



THE INSURANCE Insider

MONTE CARLO

Future at Lloyd's: Inside the strategic planning process

Details of the execution plan for Lloyd's ambitious strategy overhaul have started to crystallise, with a clear focus beginning to emerge on the aspects of the vision which either deliver immediate value to market incumbents or are "quick wins" for the Corporation.

Three weeks ahead of the 30 September publication of the crucial Lloyd's blueprint – which will facilitate CEO John Neal's Future at Lloyd's strategic vision – *The Insurance Insider* is able to provide an early view of the direction of travel.

Sources have suggested the initial focus will be on claims processing, the Lloyd's Risk Exchange and the complex risk platform, however work has also begun in earnest on the syndicate in a box (SIAB) framework.

It is also understood that Lloyd's has started the process to create a greater distinction between lead and following markets.

Lloyd's is understood to be targeting a phased execution of the strategy, and it will continue to consult the market throughout this process.

As such, the forthcoming blueprint is expected to outline a roadmap for "phase one", or what can be delivered in the next 12 months, with the end goal in mind.

Market sentiment on the Future at Lloyd's remains positive, and there is a broad sense that market participants have a responsibility to ensure Lloyd's makes a success of what could be a one-time opportunity to change.

But as the Corporation's focus moves from vision to execution, there is a growing realisation of the scope for winners and losers to emerge.

Risk platforms

The Lloyd's Risk Exchange – a dedicated platform for standardised risks – is a central component of the overall cost reduction objective at Lloyd's. Neal has previously gone on record to say that Lloyd's is targeting a 10-20 percent expense ratio for easy-to-place business.

It has been subject to push-back from the wholesale and Lloyd's broker markets in particular, both of which fear they risk being cut out of the value chain as Lloyd's searches for cost efficiencies. However, sources said Lloyd's has engaged extensively with the broker community as part of the consultation feedback process as it seeks to address these concerns.

It is understood that binder and delegated authority business – which accounts for 39 percent of Lloyd's gross written premium – will be the first to be traded on the Risk Exchange. With speed and efficiency in mind, it will build on the extensive work already completed on DA Sats, the delegated authority platform which has already been taken up by the market.

However, what classes or segments of business are migrated onto the Risk Exchange following binders is not clear.

It is understood that London market

electronic placing platform PPL will form the basis for the complex risk platform.

Sources said Lloyd's is currently in discussion with the London market trade bodies, which currently own PPL, about buying into the holding company so it can have better control over its direction. However, the discussions are ongoing at this stage.

Both the Risk Exchange and the complex risk platform are expected to form the central systems for risk placement, with the ability for other proprietary and market placing platforms to interact with them, to remove cost duplication. Uniformity of data entry and format is said to be essential to the work.

Both platforms will be accessible to the Lloyd's and company market.

Claims

Improving claims processing and payment was identified in the consultation feedback as one of the top priorities for the vision, as the market seeks to deliver an enhanced service proposition to clients.

Neal has previously promised "next generation" claims technology for the market and this publication understands that there will be a new digital claims platform that will require a tech build.

As Neal has previously alluded to, a significant part of the early work on this workstream will focus on triaging of claims

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SCOR launches its new strategic plan



QUANTUM/LEAP

2019/2021

SCOR has now successfully concluded its "Vision in Action" plan, confirming its position as an independent global Tier 1 reinsurer with a "AA-" rating. SCOR has once again demonstrated its ability to combine growth, profitability and solvency in a period of low interest rates, marked by a series of natural catastrophes.

Things are speeding up. The environment is becoming increasingly uncertain and complex, in scientific and technological as well as economic, financial, geopolitical, societal and regulatory terms. In an expanding and changing risk universe, SCOR firmly believes that reinsurance has strong growth potential.

With its proximity to clients, its recognized expertise and its mastery of Life and P&C reinsurance, SCOR has all the vital qualities necessary to meet a growing demand for protection.

SCOR has set itself ambitious profitability and solvency targets in the current financial context. Under the **QUANTUM/LEAP** plan, the Group will pursue its growth while staying true to the fundamental principles that have shaped its success – a controlled risk appetite, a robust capital shield policy, high diversification and a strong franchise - transforming profoundly to create the reinsurance company of the future. SCOR is using new technologies – such as artificial intelligence, robots, blockchain, big data, satellite imagery and multi-cloud... – to innovate, expand its offering and increase its efficiency for the benefit of its clients throughout the world. All of the company's activities are involved, from underwriting to asset management and from risk analysis to claims settlement. All SCOR employees are totally committed to implementing this ambitious plan, which will enable SCOR to fully adapt to the world of tomorrow.

In a changing risk coverage market, QUANTUM/LEAP will ideally position SCOR to create even greater value for all its stakeholders.

TWO EQUALLY WEIGHTED TARGETS

HIGH RETURN ON EQUITY

> 800 basis points over the risk-free rates over the cycle⁽¹⁾

⁽¹⁾ Based on a 5-year rolling average of 5-year risk-free rates.

OPTIMAL SOLVENCY RATIO⁽²⁾

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⁽²⁾ Ratio of Eligible Own Funds (EOF) to Solvency Capital Requirement (SCR) calculated by the internal model.

Why not subsidise insurance?

Insurance is one of the principal strands of the genetic code running through the DNA of capitalism.

It enables and turbocharges economic growth. Without insurance economies cannot function and valuable trade cannot take place. All business entails risk and without insurance risks cannot be run.

Insurance is a force for good that helps people help themselves to become richer.

Forget GDP per capita – one of the best measures of wealth is insurance penetration.

This is one of the main reasons why poor countries stay relatively poor and rich countries keep getting richer.

We saw proof of this in Haiti after its 2010 earthquake and painfully slow recovery. Almost a decade on and that nation has barely clawed its way back economically whereas, on the other side of the world, New Zealand rebounded in a couple of quarters after far worse temblors.

The contrasting experiences are like the difference between receiving a scratch and severing a limb.

When wealthy nations set out development goals to help less well-resourced nations they are almost always centred around physical infrastructure.

Roads are built and irrigation systems, dams and power stations constructed, but it is only recently that we have looked to develop the essential financial plumbing

that must be put in place to support that vulnerable physical world.

Robust insurance is almost as essential as fresh drinking water.

Hurricane Dorian's path through the Bahamas has brought this topic sharply to the fore. With possible damage in 72 hours equal to a whole year's output, how is a relatively underinsured country supposed to recover from disaster without massive foreign aid?

Surely the answer is staring us in the face? If the foreign development agencies of the world were able to channel their energies into subsidising insurance so that penetration rates could approach the levels found in Western nations, we would really be onto something.

Insurance is excellent value because events like the one that has just befallen the Bahamas only come around once in many hundreds of years.

Subsidising the take-up of insurance is therefore hundreds of times less expensive than paying for a full rebuild after an event has happened.

Commendable schemes such as the World Bank-backed Caribbean Catastrophe Risk Insurance Facility already exist, but I am talking about something on a far larger scale, that turbocharges the insurers in these countries.

The other key difference is that it must be

our sector that provides the hard commercial finance and the underwriting expertise, not a pan-national bureaucracy. This is because the world needs the added-value skills that only come with serious for-profit businesses. True risk management and risk mitigation are only properly encouraged when real financial incentives are in play.

The benefits would be huge. The more resilient a country becomes financially, the more investible it becomes and the faster its economy can grow. It completes a virtuous circle. In this way, emerging economies, particularly those most exposed to natural catastrophe risk, can break out of the cycle of poverty.

The greater the success, the quicker any subsidy can be withdrawn. And when this happens we will have helped grow our global market.

As we gather in Monte Carlo, this is an excellent time to pull away from some of the day-to-day detail and work on projects that will grow the industry for the benefit of all.



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Hamilton proposes Pembroke's Glover to lead combined Lloyd's businesses

Hamilton Insurance Group has lined up former Pembroke CEO Tim Glover to lead its combined Lloyd's businesses, *The Insurance Insider* understands.

In one of several proposed management changes, Glover will become CEO of the combined managing agencies of Hamilton and Pembroke, and of the merged Syndicate 3334 and Syndicate 4000.

It is understood that David White, formerly CUO of Pembroke managing agency, will be CUO of the merged syndicates and also the three syndicates managed under Pembroke's turnkey business: Patria Re, GIC Re and Acappella.

Adrian Daws, formerly co-active underwriter and head of specialty at Hamilton Syndicate 3334, has been put

forward as active underwriter of the two merged syndicates, with Miles Osorio and Charles Mackay suggested as co-deputy active underwriters.

Osorio was previously co-active underwriter for Hamilton Syndicate 3334, while Mackay was active underwriter for Pembroke Syndicate 4000.

Sources said the proposed appointments are still subject to approval as part of the Lloyd's 2020 business planning process.

The Pembroke purchase, which closed in August, radically changed the business profile of the acquirer and brought its Lloyd's operation to scale.

Hamilton first entered Lloyd's in 2015 with the acquisition of struggling Sportscover Syndicate 3334. After gutting the

underperforming book, Hamilton effectively started rebuilding the business from scratch – but given difficult market conditions, never reached the circa £500mn (\$663mn) gross written premium (GWP) threshold deemed by many in the market to be critical mass.

The combination of Syndicate 3334 and Syndicate 4000 would result in pro forma GWP of £558mn for Hamilton, based on 2018 figures.

As well as the managing agency, turnkey business and syndicate, the Pembroke deal package included Ironshore Europe DAC, giving Hamilton an EU-domiciled insurer post-Brexit, and two MGAs.

In a previous interview with this publication, Hamilton CEO Pina Albo said the deal was a "transformative step" for the firm.

Aon readies reinsurance auction platform for 1.1

Aon is poised to launch a new auction platform ahead of next year's 1 January reinsurance renewal, *The Insurance Insider* has learned.

Electronic reinsurance placing platforms have become a hot topic in the industry, with InsurTech start-up Tremor garnering plenty of attention in the market as it ramps up its own operations and funding.

The new Aon platform is designed to reduce the time it takes to negotiate reinsurance pricing. It is understood the platform enables blind bidding for both non-concurrent placements, where reinsurers receive different pricing based on the quotes provided, and concurrent placements, where the technology identifies a consensus bid. That means each reinsurer receives the same price for the layer.

