CEO, Arch Re


Steve Levy, president and CEO, reinsurance, Munich Re America


Amy Maconachy, executive vice president, professional lines segment leader, Willis Re


David Priebe, vice chairman, Guy Carpenter


Brian Secrett, chief underwriting officer, Tokio Millennium Re


Erik Soria, vice president – casualty, Sirius Bermuda


John Welch, CEO, North America, Axa XL


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Growth prospects

Willis Re's Jim Bradshaw talks growth opportunities and future plans in a changing North American reinsurance market

Willis Re global CEO James Kent has said the firm is growing by geography and product. How is that happening in North America?

We've been very fortunate to see growth across all of our business segments and geographies in North America. We are on track to post meaningful revenue growth in 2018 and early indications are that this trend will continue into 2019. Traditionally we have had great success in the professional liability, excess and surplus and regional client segments, but more recently we have won new business from super-regional and large account clients. We have also been focused on spreading out geographically and now have 21 offices in our North American operations. That includes the US, Canada and London, and while every one of those offices has had success in winning new business, we are most proud of the fact that they are winning by collaborating and joining up with their colleagues in other office.

The challenge for reinsurers seems to be growing the types of reinsurable risks. What is Willis Re North America doing in this regard, and what do you view as the reinsurable risks that are growing here?

We try to be vigilant about assisting clients in identifying new and emerging risks and in turn helping them manage and mitigate their impact. This typically involves combining specialized expertise and resource – market awareness, risk measurement tools and reinsurance structuring skills are all part of the equation. The emergence of cyber risk is a great example of these efforts coming together to benefit our clients. We have conducted similar exercises around severe convective storm, flood and more recently wildfire exposures and see this as an important part of serving our clients' risk management needs.

What do you predict Willis Re North America will look like five years from now?

Hopefully much the same as far as our culture, our client advocacy and our overall enthusiasm for the business! What will be different? Probably the depth and range of our servicing and advisory capabilities and how we use them to engage with our clients. We recognized several years ago that to remain relevant to our clients we needed to go beyond the reinsurance transaction; we needed to be more broadly relevant within the C-suite of our clients. Initially this meant engaging in joint ventures with third-party vendors to help expand our capabilities (SpatialKey, our geospatial insurance analytics platform provider, is a great example of that effort in action). However, after the merger between Willis and Towers Watson, we found ourselves with in-house abilities well beyond what other brokers had. We can now go into the C-suite of any insurance company and provide expertise and resource on whatever issue they might be facing, from investment and pension advice, to helping them formulate rates, to providing predictive analytics, greater claims efficiency and reserve guidance. That's a pretty powerful value proposition and something that is transforming the role of the reinsurance broker.

Since you've been CEO, how has the North American reinsurance market changed?

There have been lots of changes but I think the biggest change has to be the emergence and acceptance of alternative capital. We have all seen how it has impacted the property cat reinsurance market – it effectively shrugged off the 2017 cat losses and completely reloaded for 2018. The supply of alternative capital seems almost infinite and when you look at its magnitude relative to the size of the traditional market, it is easy to understand why. What will be interesting to watch is if and how this over-supply of capital bleeds out to other risk classes and lines of business.

It's been a year since Tom Wafer was added as chairman and Jeff Livingston and Trey Hatcher as vice chairmen of Willis Re North America. How has that helped you grow the company?

We're an operation where everyone rolls up their sleeves regardless of role or position. James Kent, who spent several years in North America and was a big part of our success, is still engaged with our clients but his additional responsibilities mean he can't be as available as he has been in the past. So we needed to figure out how to supplement the senior-level contact and familiarity that our clients deserve and have gotten used to over the last 10 years or so. The office of the chairman was created with that in mind, to provide that extra level of client contact and extra bit of mentoring for our people. Tom, Jeff and Trey have all had successful careers, they understand the business and the needs of our clients and they all wanted to be part of creating a legacy. I was clear with them that their office would be an airplane and their primary role was to help others be successful. They were all for it. They have hit the ground running, visiting branches, meeting with clients and helping our associates develop important relationships.

MGAs are continuing to grow in North America. Do you feel that MGAs and ILS are challenging the traditional reinsurance model, and what has been Willis Re North America's response?