Insurers will mutually agree the contract wording with reinsurers before the auction begins, thereby cementing contract certainty.

Reinsurers will then enter single or multiple price points, as well as the corresponding capacity at each price point

for the various layer or layers in a blind bid.

Working with their broker, the Aon client will determine its maximum auction price point for each layer.

The auction platform's algorithm will identify the clearing price at which to complete the placement at or below the insurer's maximum price point. Should the insurer's price be matched with that being demanded by the reinsurer, the bid is then bound and automatically accepted.

Once finalised, the buyer receives a summary of final terms complete with the line-up of reinsurers on the programme. Aon brokers will then confirm the final signed lines.

The insurer seeking to secure reinsurance will work with the Aon broker throughout the auction process.

Reinsurers will continue to access ABCConnect Placements, Aon's e-trading platform, to participate in the auction. That means reinsurers will continue to utilise a single platform for data and placement across their entire portfolio of business with Aon regardless of whether those placements

are undertaken via the auction platform or via more traditional routes.

The imminent launch of Aon's auction platform comes shortly after Tremor, headed up by founder and chief executive Sean Bourgeois, received \$10mn in a funding round led by venture capital fund Anthemis Group. As *The Insurance Insider* reported earlier this month, WR Berkley and other unnamed new investors joined existing backers Nephila Capital and Markel in the round.

Tremor uses auction technology and optimisation techniques that allow carriers to submit bids to write reinsurance programmes. Brokers upload details of programmes and submissions to private data rooms, before approved reinsurers view the information and then submit private bids.

The auction technology then aligns capacity to the reinsurers at the lowest overall rate.

So far, Tremor has completed six reinsurance placements with total reinsurance quotes exceeding \$1bn.

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to increase efficiency – a “quick win” which is more of an internal reorganisation challenge than a technological one.

Sources said the triaging of claims would work around a three-part system based on complexity of the claim, ranging from straightforward to complex. It was also suggested that Lloyd's could implement shared outsourcing services to support the claims processing.

Shared services is also part of Neal's plans for a Lloyd's “ecosystem” – a central shared hub of research, data and services – however this is still a longer-term project as Neal has previously suggested.

Lead-follow and capital

A crucial component of Neal's masterplan was the concept of more freedom – that Lloyd's was not only more open to allowing new business and fresh capital to access the market, but was also more willing to allow new underwriting models with which the market could trade.

A big part of this idea was to create a clearer distinction between leading and following markets, with the potential for expense-light, follow-only syndicates to

be fast-tracked into operation.

It is expected that the blueprint will go into far greater detail on this concept, in order to bring speed and efficiency to the market.

Year one is expected to see internal restructuring work for creating distinction around lead and follow syndicates. The performance management directorate is said to be working on a kind of “kitemark” leadership status which it will award to syndicates based on their capabilities.

Year two will see work on bringing in third-party capital to create follow-only capacity, and creating a platform or vehicles in order to do that.

As this publication has previously explored, winners and losers will emerge from this lead-follow distinction.

Existing syndicates that are not already market leaders in any given class will come under pressure as they will struggle to compete with follow-only syndicates. However, this lead-follow distinction would eliminate much of the duplication that drives costs at Lloyd's so high.

More widely in the capital component of the strategy, making Lloyd's the UK hub for ILS was also identified as a priority from the consultation feedback, and work is said to be underway on this element.

Syndicate in a box

The SIAB framework – the fast-track route to market – is arguably the proposal of least interest to Lloyd's market incumbents. Nevertheless, it is seen as a quick win for the strategy.

Neal has previously said two SIAB launches were in the pipeline for 1 October, although the picture in this area is highly fluid and there is significant scope for change.

Guy Carpenter, Asta and Aon are all bringing forward SIAB proposals to Lloyd's, and it is understood that not all have been taken up by the Corporation.

Going forward, a fixed proportion of market premium per year will be allocated to SIAB launches to manage the risk exposure to the market. The number of launches will depend on the risk requirements of each SIAB and how many SIABs can “fit” into that allocated premium.

The SIAB framework has been pitched to the MGA market as a way for them to align themselves with their existing capacity providers. While there has been interest from the MGA community, it is understood that there has not been enough clarity around the requirements, or the ultimate cost of an SIAB launch, to persuade many MGAs to apply.

PG&E retreats with 'limited capacity' bound

Pacific Gas & Electric (PG&E) has walked away from the (re)insurance market with only limited cover in place from August onwards amid muted market support despite proffered rates on line in the 40s after two full-limit losses in two years, *The Insurance Insider* can reveal.

The revelation comes as sister title *Trading Risk* revealed that the California Wildfire Fund is seeking to buy a \$2bn reinsurance programme to provide excess cover for CalEdison and Sempra only.

The utility is in bankruptcy proceedings after incurring insurmountable losses relating to the two most severe Californian wildfires in the state's history.

This publication understands that PG&E's broker, Guy Carpenter, has told markets that PG&E had reviewed all the offers and terms presented to it and found "very few" had satisfied the requirements of its senior management.

As a result, only "limited capacity" was bound for the company, which would usually have renewed its annual cover from 1 August.

PG&E told carriers it would continue to hold discussions with potential risk transfer partners and expected to return later in the year to purchase cover.

The utility added that, by that time, it "hope[s]" to have "an exceptionally benign wildfire season behind [it]", as well as more clarity around its liabilities and the outcome

of various legal actions taken against it.

PG&E's inability to secure meaningful amounts of cover from the commercial market reflects a highly distressed market for wildfire utility risk driven by loss experience, scepticism of the modelling and the exclusion of this risk from retro protection.

With the risk attached to these liability programmes dominated by wildfire risk, over the past two years the business has migrated towards being written in the cat reinsurance market.

CalEdison and Sempra, PG&E's peers, are both believed to have secured their programmes but sources said these deals were being offered with huge increases, with the former believed to have a rate-on-line in the 30s.

In May, the California Department of Forestry and Fire Protection (CalFire) ruled PG&E responsible for the devastating Camp Fire that struck Butte County in November 2018, causing \$12bn in insured losses.

A jury is set to decide whether PG&E is also liable for \$18bn in legal claims related to the 2017 Tubbs fire, despite CalFire clearing the utility of responsibility for the blaze.

PG&E's liabilities for the fires – the two most destructive in Californian history – could reach \$30bn.

The utility filed for bankruptcy in January, after Allstate, State Farm, USAA and others sued it over losses from the Camp Fire.

Californian utilities firms have faced challenges in recent years in the face of mounting claims for wildfire liability.

In July, lawmakers in the state passed a bill to create the California Wildfire Fund, administered by the California Earthquake Authority. The \$21bn fund is to help state-owned utilities to cover the cost of damage from future wildfires.

Guy Carpenter was appointed to secure risk transfer and reinsurance for the fund, which sources said the assureds wanted in place by mid-September.

As revealed by sister title *Trading Risk*, the cover being marketed has \$2bn of limit and sits excess of underlying protections purchased by CalEdison and Sempra, with PG&E no longer included in the plan.

Market sources are sceptical (re)insurers wary of wildfire risk will make meaningful capacity available at the low rates-on-line under discussion.

A PG&E spokesperson said: "The safety of our customers and the communities we serve is PG&E's most important responsibility.

"Our efforts to reduce the risk of wildfires remain ongoing as we also focus on the other risks we need to actively manage.

"PG&E will continue to work with current and prospective insurers to find solutions that work for both parties and will likely be back in the market sometime in the latter part of the year."

Ex-strategy head Upton exits Guy Carp for Lockton Re

Senior marine, energy and political risk broker Paul Upton is to leave Guy Carpenter for a role at Lockton Re, *The Insurance Insider* understands.

It is understood that Upton's final day at Guy Carpenter was Friday.

Upton was a partner at JLT Re and had worked for the broker since March 2009. He was also head of strategy within JLT Re's marine, energy and political risk division.

His move comes after Marsh & McLennan Companies (MMC)'s takeover of JLT, which resulted in the combination of reinsurance brokers Guy Carpenter and JLT Re.

Prior to his work for JLT Re, Upton was reinsurance director at Price Forbes for just over a year and a half, and before that was global head of marine and energy at Endurance for almost three years.

Upton is the latest in a string of hires for

Lockton Re hires

Previous firm	Name
Willis Re	Mark Braithwaite
Willis	Anthony Dagostino
Aon	William Barber
Marsh	Devin Beresheim
JLT	Keith Harrison
JLT	Fraser Howard
JLT	Derek Keating
JLT	Tim Jacobs
JLT	Simon Mills
JLT	Timothy Gardner
JLT	Nick Durant
JLT	Claude Yoder
JLT	Philip Corrigan
JLT	Rob Hausler

Source: *The Insurance Insider*

Lockton as it gears up to launch a significant reinsurance operation.

Lockton signalled its intent to create a reinsurance operation to challenge the big three with the hiring of Guy Carpenter North America CEO Tim Gardner, along with colleagues Nick Durant, a managing director, and Claude Yoder, chief innovation officer.

It has also hired JLT Re UK and Europe CEO Keith Harrison, as well as former North America property catastrophe partner Derek Keating, US casualty partner Fraser Howard and North America treaty broker Tim Jacobs.

MMC launched legal action over Gardner, Durant and Yoder's move this summer, alongside cases of a similar nature over brokers who moved to Hyperion.

Lockton declined to comment. Comment was also sought from Guy Carpenter.

BUILT TO LAST

CONSISTENCY AT WORK

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PartnerRe looking to build on life investment

CEO Emmanuel Clarke plans to expand the life and health book faster than non-life

While P&C reinsurance pricing momentum hogs the industry limelight, PartnerRe is working hard to build its footprint in the life market.

The reinsurer made a notable foray into the life reinsurance market back in April 2017 when it completed the acquisition of Canada's Aurigen Capital. That deal immediately gave PartnerRe a foothold in the North American life reinsurance market.

At the time of that transaction, PartnerRe president and CEO Emmanuel Clarke, outlined the reinsurer's strategy to build out its life offering. Aurigen, Clarke explained back in 2017, enabled PartnerRe to provide a wider range of life reinsurance solutions to both existing and potential clients.

Around two and a half years later, Clarke has told *The Insurance Insider* that PartnerRe is continuing to advance its strategy for life reinsurance.

"Life reinsurance is a very interesting market. It's more difficult to penetrate than the non-life one, but we had the option and the ability to penetrate it and we've decided to exercise that option," he said.

PartnerRe wrote \$1.21bn of life net premiums in 2018, up from \$965mn in the prior year. In comparison, it wrote \$4.59bn of non-life net premiums in 2018, up from almost \$4.16bn in 2017.

As the numbers show, PartnerRe's portfolio is split about 80/20 between non-life and life reinsurance. The goal, Clarke explained, is for PartnerRe to have a more balanced book of business.

"That will give us more diversification of capital, diversification of earnings, more stability of earnings and more products and segments that we can offer clients," he said.

"We are going to grow life and health faster than we're growing non-life. We can make significant strides in growing the life and health side of our business. We're not looking to reduce anything, it's just there's so much more potential for us given where we are in our development in life versus non-life."

Life reinsurance has generated an average return on capital of 10-11 percent, and PartnerRe is keen to tap into the advantages that provides, explained Clarke.

"It complements our business," the CEO said.

"It provides earnings stability as non-life business is volatile. Over the past couple of years there has been a clear advantage in being a composite company as it provides more stability of earnings and, probably most importantly, a significant diversification credit at the capital level because the life business fully diversifies with non-life.

"By growing the life business, we can actually improve our premium leverage ratio. That's what we find attractive about life and health."

With the US being the largest life insurance market in the world, it makes sense that its associated reinsurance market is also the biggest. Indeed, figures from AM Best show the US accounts for around half the life reinsurance premium in the world.

The global life reinsurance market is dominated by five companies: Munich Re, Swiss Re, Hannover Re, Scor and Reinsurance Group of America. In the US, this quintet controls around 80 percent of the life reinsurance market's premium.

On a more global scale, data from S&P Global Ratings shows that eight companies represented around 90 percent of the market's global premium in 2017 – the most recent year for which data is available.

According to S&P's figures, PartnerRe sits eighth on that list, but as Clarke explained, the company has set its sights on moving up the table.

"The life and health market is a very consolidated market, unlike the non-life business," he said.

"It is a market with higher barriers of entry because of the expertise needed and the tail of the business, and that's why it's heavily consolidated. We have the expertise and we have the appetite for the long duration tail.

"With the acquisition of Aurigen Re that complemented our original life business operation, we're not starting from scratch. We already have incumbency in the business, and that's also where our private ownership plays a significant role. It's very difficult today – almost impossible in fact – if a pure non-life company wants to create a life reinsurer operation. It's almost impossible to do it without incumbency.

"Life reinsurance has a significant J curve which, if you're a public company, your

shareholders probably won't like," he said, using the term that describes an activity that slumps initially before eventually rising well above its starting point.

But that is not necessarily something to worry about for PartnerRe, said Clarke. The company's private ownership – by the Agnelli family-controlled investment company Exor – and its existing life reinsurance platform are positive attributes in its bid to grow in the sector, he believes.

"We already have a platform and we have an owner who looks at the long-term economic value creation," said Clarke.

"We see a lot of opportunity in life reinsurance. We have a number of markets where we're already established and very strong – Canada, France, and in the longevity segment. And then there are segments of the market where we're interested in penetrating further – the US and Asia Pacific. The reasons for both are different.

"The US is a sophisticated and mature market, but with a very limited number of reinsurance players that all have legacy issues in the US. That has created a window of opportunity for a new player to come in. In the Asia Pacific markets, it's a very different ball game – these markets are heavily dynamic with significant growth in the demand for life reinsurance products, so there's an opportunity for a new player like ourselves to come in."





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Henchoz unveils his vision for Hannover Re

In his first interview since taking the helm at Hannover Re, the new CEO tells Adam McNestrie what he will preserve and how he will change the business

Recently installed Hannover Re CEO Jean-Jacques Henchoz has big shoes to fill.

His predecessor Ulrich Wallin led the company for 10 years until this spring, having deftly steered the business through the financial crisis and almost doubled its size while delivering a total shareholder return of 953 percent in the process.

As such, Henchoz will have a delicate balancing act between ensuring continuity with the approach that has made Hannover Re a consistent outperformer and helping the business evolve to meet the challenges of the future.

He will bring a fresh perspective on the business as an outsider who has spent almost his entire career at larger rival Swiss Re, including much of the last decade running the firm's market-leading Europe, Middle East and Africa franchise.

Henchoz is conscious of the need to walk this line and begins by highlighting the strengths that he has found after relocating from Zurich to Hannover.

He points to the firm's "lean," "focused" and "relatively centralised" model, as well as an emphasis on client partnerships and broker distribution.

"Here you can expect continuity and my presence will not change anything to the way we operate in that respect," he stresses.

The firm famously lacks the physical footprint of its competitors – as well as the spread of cost- and capital-inefficient legal entities – with senior underwriters instead taking on punishing travel schedules to spend time with clients.

Henchoz says this allows the company to give clients the "feeling" that they have a local presence, with their underwriters remaining "very close to the action" without building up infrastructure and incurring the heavy costs of a global P&C footprint.

The firm has also eschewed the expensive research and development and thought leadership work

undertaken by its larger peers.

Hannover Re consequently has a 3-point admin expense advantage versus its peers, the new CEO says.

Evolution

Although early in his tenure, Henchoz has started to identify the areas where he will look to make his mark.

Over time, he will seek to increase the firm's exposure to Asia Pacific.

At present, the region, which is home to around 60 percent of the world's population, only accounts for roughly 15 percent of Hannover Re's premium.

"Given the exponential growth – the demographics – in the next five to 10

years Asia Pacific will play a more prominent role in our total business mix," Henchoz says.

That is likely to include some modest expansion of the footprint in key Asian hubs, he concedes.

The business also has

scope to deepen its relationships with global insurance groups.

"When it comes to operating with international global groups, we might be able to leverage a bit more of the information we gather from different parts of the organisation."

He says the carrier can "orchestrate this so that we can be more proactive and expand our share of wallets with the larger customers".

The third area of focus is InsurTech, where Henchoz believes Hannover Re can be "more systematic" in leveraging its contacts.

The strategy will be to look to exploit its position as a reinsurer to work "in a triangle" with insurers and fintech providers.

Market conditions

In recent years, the reinsurer has expanded meaningfully in North America, which accounts for close to 40 percent of the group's P&C premium.

"It remains a core market and will remain so for the next decade," Henchoz says. But, he hints that the growth may not continue in the short term.

"One of the impediments to immediate growth is the nat cat pricing."

"It's going in the right direction," he says. "But we don't believe we're fully there, and that's the main barrier."

Nevertheless, the executive says Hannover Re remains ready to grow rapidly if pricing in the US improves to meet the firm's expectations. "If we saw some more momentum in the next few years, we would be ready to

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Lumen Re

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deploy capacity very, very quickly."

But Hannover Re is not relying on the region for growth. "This is not a decision which is a strategic decision," Henchoz says.

"It's a decision which is based on our assessment on price adequacy, but I would be keen to pursue the growth trajectory in the US subject to terms and conditions."

Henchoz contests the suggestion that Hannover Re was more bearish on pricing than its peers in its Q2 pricing commentary.

In comparison to rivals Swiss Re and Munich Re, Henchoz says "we might have been perceived as more lukewarm" on the topic of price hikes during the second-quarter earnings calls. But, he notes, that is "more a matter of understated culture than reality".

"We are certainly optimistic – we said so."

He says increases in primary pricing were having a positive effect on reinsurance rates, adding "this shows in the numbers".

"We will see the positive implications on our proportional book of business over time," he continues.

And Henchoz expects improvements on the excess-of-loss side as well, with reinsurance rates following the insurance market up.

"There's more resolve to focus on bottom line and sound underwriting and there are some players with some difficulties in their primary operations," he says.

"This will create a shift, certainly directly and indirectly to the reinsurance space."

However, he sounds a note of caution on the magnitude or longevity of the correction, pointing to an expectation of steady improvement.

"The issue that we are facing in the industry – and it's nothing new – is that the barriers to entry are very low and as long as the interest rate levels stay low we may see from time to time new naïve capacity entering the system."

Brokers

The broking landscape has been in flux since Marsh & McLennan Companies' \$5.6bn acquisition of JLT, which has created the largest reinsurance broker in the world through the merger of JLT Re into Guy Carpenter.

Meanwhile, former Aon president Steve McGill has launched a start-up which will target reinsurance, with funding from the deep pockets of Warburg Pincus. Lockton has also signalled its intention to establish itself as a challenger broker

within the reinsurance space, with the hire of Guy Carpenter's North America CEO Tim Gardner.

Henchoz is unconcerned by Guy Carpenter's growth.

"I see this as a plus for a player like Hannover Re because we have such a preferred partnership position that we can grow [as they] grow."

And he does not expect to see a meaningful impact on pricing from the consolidation.

"I don't think it's in the long-term interests of the brokerage industry to focus on price," he says. "I think the game plan is to find new sources of growth."

"They want to expand the cake rather than squeeze the players within the existing cake, if I may put it that way."

Nevertheless, he seems to believe that the counter-current to consolidation evident in initiatives like Lockton Global Re and McGill & Partners will be strong enough to make such enterprises successful.

"I'm not of the opinion that we are getting into an oligopoly, with just three or four providers and that's it," he says. "I'm of the view you will see over the next few years, new names coming into the broker market – I'm convinced of that – and we will be keen to establish strong contacts with the incoming players."

HDI

Henchoz also expanded upon Hannover Re's decision last year to contribute its insurance operation – Inter Hannover – to a new joint venture with sister company HDI Global.

Under the arrangement, Hannover Re became a minority investor in HDI Global Specialty, with its CFO on the supervisory board to represent its interests, and Wallin acting as chairman.

It also writes a 45 percent quota share of HDI Global Specialty on a multi-year basis, with terms negotiated on an arm's-length basis.

The restructure "enables us to position ourselves as a reinsurance company", Henchoz says. "For us it's a better positioning – we play to our strengths. We are an investor – a minority shareholder – and we can contribute through reinsurance. And then there is no confusion between a primary play and reinsurance."