I don't think our reinsurance business should go into the MGA ownership area. That's been a business that has existed within other Willis Towers Watson businesses for years and it really belongs there. As a reinsurance broker I am uncomfortable owning or managing a business that competes with my clients. Having said that, we do carry out consulting and placement work for MGAs and have had considerable success in the non-standard auto and the professional liability MGA space.

ILS has transformed the traditional reinsurance model to the point where it's not considered "alternative" capital any more. We were early movers in that space, particularly around harnessing the interest and flexibility of collateralized reinsurance capacity for our clients. Ultimately we are fairly agnostic about sources of capacity, provided they meet our clients' needs and satisfy our security requirements.

Jim Bradshaw
CEO, Willis Re North America

The evolution of risk to capital

The insurance industry is often described as an inefficient market. It's not uncommon for 40 percent or more of premium to be used to pay expenses associated with producing and underwriting the business. This kind of expense load becomes even more challenging in a soft market like the one we are in today.

Traditional reinsurance markets have long embraced third-party capital through "sidecars" to augment their own underwriting and risk management strategies by collecting fees in exchange for their risk and underwriting expertise. But in recent years there has been a significant shift of third-party capital from ILS vehicles to direct reinsurance support. This shift has triggered significant pricing pressures as investor-collateralized vehicles offer competitive terms given their streamlined expense structures.

Similarly, the process of navigating transformer and regulatory requirements has also been streamlined. As market pricing continues to soften, and in the absence of a major industry event, traditional reinsurers' strategic sidecar partnerships may not be able to achieve the necessary returns to continue in their present form.

TigerRisk is constantly evaluating the changing environment to bring efficiencies to the market. By combining our unique strengths as market-leading financial experts with our senior-level reinsurance broking expertise, our teams are ideally suited to deliver next-generation risk-to-capital vehicles. TigerRisk has developed and executed the types of transactions described below which have creatively utilized investor capital and its move towards original risk.

Insurance companies as risk aggregators

The more advanced capital-centric insurance companies pool risk from their portfolios and parse that risk directly to investor capital seeking a specific risk, thereby allowing the carrier to match the lowest cost of capital with that risk. Traditional quota share reinsurance can be deconstructed into separate investor vehicles based on risk/return profiles. For example, a vehicle can be created that cedes catastrophe risk to one set of investors, while another vehicle can be established to cede non-catastrophe risk. Neither of these vehicles needs to conform to traditional reinsurance product limitations. This flexibility allows these "carrier risk aggregators" to write more business with higher margins and with lower costs of capital. While these vehicles are currently associated with short-tail lines like property, they will evolve to cover all types of exposures including longer-tail casualty lines.

Distributors as risk aggregators

Some retail and wholesale brokers are creating vehicles dedicated to capturing insurance risk at the point of production (before traditional insurance expenses) and sharing this risk directly with reinsurers. By utilizing third-party capital, these distributors can develop additional capacity with reduced frictional costs and achieve additional profitability. While not performing an underwriting function, these distributors are able to deliver a steady supply of homogenous risk that investors are looking to access. By limiting this pool of risk to commoditized lines of business/exposures, they provide consistent, quantifiable risk that doesn't require significant underwriting rigor. While this mechanism won't replace insurance risk underwriting (typically it follows form as an index to other carriers' underwriting/pricing criteria), it does allow the transformation of some basic risk into an efficient risk-trading vehicle that production sources can use to reduce overall costs.

MGAs as producers of preferred risk

MGAs specialize in creating portfolios of homogenous risk to optimize profitability. With transformer-friendly regulatory environments and insurance companies looking to partner with investor vehicles, MGAs with proven track records are a natural fit. Third-party investors can access these portfolios directly as reinsurance support of a fronting company. Fronting companies in turn are motivated less by the benefit of fronting fees, but more as a leader in the transformation of risk to capital, helping protect their current relationship and portfolio with the MGA. Further, these vehicles provide the MGA the opportunity to directly participate in their own experience.

Combining underwriting (MGA) with distribution

By matching the benefits of an internal specialized risk underwriter (MGA) with a retail and/or wholesale distributor, a significant component of the insurance expense structure can be mitigated, leaving significant savings to the distributor and investor vehicle. By embedding the MGA within the distributor, an expensive link in the insurance distribution chain (the insurance company) is eliminated. Although a fronting carrier is still necessary to issue a policy, the cost saving is substantial. While these facilities won't eliminate the need for underwriting, they offer an alternative and efficient way for investors to directly access (via a fronting carrier) certain types of risk before they enter the insurance world.