He also points out that insurance and reinsurance operate very differently, with distinct models and cultures.

"These are different worlds, and you can't mix both."

Argenta

There is one place where the firm has already invested in growing its local footprint. And that's in London, where it bought Lloyd's syndicate Argenta in 2017.

On the subject of ambitions for the syndicate, Henchoz is coy, emphasising that there is work to be done.

"We will fine-tune a bit our storyline on Argenta and give more indications on how we can leverage the platform," he says.

But the executive notes that Hannover Re is "very committed to the syndicate" as an "additional channel", which he says gives the firm "optionality".

"In the short-term, it's important that Argenta makes sure that the underwriting discipline remains and they have a sound base for further growth," he says.

"We haven't pushed at all on growing the Argenta portfolio because we wanted to be cautious, make sure the quality's there, but it's clear that it's not a huge syndicate at the moment."

But, he notes: "There is potential for further growth in the mid-term."

As with many of the projects ahead of him, he says it will take time. But just four months into the job, he has plenty of room to "look into it in further detail", as he puts it.

Curriculum vitae

May 2019 to present: CEO of Hannover Re

2011-2018: CEO of reinsurance for Europe, Middle East and Africa at Swiss Re

2005-2010: President and CEO of Swiss Re Canada

2003-2005: Head of strategic planning for the P&C business group at Swiss Re Canada

2000-2002: Underwriting manager for financial reinsurance at Swiss Re Canada

1998-1999: Financial reinsurance and fac property underwriting roles at Swiss Re Canada

1995-1996: Business development manager at SGS Societe Generale De Surveillance in Geneva

1993-1995: Assistant to the Swiss executive director at the European Bank for Reconstruction and Development

1988-1993: Energy policy adviser at the Swiss Federal Department of Economic Affairs

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Navigating the waves

Aon's Mike Van Slooten gives his insight into the rapidly evolving and complex market environment for reinsurers

The global economic picture looks grim – what does that mean for the reinsurance sector?

Since the last Monte Carlo the situation has pretty much turned about-face – at that point we'd seen recent interest rate rises in the US, the wheels hadn't come off global growth, the trade dispute with China hadn't got to the point we have reached now, and Brexit didn't look quite as difficult. Since then, sentiment has changed and there are signs the central banks are easing monetary policy again. That has an impact on investment returns and reported capital positions. The impact of the movements of bond yields affects the industry at multiple levels. For one thing, the investment side underpins the sector's earnings. On our numbers we've got the sector running at a return on equity of 14 percent in the first half – that's very heavily driven by the capital markets. The fact that the outlook for growth is weaker also means there will be less underlying exposure growth.

How is underwriting faring?

Underwriting results are profitable but have deteriorated from last year, when the first half was very benign in terms of large catastrophe losses. This year, some of the major losses, including Jebi, have continued to move and there have been new aviation losses and other big individual losses. It's one thing to talk about positive movement on pricing but there's always a lagging effect. We are still seeing the results coming through of underwriting that was done 12 to 18 months ago.

Are there any lessons for the sector to learn on loss creep?

There needs to be recognition that when these big events happen they are hugely complicated – they tend to uncover changes in the global economy and supply chains, and one event is never like the previous one. Most of the traditional reinsurers have learned from long experience and built in a lot of conservatism from the ground up, but there have been a couple of events that have caught out even the most experienced. You can model the situation as much as you like in terms of building codes and cat models, but the less tangible factors only come to light post loss.

How well has the ILS sector come through the 2017 and 2018 cat losses?

A lot of the ILS funds have invested more in reinsurance market expertise, but a lot came from the banking sector and hadn't necessarily been through heavy cat losses before. They may have different reporting requirements in terms of disclosing material losses, and may only have an obligation to report claims that have been notified.

Before 2017 there was a lot of conversation about growth in the alternative capital sector that hadn't been tested. We've now seen a testing of the market and it's all to the good.

Will alternative capital bounce back for the 1 January renewals?

There are signs of a recovery already. Cat bond activity has continued – maybe not at the levels of the prior year – and in recent weeks some of the deals coming to market have upsized and been priced quite competitively.

New capital hasn't kept up necessarily with some of the losses and redemptions we've seen, but if we're not at an equilibrium point now, we are close. We expect long-term growth in alternative capital after the market digests the experience of the past two years and works out what it means.

How would you describe the recent trajectory of cat rates?

Those lines and territories that have been most affected by the events of the past couple of years have, on a general basis, seen pricing increases, which is a rational response aided by enhanced information and data. But this is not a broad-based market hardening, because it is not being driven by a shortage of capacity.

The wildfire losses of 2017 and 2018 took the market by surprise – what are the consequences?

Wildfire risk was previously included almost for free as a secondary peril, so this is an area where there has been some reappraisal. Greater attempts are now being made to separately evaluate the exposure and price for it, reflecting the fact that the US alone has suffered more than \$30bn of wildfire losses in the past two years.

What's the M&A outlook?

If the rest of the year runs fairly clean, most reinsurers will report pretty strong results for 2019. On the other hand, if there is another run of big losses, it only adds to the problems for companies that have been struggling to cover their cost of capital. There's no doubt that pressure from investors is out there, and that external pressure will have an effect.

For any company perceived to have underperformed in the past two years, there's a realisation that you can't engage in reinsurance half-heartedly. Scale is very important, you need to be fully committed, and you need to be offering value to clients on a broad front.

There hasn't been a big M&A deal for a while, but there are always smaller deals going on. A lot of the current activity is focused on the Lloyd's market – a handful of deals are in progress and I suspect there will be more.

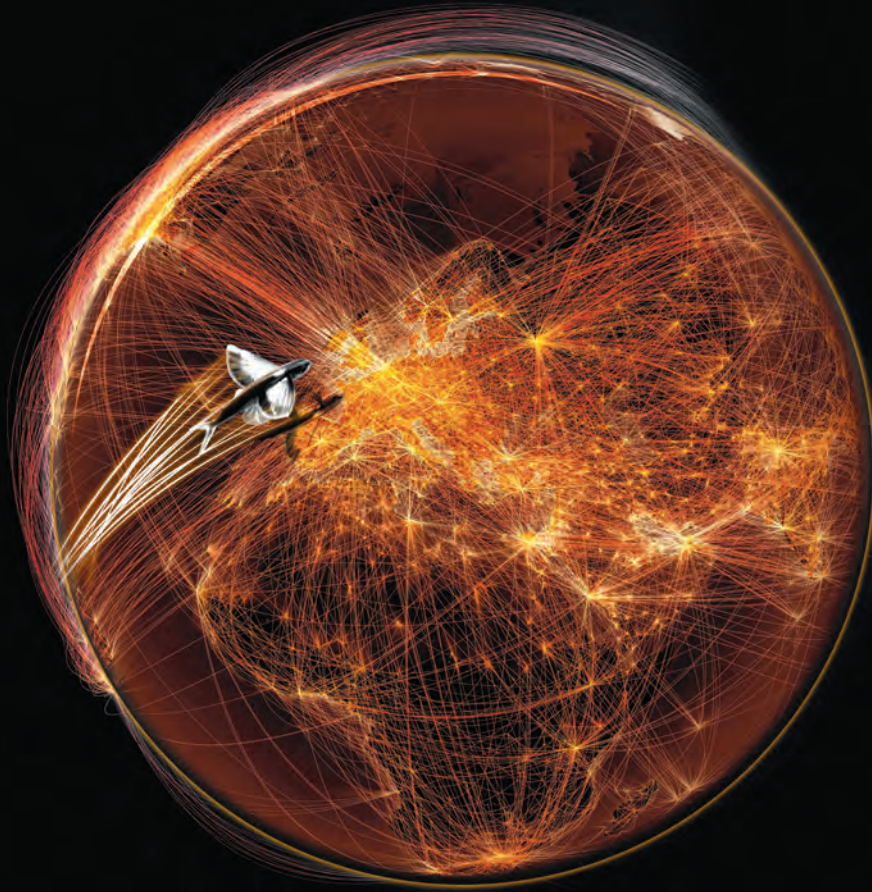
What do you make of the Lloyd's overhaul?

Last year's increased performance management oversight was necessary and was validated by the outlook change from Standard & Poor's, although Lloyd's by its own admission could have communicated it better. This year, Lloyd's is making clear efforts to involve the broking community, and that has made a real difference. The Future at Lloyd's initiative has been well presented and is quite a compelling package. At the end of the day, change is driven by people rather than technology – it is mindsets and behaviour that really need to change – and, critically, the whole project really has to be focused on the needs of the end customer.



Mike Van Slooten
Head of Business Intelligence for
Aon's Reinsurance Solutions business

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If this year's renewals have proved the reinsurance cycle isn't dead, has it risen from its sick bed?

James Kent, global CEO, Willis Re: Based on what we've seen in 2019 it's fair to say the market has rebounded. However, the pace of change in the primary market is outpacing that of the reinsurance market. Even after heavy industry losses across 2017 and 2018, the cumulative price impact on property lines has been relatively modest by reinsurance market cycle standards. The sustained prevalence of third-party capital in the system is set to smooth rate cycles going forward.

Peter Roeder, board member, Munich Re: The demand for reinsurance coverage is unbroken, with different motives. While some cedants focus on protecting their bottom line by reducing earnings volatility others reinsure against single large losses with high return periods. On the supply side, there is some consolidation in the sector as well as capital trapped in the ILS space which is not as easily replaced as in the past. Together with a demanding interest environment, this has led to rate increases across several lines of business, even for loss-free covers. And I see the pressure in the retro markets as evidence that there is a need to react to the loss tally of past years to achieve a more sustainable level of returns going forward.

Jean-Paul Conoscente, CEO, Scor Global P&C: An abundance of capital, including ILS vehicles, along with improvements in risk management and modelling are long-term trends that have significantly impacted the reinsurance sector, and will continue to do so. However, rising uncertainties, depressed

financial revenues, more complex risk-based regulations, the events of the past two years and the potential for more frequent and severe nat cat events are also fuelling long-term demand for reinsurance. This is forcing insurance companies to push for improved primary market conditions.

Thus, even though the amplitude of the ups and downs may be more limited than in the past, we will still see cycles, especially when the market faces sizeable and/or unforeseen events.

Mike Van Slooten, head of business intelligence, Aon Reinsurance Solutions:

The reinsurance cycle will always exist but three things have changed. First, capacity isn't being forcibly removed from the market by large losses the way it once was. Second, the persistently low interest rate environment means there is always a lot of capital looking for the next big opportunity. And third, that capital can now enter the reinsurance market quickly in many ways. All these factors mean that the amplitude of the cycle is much flatter today.

Edouard Schmid, group CUO and chairman, Swiss Re Institute: There is growing devastation caused by so-called "secondary" perils due to increasing assets in areas exposed to more extreme weather conditions such as wildfires, or the secondary effects of a primary peril such as a tsunami following an earthquake. According to the Swiss Re Institute, more than 60 percent of the losses from natural catastrophes last year resulted from secondary perils. These risks tend to be underestimated and can be difficult to assess since they are often highly localised.

Another cause for concern is the large liability verdicts in the US, like the recent

Californian Monsanto case. And the number and especially the size of nuclear liability litigations has increased massively. The median of the top 50 US verdicts for bodily injury doubled from 2014 to 2018. These verdicts are concerning since they are targeted at large corporations and reflect a public sentiment of distrust for such organisations.

Will Curran, departmental head of reinsurance, Tokio Marine Kiln: There's a mood of cautious optimism regarding trading conditions in 2020. Yet, with supply still materially outstripping demand, the question of sustainability is ever present; especially when considering that previous hard markets were characterised by escalating demand as supply was thinning.

Market discipline is returning – something we've not seen for some time. This is not just evident on pricing but can also be seen in the market's desire to finally dig its heels in with regard to the erosion of terms and conditions within contract wordings, which has been relentless for the past few years. Hence, while the patient may be off life support, it's unlikely they will be running any marathons anytime soon.

Dirk Lohmann, head of Schroder Secquaero: This depends a lot on the segment. Clearly, there is a trend towards firmer pricing but it varies by client type, region and market. Florida saw some movement that on the surface appears promising but, considering the fact that prices have been declining since 2012 and the market completely underestimated the exposure to loss-adjustment expenses and social inflation, the net result is not that dramatic.

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Sven Althoff, executive board member,

Hannover Re: As long as interest rates are ultra-low or even negative, there will be ample capital competing for returns. No matter if real estate, stock markets or reinsurance are concerned, the hunt for yield will broadly dampen returns. However, in the end, we are business enterprises. We need decent returns in order to satisfy our shareholders. Therefore, we will still see traditional cycles. Take a look at the renewals in P&C reinsurance treaties this year, where we increasingly achieved price improvements, especially in June and July.

Luca Albertini, CEO and founding

partner, Leadenhall Capital Partners: The reinsurance cycle is not dead, but it has seen a different combination of the dynamics of supply and demand as corrected by new views of risk and the importance of sustainable relationships. The pure supply and demand element has never prevailed. In 2018, for example, many placements were oversubscribed by some way, but still offered some rate increases. Similarly, in 2019 relationships played a role in managing the degree of rate rises. This year has proved that a sustainable relationship with a quality carrier is a healthy two-way street.

What are your expectations for 1 January?

Conoscente: We are confident that demand for reinsurance will remain strong, financial income will remain weak and all market participants will need to focus on producing higher technical margins than in the past. As a result, we enter the renewal season optimistically, believing that primary insurance firming will continue into 2020 and that reinsurance conditions will follow a similar firming trend, not only in the US but in all major markets.

Kent: We expect large chunks of capacity will be sought and secured by core clients quite early in the renewal process. That's a two-way thing. Following recent and continuing M&A activity among major carriers, both the base of clients and of markets is more restricted. Second, many core reinsurance clients have aligned with key trading partners over the years and this year, without major cat activity, they want to get it done as early as possible, provided the price is fair. That points to a much earlier renewal than we have seen in recent years.

It all depends, of course, on what happens in the southeastern US over the coming weeks.

Curran: We would like to see the general upward trend continue, albeit with increases being less spotty. There is an appetite from parties across the market for sustainable price correction. That said, all increases should be relative to our clients' exposure and experience.

Roeder: Despite regional differences, Munich Re is seeing a trend towards more market discipline and increased focus on improving terms and conditions. In general, I see these developments continuing. In market segments where we see firming rates, I would expect the momentum of price-increases and tightening conditions to carry on through the 1 January renewals.

Albertini: The new pricing environment, the new view of risk that has been reflected in the pricing and the tackling of some elements of social inflation, should support greater investor interest at 1 January. Investors are however waiting for some more good news – a positive year and a reduction of the rate of creep from past events. I do not expect a 2018-style great reload, but measured growth without a material impact on rates direction.

Van Slooten: Absent unexpected events, the reinsurance renewals should be broadly stable given that most of this business hasn't been heavily affected by recent losses. There is a lot of capacity in the market and buyers with good stories to tell should be able to achieve good outcomes. The situation in the retro market is a bit more uncertain – that will depend on investor appetite going into the renewals.

Lohmann: Much depends on how the second half of 2019 unfolds. If we have a benign hurricane season we will continue to see moderate pressure on the retrocessional front as the pricing of 1 January covers aligns to that which has been developing over the past few months. I hope some of the increases in the retrocessional market translate into correction in the primary reinsurance market, but this will depend more on the discipline exercised by the traditional market leaders than it will on the ILS sector. If we see further large shock losses, we will see increasing difficulties in the sidcar sector as well as further consolidation within the ILS community.

What impact has the more subdued ILS market had on the wider sector this year?

Kent: At the industry level, 2019 seems like more of a reset or a blip than a permanent change. ILS assets under management (AuM) remain similar in aggregate to, if not slightly greater than, last year, so AuM will be sufficient to back the January 2020 renewals, barring intervening large losses. However, the headline figures belie a market wherein some ILS capacity providers have retreated from certain segments and structures; ILS is unlikely to support all lines and regions equally.

Curran: ILS reinsurers and their investor bases have become more circumspect about the business – when was the last time we had a straightforward loss? In the past 12 months, this circumspection has centred around certain perils; Florida windstorm and California wildfire, which in turn has created pockets of opportunity.

Lohmann: What is happening now is actually quite healthy for the ILS sector in the long run. More emphasis is being placed on questions like valuation, management of collateral and reporting. For the first time in the sector's history, investors are able to differentiate managers on more objective criteria than simply what the headline return was in a loss-free year. In addition, the tighter market for retrocessional cover and the disappearance of many low-lying structures aimed at arbitraging the ILS market will result in reinsurance underwriters applying more discipline to their risk profiles.

Conoscente: A number of companies that have evolved closer to a risk-trading business model have become very dependent on ILS markets, and have therefore struggled to provide continuity to their clients. The ILS market risk appetite no longer matches the return these companies can generate. In this context, we believe insurers will favour traditional and stable reinsurance capacity that is consistent year over year.

Schmid: The US cat excess of loss markets and Florida in particular have been impacted most. The pricing converged, which means that ILS stopped being cheaper on US hurricane or aggregate covers. Florida insurers, for instance, reduced their reliance on alternative capital

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by increasing their Florida Hurricane Catastrophe Fund participation and ceding more to traditional markets. Overall capacity in the collateralised retro market decreased and investors became more selective.

Albertini: Generally, the ILS sector has remained very relevant in the reinsurance market despite the exceptional market events of the past couple of years. This shows maturity and understanding by the investor base and demonstrates the sustainability in general of that base. The biggest impact has been on the riskier end of retrocessional covers and sidecar capacity, with large capacity leaving the market. This is having an impact on reinsurers' pricing and risk appetite.

Van Slooten: The intense competitive pressure exerted by ILS capital in the property catastrophe and retrocession markets has relented somewhat, allowing traditional players to achieve meaningful increases on loss-affected business. Retro buyers and cat bond sponsors have had to come to terms with slightly more difficult conditions than they've been used to, but there are now signs that equilibrium is returning.

Roeder: The supply of competitively priced retrocession mostly on an aggregate basis has faded. Severe losses in certain retrocession sub-markets were hard to digest for investors with high expectations on rate hikes post-HIM that did not materialise in 2018. The shortened retro capacity and the reliance of some reinsurers on their retro programmes has had an impact on the competitive landscape as well.

How do you expect the casualty treaty market to respond to the numerous mounting liability risks?

Lohmann: We are now in the 15th year of a prolonged downward cyclical swing with only modest corrections on the property front following the events of 2005, 2011, 2017 and 2018. Throughout this period, the industry's calendar year earnings have been boosted by prior-year reserve releases and the question is whether this phenomenon has played itself out. There are signs of reserve strengthening for longer tail lines and there have been some spectacular

liability loss events. I don't think we have come to a point where a broader based turn is imminent, but some cracks are appearing on the surface.

Kent: We expect that the market will respond rationally and logically. Insurers and reinsurers understand the nature of emerging risk. Generally, the industry does a better job at horizon-scanning than ever before, tapping into new sources of expert data that might focus, for example, on research about chemical compounds risk.

Prior-year development of losses arising from conventional threats is an inherent, if unintended, part of the casualty risk business. After several years of competitive market conditions and expansion of coverage in some classes, it is reasonable to assume that some degree of prior-year deterioration is likely (although not for every line, nor every carrier).

Roeder: There is some concern in the industry about developments in US commercial liability and the adequacy of industry-wide aggregated reserves has been questioned by analysts. Loss trends from commercial auto and other types of losses affected by social inflation are putting pressure on the profitability of the business. On top of this, we see the threat of large complex losses affecting several carriers, driven by more aggressive litigation on a range of topics. I expect the upward trend in the rate environment to continue for the foreseeable future. On the reinsurance side, terms will need to reflect the increased downside and loss trend exposure.

Conoscente: Over the past two or three years there has been a rising loss trend, with increased frequency and severity of losses. However, not all insurance segments are equal: more general liability business is moving back to excess and surplus marketing, not only with increased rates but also (just as importantly) with tighter terms and conditions. Similarly, while directors' and officers' (D&O) loss trends have been rising significantly, especially around M&A litigations, rate increases have been substantial and spread across more D&O segments. Medical malpractice is the only segment where primary rates have not responded as strongly, despite several years of technical underperformance.