Reinsurance broker

A significant expense in the insurance transaction – the role of the reinsurance broker – must also evolve. The traditional annual renewal of reinsurance structures is now subordinated by the creation of transactions that match risk to the most cost-effective capital. This requires close collaboration between the risk originators, the deal structurers who will quantify the risk and negotiate the terms of the transaction, and the ultimate end-investor capital.

As the hurricanes of 2017 have shown, loss events can develop uncharacteristically. The unusual combination of slow reporting and adverse development have stressed the expected terms for some collateralized vehicles, highlighting the need for expertise and foresight when developing such transactions. It is critical to have an expert versed in insurance and reinsurance risk, as well as regulatory and financial expertise, to effectively structure these transactions and ensure cedants are protected. It is equally important to understand how investor collateral will respond post-event as it needs to match the collateral to risk.

Investor capital will continue to evolve and change. TigerRisk has led the evolution of risk to capital and will continue to bring innovative new products that capitalize on these market dynamics to enhance efficiency within the insurance and reinsurance market.

Dan Miller
Partner, TigerRisk

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info@lumenre.bm

LGT ILS Partners
lgt.ils@lgt.com

Balancing act

Jennifer Montero, CFO at Citizens, on Florida's market dynamics following Hurricane Irma and the changing reinsurance landscape as alternative capital grows its presence

Did you expect the upward rating reaction to be bigger after Hurricane Irma?

Our renewal was in June, so we were able to see what happened during the January renewals. Before that, however, we did expect that there would be some increases, not specifically due to Irma but because of the industry as a whole experiencing losses from hurricanes Harvey, Irma and Maria, the Mexican earthquakes and the California wildfires.

In general, the reinsurance market got hit pretty hard, so we were pleasantly surprised in January. We thought prices would go up following all of the events. Last year at PCI, reinsurers spoke of 5-10 percent increases, but there was just so much capacity. When we had our renewal in June, our overall rate-on-line was marginally less than the year before.

Was there any change in terms and conditions compared to last year's June renewal?

We did not see a big swing in anything as a result of Irma. We've seen no major changes in pricing, dynamics or our relationships with the markets. Our reinsurers were there when we needed them and they have come back to continue the relationship.

When we went to the markets, both the capital markets and the traditional markets were very interested in what our losses were, and how they were developing. But when it came down to negotiations and pricing, they were very similar to the years prior. With all the capacity in the markets, I'm sure they want to recoup any money they lost by placing it on people's programs.

From an outsider's point of view, there was a big discrepancy between the downbeat tone of the reinsurers following the renewals and the reality of the economics. Did you notice that as well?

There was definitely noise at the beginning. But at the end of the day, it's a simple case of supply and demand. There is so much supply that it runs the price.

Our relatively light Irma losses also played into it. We barely attached our private reinsurance after Irma. Our estimated recoveries were around $126mn. In that layer of coverage, the price went up a bit, but that was offset by more favorable pricing elsewhere.

You might get a different answer if you're talking to somebody who had a lot of recoveries or is now having a lot of development. That's a different story. We haven't seen that.

> "Historically, we have struck a relatively even balance between traditional reinsurance and the capital markets. It just depends on the markets"

Has your reinsurance buying strategy changed in any way? How do you think about working with traditional versus alternative players in the reinsurance market?

Our buying strategy hasn't really changed and we are moving forward as we always have. Historically, we have struck a relatively even balance between traditional reinsurance and the capital markets. It just depends on the markets.