On top of primary insurance rate movements, we are seeing sizeable rate movements on reinsurance conditions. Meanwhile, commissions have decreased

on treaties where performance has been lagging.

Althoff: The casualty treaty market stands ready to provide the required capacity in a general sense, even if reinsurance demand increases. We feel that to be true for books of business where a proper and actuarially sound analysis can be done. However, in cases where the underlying business and exposures are considered difficult or have experienced a recent upswing in loss activity, the reinsurance market tends to react in a disciplined manner, restricting capacity and putting pressure on terms and conditions. A recent example here would be wildfire exposures in California.

CONTRIBUTORS



Luca Albertini, CEO and founding partner, Leadenhall Capital Partners



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James Kent, global CEO, Willis Re



Dirk Lohmann, head of Schroder Secquaero



Peter Roeder, board member, Munich Re



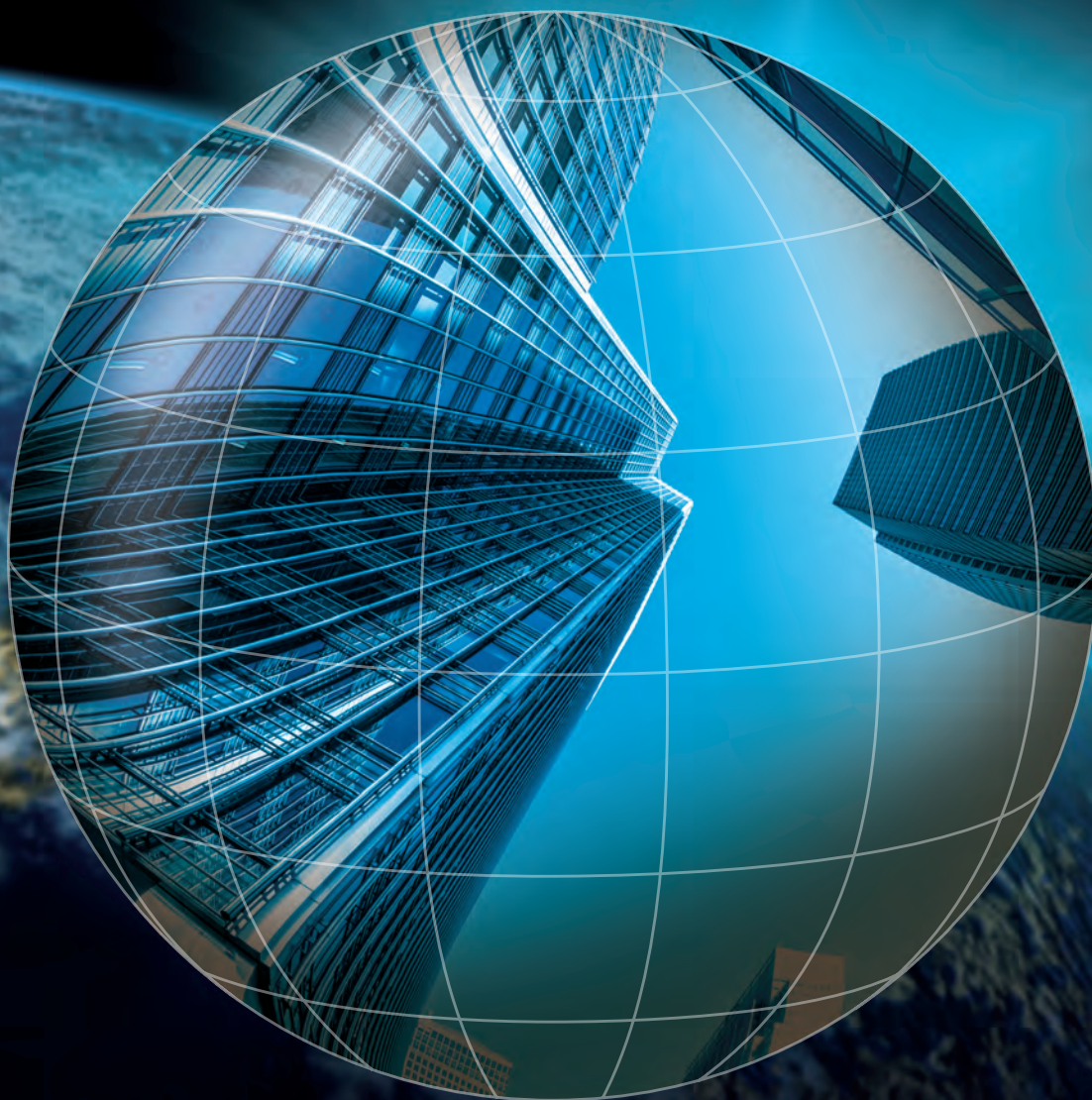
Edouard Schmid, group CUO and chairman, Swiss Re Institute



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GWP growth stalls among world's largest reinsurers in 2018: AM Best

Growth in global reinsurance premiums for the world's 50 largest reinsurers was close to nil in 2018 as carriers focused on improving profitability rather than increasing market share.

AM Best's annual ranking of the top 50 reinsurers found that total gross written premiums (GWP) increased by only \$300mn in 2018 to \$263bn.

In 2017 the total GWP figure surged by 15.9 percent, driven by substantial reinstatement premiums from losses from hurricanes Harvey, Irma and Maria.

The average combined ratio for the carriers improved over 8 points in 2018 to 100.9 percent, despite sizeable losses from Californian wildfires and Typhoon Jebi.

Berkshire Hathaway's GWP declined significantly in 2018, falling by 32 percent to \$15.4bn, making it the fifth largest reinsurer of the year.

Its elevation to third position in 2017 was partly due to a one-off \$10bn reinsurance agreement between its National Indemnity Company and AIG.

Maiden fell out of the ranking after occupying 40th place last year following a divestiture of its US treaty operations.

Munich Re dropped from the top spot it occupied in 2017 as GWP declined by 5.3 percent to \$35.8bn, partly influenced by poor euro exchange rates.

Swiss Re was named the top reinsurer, increasing GWP by 4.7 percent to \$36.4bn.

Chinese state-owned start-up reinsurer Qianhai Re entered the list in 40th position, with \$967mn of GWP.

Hannover Re increased GWP to just under \$22bn and came in as the third-largest reinsurer, up from the fourth slot last year.

Argo re-entered the top 50 list for the first time in a decade, writing \$572mn of business to become the 47th largest reinsurer.

Scor jumped one slot to fourth place despite a mild decline in its top line to just under \$17.5bn.

The weak exchange rate of the British pound did not affect Lloyd's position in the rankings, with the market occupying sixth place for the third year in a row and writing premiums of \$14.1bn.

Top 50 largest reinsurance groups

		Reinsurance premiums written (\$mn)				
		Life and non-life		Non-life only		
Ranking	Company name	Gross	Net	Gross	Net	Combined ratio (%)
1	Swiss Re Ltd	36,406	34,042	20,864	20,220	106.6
2	Munich Reinsurance Company	35,814	34,515	23,395	22,570	99.4
3	Hannover Rück SE	21,952	19,791	13,709	12,368	96.4
4	Scor	17,466	15,773	7,069	6,115	99.3
5	Berkshire Hathaway Inc.	15,376	15,376	9,930	9,930	110.4
6	Lloyd's	14,064	9,926	14,064	9,926	106.0
7	China Reinsurance (Group) Corporation	11,564	10,681	3,942	3,809	98.8
8	Reinsurance Group of America Inc.	11,341	10,544	N/A	N/A	N/A
9	Great West Lifeco	7,737	7,647	N/A	N/A	N/A
10	Korean Reinsurance Company	6,803	4,786	5,972	4,058	101.5
11	General Insurance Corporation of India	6,582	5,684	6,503	5,611	105.3
12	PartnerRe Ltd	6,300	5,803	5,065	4,592	101.8
13	Everest Re Group Ltd	6,225	5,706	6,225	5,706	113.0
14	XL Bermuda Ltd	5,219	4,135	5,002	4,124	112.8
15	Transatlantic Holdings, Inc	4,451	3,969	4,451	3,969	105.4
16	MS&AD Insurance Group Holdings, Inc	3,657	N/A	3,657	N/A	N/A
17	RenaissanceRe Holdings Ltd	3,310	2,132	3,310	2,132	87.6
18	R+V Versicherung AG	3,231	3,164	3,201	3,146	99.1
19	MAPFRE RE, Compania de Reaseguros S.A.	3,215	2,654	2,602	2,045	98.3
20	AXIS Capital Holdings Limited	3,112	2,334	3,112	2,334	98.4
21	Arch Capital Group Ltd	2,648	1,977	2,648	1,977	97.6
22	The Toa Reinsurance Company, Limited	2,557	2,205	2,557	2,205	109.5
23	Assicurazioni Generali SpA	2,199	2,199	935	935	91.3
24	Sompo International Holdings, Ltd	1,996	1,573	1,996	1,573	97.1
25	Pacific LifeCorp	1,981	1,981	N/A	N/A	N/A
26	Qatar Reinsurance Company, Limited	1,842	971	1,842	971	104.0
27	IRB - Brasil Resseguros S.A.	1,795	1,313	1,396	928	76.0
28	Taiping Reinsurance Co. Ltd	1,731	1,049	1,126	960	98.7
29	Odyssey Re Holdings Corp	1,702	1,595	1,702	1,595	89.9
30	Tokio Millennium Re AG	1,626	1,179	1,626	1,179	95.0
31	Caisse Centrale de Reassurance	1,569	1,437	1,399	1,271	97.2
32	Aspen Insurance Holdings Limited	1,496	1,183	1,496	1,183	104.0
33	Validus Reinsurance, Ltd.	1,432	951	1,432	951	118.7
34	Peak Reinsurance Company Ltd	1,382	991	1,313	924	102.8
35	Sirius International Insurance Group, Limited	1,367	1,037	1,367	1,037	99.3
36	Deutsche Rueckversicherung AG	1,269	834	1,186	797	97.0
37	QBE Insurance Group Limited	1,058	920	1,058	920	89.8
38	Markel Corporation	1,051	882	1,051	882	112.7
39	American Agricultural Insurance Company	992	321	992	321	103.4
40	Qianhai Reinsurance Co., Ltd	967	537	315	216	102.9
41	Hiscox Ltd	812	241	812	241	114.1
42	African Reinsurance Corporation	797	681	745	631	97.9
43	Chubb Limited	722	671	722	671	101.8
44	Allied World Assurance Company Holdings, AG	713	649	713	649	94.1
45	Nacional de Reaseguros, S.A.	650	516	546	413	92.9
46	Third Point Reinsurance Ltd	578	558	578	558	106.8
47	Argo Group International Holdings, Ltd	572	160	572	160	83.2
48	Greenlight Capital Re, Ltd	568	465	568	465	105.1
49	ACR Capital Holdings Pte, Ltd	548	479	548	479	112.9
50	WR Berkley Corporation	545	480	545	480	106.4

Source: AM Best

A hand holding a paintbrush is shown in the lower right, painting a large, stylized blue letter 'R' on a light blue background. The brush has dark bristles and a silver ferrule. The 'R' is composed of thick, textured blue strokes. In the upper left, there is a dark blue rectangular box with a white arrow pointing right towards the word 'Vision'.

➤ Vision

Setting our sights on
our customers' needs.

Since the beginning, our approach to your business needs has been to look beyond what everyone else is doing and focus on innovative solutions. After all, it's the people we do business with and the experiences we share that inspires us to serve you better.

With an eye for detail and a passion for what we do, we're proud to offer expertise and outcomes that you can rely on.

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Insider 50 posts record growth for 2019 so far as stock valuations rise

The Insider 50 (I50) logged its best return for the first eight months of the year since the index's inception amid rising valuation multiples for P&C (re)insurers across our coverage universe.

For the year so far – January through August – the I50 rose by 13.2 percent. The index lost around 2 percent of its value during the prior-year period.

The I50's gain followed a second-half slump amid broader market losses experienced late last year. Indeed, the I50 fell 13 percent during the course of 2018.

However, as of 30 August, the index reached 1,132 points as the vast majority of stocks – almost 81 percent – posted share-price gains.

The I50 is *The Insurance Insider's* index of 50 P&C (re)insurance companies.

This analysis aims to focus on reinsurance-related groups of carriers, and so for the remainder of this piece the Floridian sub-group and the US nationwide cluster of carriers within the I50 have been omitted.

Major equities benchmarks

I50 growth during the first eight months of the year fell between major market benchmarks – US stocks generally outperformed the I50 while European markets fell behind.

The S&P 500 rose by 16.7 percent despite a turbulent ongoing spat between the US and China regarding trade and tariffs.

However, in August, the US yield curve – which is the spread between yields on 10-year and two-year Treasury bonds – inverted for the first time since 2007, sparking fears of a looming US recession.

Adding to worries of a global economic slowdown, in the UK, GDP contracted by 0.2 percent between April and June. Nevertheless, the FTSE 100 still grew by 7.1 percent from January through August this year. That growth lagged the I50 increase by 6.1 percentage points.

The uncertainty over Brexit has also undoubtedly caused concerns with investors but markets still rallied compared to the same period in 2018 when the FTSE 100 sank by 3.3 percent.

The Stoxx Europe 600 was more in line with the I50 – the European index rose by 12.4 percent by the end of August 2019.

“I50 growth during the first eight months of the year fell between major market benchmarks – US stocks generally outperformed the I50 while European markets fell behind”

Valuations

Price-to-book value multiples for companies in the I50 universe generally increased during the first eight months of the year.

Looking at the price-to-book multiple for the entire coverage, the I50 is now rated at 1.39x compared with 1.31x at the end of 2018 – about 5.6 percent higher.

The multiple is also currently ahead of the 10-year average of 1.15x.

However, the London sub-group of carriers was the only peer group to have experienced valuation tightening as unfavourable development from 2018

catastrophe losses – in particular Japan's Typhoon Jebi – continued to eat into insurers' bottom lines.

Hiscox pulled the overall group's valuation lower as the carrier's price-to-book value sank by close to 19 percent to 2.04x. Lancashire and Beazley's price-to-book values increased by 8 percent and 3 percent, respectively.

Still, Hiscox reported a first-half pre-tax profit of \$168mn, edging ahead of analysts' revised consensus figure of \$165mn.

The London sub-group's price-to-book value fell 4.7 percent to 1.96x from 2.06x.

Global reinsurers were also hit by significant loss creep from 2018 cat activity – Hannover Re booked EUR106mn (\$116.3mn) in late claims from Jebi during Q2 while Munich Re recorded EUR80mn.

However, the global reinsurer sub-group within the I50 still managed a modest 0.9 percent increase in its average price-to-book valuation to 1.20x from 1.19x.

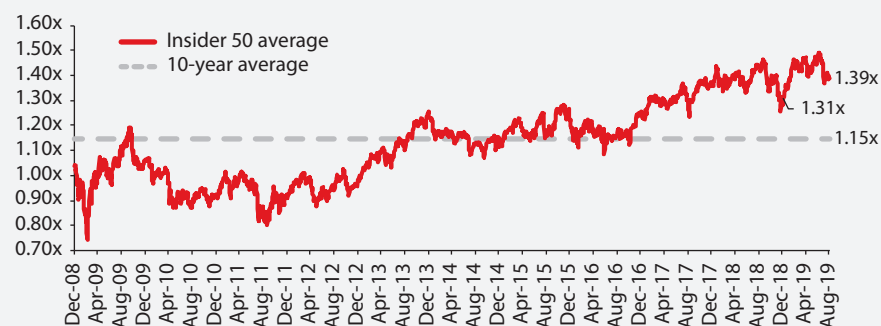
Price-to-book valuations for the three Bermudian carriers in the I50 soared by 20 percent to 1.40x – the highest increase out of all I50 sub-groups. Additionally, the

Major market benchmarks – H1 2019 returns

	Q1	Q2	8 months through August
S&P 500 Insurance	11.4%	11.6%	20.5%
S&P 500	12.3%	4.5%	16.7%
The Insider 50	10.6%	3.1%	13.2%
Stoxx Europe 600	11.6%	2.1%	12.4%
FTSE 100	7.5%	2.6%	7.1%

Source: *The Insurance Insider*

I50 price-to-book (composite)



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

Bermudian carriers enjoyed significant growth in stock prices during the first eight months of the year.

Indeed, index values for the sub-group have climbed a solid 40 percent since January and all three members of the group – Arch Capital, RenaissanceRe and Axis Capital – featured as top-20 risers.

Stock prices for the three Bermudians climbed between 20 percent and 50 percent during the period.

Meanwhile, the US specialty cohort of insurers in the *150* has now become the highest-valued group within the *150* index. The average price-to-book multiple for the sub-group has now reached 2.05x, 12.8 percent higher than 1.81x at the end of last year.

At the other end, the total return reinsurers are the lowest-valued group of carriers in our index and are currently trading at a substantial discount to traditional model reinsurers.

The sub-group, which consists of Greenlight Capital Re and Third Point Re, now has a price-to-book multiple of 0.62x. Nonetheless, that is still 6.3 percent higher than 0.58x at the end of 2018.

Caymans Islands-based Greenlight Re has come under significant pressure over the past year as a result of capital erosion. Heavy losses on the investment side of the business caused its capital levels to fall substantially last year.

However, the company announced in August that it was conducting a strategic review of its business, with Credit Suisse retained to advise. There has been some market speculation that the business is looking for a sale.

Greenlight Re also reported Q2 2019 earnings per share at \$0.42, up from a \$1.01 loss per share in the prior-year period.

The risers

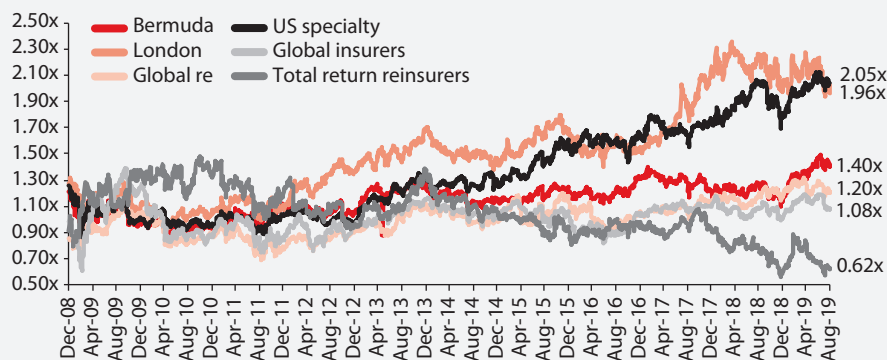
The Bermudian sub-group of carriers are so far the best-performing group of the *150*. As previously mentioned they have grown by a significant 40 percent with Arch Capital leading the group.

Moreover, shares in Arch rose by almost 50 percent during the first eight months of the year, making it the *150*'s highest stock-price rise.

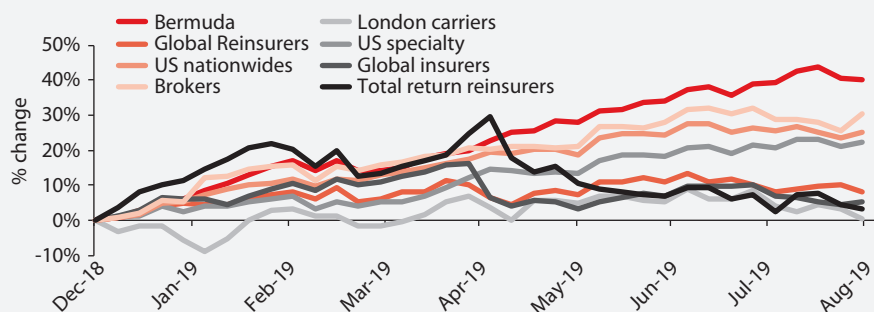
At the end of July, Arch confirmed it would buy Barbican from US private equity firm Carlson Capital.