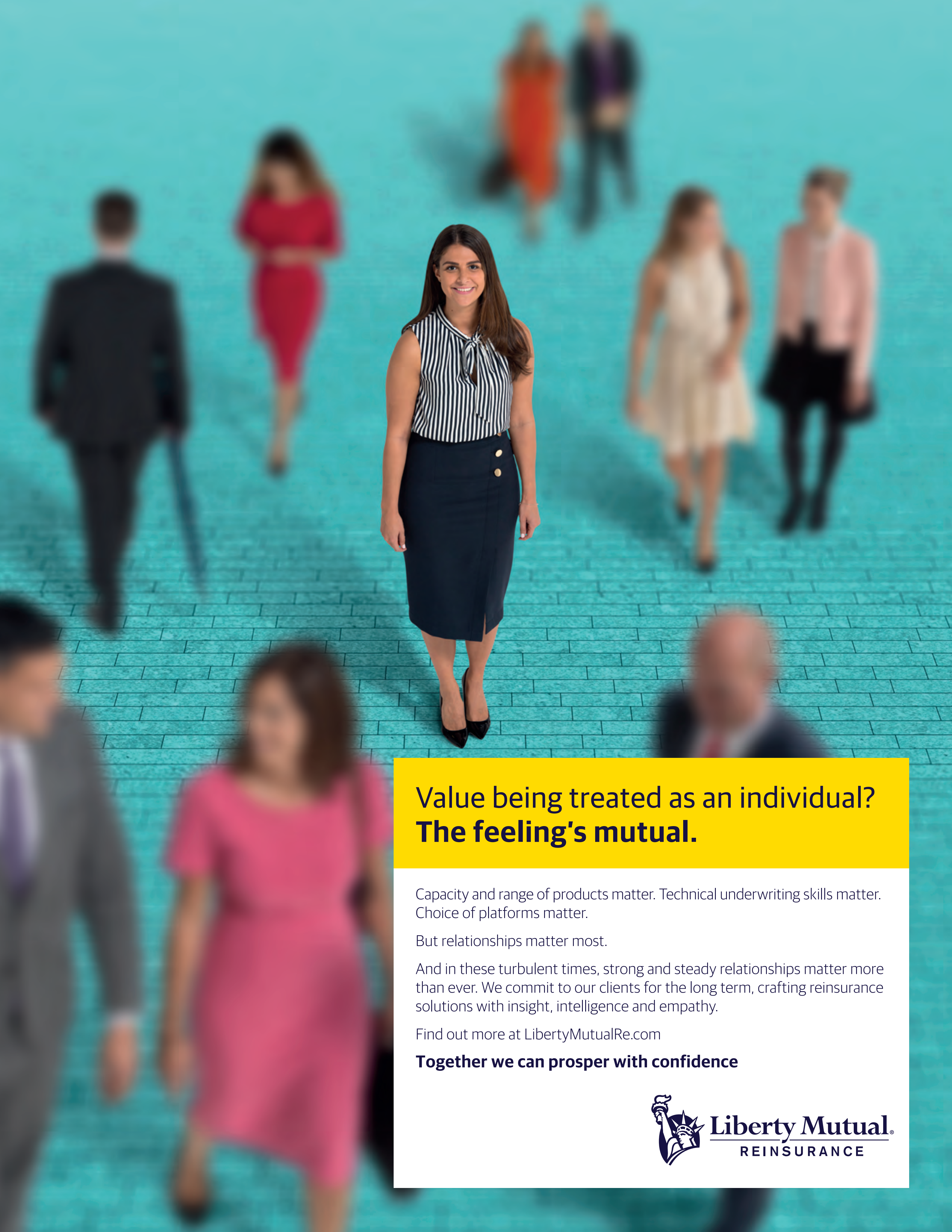
We've also maintained a good balance of single-year and multi-year products. We try to use single-year products at very low and very high attachment points because our policy count can fluctuate. That way, we can re-evaluate those layers each year.

In the end, it's really driven by the market and based on what we need. We don't have a rigid strategy that says we have to have a 50-50 split. Sometimes it turns out that way.

Alternative capital has been growing its presence in the market in the past couple of years. Has that changed your strategy on using alternative capital?

We have a history with the capital markets. We placed our first cat bond in 2012. Since then, we have accessed alternative capital consistently. However, the size of our cat bonds has changed as we have seen our policy count drop from 1.5 million policies in 2011 to less than 442,000 today. In 2014, we placed a $1.5bn bond, the largest in history. Last year, we placed a $250mn bond. The difference simply reflects our reduced exposure. The bottom line is that alternative markets have and will continue to play a critical role in our risk transfer strategy.

Jennifer Montero
CFO, Citizens Property Insurance Corporation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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
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(All prices exclude VAT)
RSVP: jennifer@insuranceinsider.com

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New York, USA

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

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*Exact dates and location TBA

For further information
on attending any of the above events, please contact Jennifer Lord on +44 (0)20 7397 0619 or jennifer@insuranceinsider.com

For further information
on speaking, exhibiting and sponsorship opportunities, please contact Sajeeda Merali on +44 (0)20 7397 0613 or sajeeda.merali@insuranceinsider.com

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

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