This publication previously reported that the deal had been struck at around £145mn (\$176mn), suggesting a 1.1x-1.2x

150 sub-groups price-to-book (composite)



2019 YTD P&C (re)insurance stock movements



multiple on the balance sheet part of the business.

Pro forma analysis based on full-year 2018 syndicate accounts shows the combined gross written premium (GWP) of Arch Syndicate 2012 and Barbican Syndicate 1955 amounted to £666mn, almost three times the amount written by Syndicate 2012 alone, and above the circa £500mn GWP threshold deemed by many in the market to be critical mass at Lloyd's.

Market consolidation also affected some of the brokers within the *150*. Marsh & McLennan Companies (MMC) completed its acquisition of JLT in April.

For the first eight months of 2019, shares in MMC climbed nearly 27 percent to become one of the *150*'s top risers.

The £4.9bn acquisition of JLT made MMC subsidiary Marsh a broking giant in London and Guy Carpenter has overtaken Aon as the largest reinsurance broker with the addition of JLT Re.

As expected, there have been a number of high profile exits following the acquisition. However, MMC CEO Dan Glaser stated on a Q2 earnings call that he is

“The US specialty cohort of insurers in the *150* has now become the highest-valued group within the *150* index. The average price-to-book multiple for the sub-group has now reached 2.05x”

“satisfied” with the level of talent retention within the business.

This year so far has definitely been a good one for (re)insurance brokers as all five intermediaries that feature in the *150* have achieved share-price growth of more than 20 percent.

Shares in Brown & Brown produced the highest growth at 35.7 percent, closely followed by Aon at 35.6 percent and Willis Towers Watson at 31.2 percent.

On a sub-group level, the brokers achieved growth of 30.5 percent, on a weighted average basis.

Elsewhere, the global reinsurer cohort of

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the index produced growth of 8.2 percent for the same period – a relatively modest figure compared to the brokers and the Bermudians.

However, Hannover Re did manage to feature as one of the *150*'s top risers. Shares in the German reinsurer rose by more than 24 percent in the first eight months of the year. The reinsurer reported an operating profit of EUR322.4mn from its P&C reinsurance division in Q2, down 7.8 percent year on year.

Additional losses from Jebi hit the reinsurer and reached the lower layers of its retrocession cover – CFO Roland Vogel said on an earnings call that the loss creep had been “touching” the reinsurer’s whole-account retro cover, and it expected no further net impact from Jebi.

Munich Re was the only other *150* reinsurer to appear in the list of top-20 risers. Its shares grew by 14.5 percent.

Other reinsurers Everest Re and Swiss Re did, however, made some modest growth at 9.2 percent and 5.6 percent, respectively, while Scor was one of only four *150* companies to produce a deterioration in its share price.

The fallers

Not including the Floridian carriers and the US nationwide carriers, Scor, Hiscox, Argo and Third Point Re were the only carriers in the *150* that experienced share-price deterioration.

French reinsurer Scor was enjoying growth of around 8 percent in early to mid-January before it rapidly declined after unwanted suitor Covea, a French mutual, walked away.

Scor had rejected a takeover bid by Covea in 2018 and Covea then agreed not to increase its Scor holding beyond 10 percent until the reinsurer’s annual shareholder meeting this April.

In January, Covea issued a pressed release, to Scor’s surprise, stating, “The continued attacks and hostile tactics targeting Covea since then have intensified in the last few days. As a consequence, Covea states that a transaction with Scor is no longer part of its strategic options.”

However, Scor denied any hostile tactics in regard to Covea and subsequently pursued criminal action against Covea and its CEO. As of the end of August Scor’s share price had fallen 6.2 percent from the start of the year.

Elsewhere, shares in Hiscox were down

by 3.1 percent for the first eight months. Its underwriting performance during the first half of the year was affected by loss creep from Jebi and Hurricane Michael, with the carrier reporting a combined ratio of 98.8 percent for the period.

“Total return reinsurers are the lowest-valued group of carriers in our index and are currently trading at a substantial discount to traditional model reinsurers”

Indeed Hiscox strengthened its reserves by \$40mn for Jebi and Michael.

Responding to the results, RBC Capital Markets analyst Kamran Hossain reiterated his view that 2019 was a “transition year” for the insurance sector.

Shares in Argo suffered this year as a result of unfavourable development in its international book during Q2 2019. Its

shares closed down more than 3 percent in July when the company issued a profit warning noting losses from its London, European and Bermuda operations would eat into its second-quarter results.

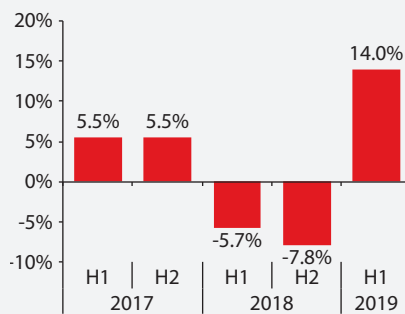
By the end of August, Argo’s shares were down by 1.3 percent.

Finally, Third Point Re’s shares fell by 1.1 percent during the period. At the same point in 2018, shares in the total return reinsurer were down by 8.5 percent.

The reinsurer is indeed in a better position now than it was in the prior year. In the second quarter, the company reported an underwriting loss of \$1.7mn, an improvement from the loss in Q2 2018 of \$5.1mn.

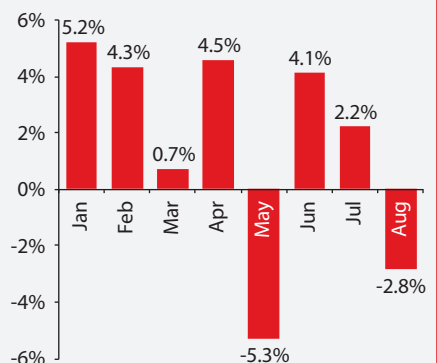
It also improved its combined ratio by 2.3 percentage points to 101.1 percent. Newly appointed CEO Daniel Malloy noted at the time that the company’s 101.1 percent combined ratio for the quarter puts it “on track to achieve our goal of delivering underwriting profitability, subject to catastrophe events, by year end”.

150 returns to growth in H1 2019



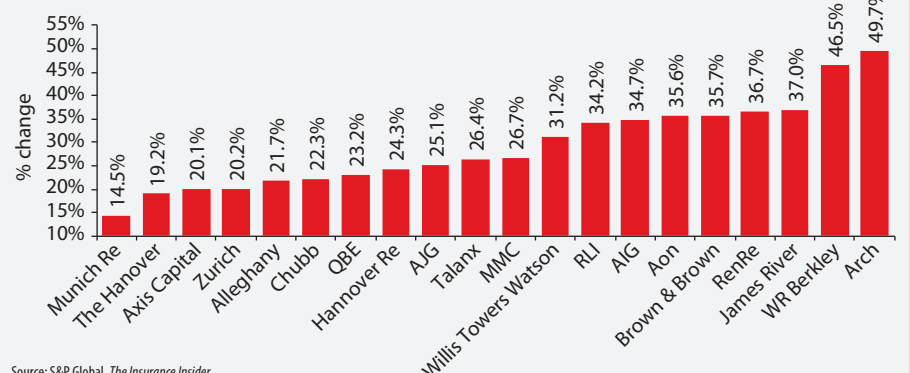
Source: The Insurance Insider

150 2019 monthly returns



Source: The Insurance Insider

Top 20 risers – January to August 2019



Source: S&P Global, The Insurance Insider
*Not including Floridian carriers and US nationwide carriers

Building sustainability in emerging markets

IGI's Waleed Jabsheh and Andreas Loucaides say London provides a unique service for emerging market assureds

What challenges do emerging markets present to (re)insurers in terms of regulation and market structure?

Waleed Jabsheh: In emerging markets, more often than not there is too little regulation, which has led to an overabundance of players competing for a disproportionate share of the market. This level of regulation and the lack of a proper legal framework has resulted in a lack of accountability for the market as a whole. As a result, some players are operating in a way that is not conducive to building a sustainable marketplace. This has been exacerbated by the soft market – excess capacity and falling premiums have put pressure on underwriters who are looking to maintain market share. Better regulation would help tackle some of these issues.

All we can realistically do is continue to work hard to take the soundest and most prudent underwriting decisions. Finding people with the right mix of qualities is vital to navigate these tricky market conditions, as is creating partnerships with companies that have a similar cultural fit.

The key to success in these territories is to understand the intricacies of the individual markets. Familiarity, knowledge and awareness of the varying social, political, cultural and business market dynamics is essential in empowering ourselves to make sound and educated decisions.

Over the past year, what do you think has been the most promising line of business in emerging markets – and how will this fare over the next 12 months?



Waleed Jabsheh:

The level of insurance penetration is a lot lower in the emerging markets, so the product suite

Waleed Jabsheh
President of IGI and executive director of IGI UK

that you have demand for is different.

For us, the most promising and largest classes will always include property, construction, energy and treaty business.

It is unlikely this dynamic will change in just 12 months. On the commercial side, there will be more demand for professional indemnity and liability-type products in the years to come.

Any emerging market strategy needs to be long-term and any company that delves into the developing markets needs to understand that. Even for us, as an international company with Middle Eastern roots, the Middle East and North Africa region totals around 12 percent of our global portfolio, despite it being a very important and profitable element of our business.

What is IGI's plan for emerging markets business in the next five years?

Waleed Jabsheh: IGI has ambitious plans to grow in both new and existing markets. Increasing our penetration in the emerging markets is part of the company's wider strategic plan.

We have invested in our regional operations. We have recently made a senior hire to help transform our Kuala Lumpur operation into IGI's Asian hub. We also continue to invest in our Casablanca office to maintain growth in Africa.

We have identified renewable energy as a significant area for growth. Countries all over the world, including the emerging markets, are embracing clean energy projects of all kinds, proving that a global energy transition is well underway.

Growth is also expected in property, and if the price of oil increases there will be expansion in engineering and energy projects. Lines of business such as casualty, third-party liability, political violence, professional indemnity and medical are all expected to continue to grow.

How well does the London market serve insureds from the emerging markets?

Andreas Loucaides: The London market has served the emerging markets well over many years.

It is a relatively new phenomenon to see emerging markets – with the support of the international and London market players – create local hubs such as Singapore, Dubai, Casablanca etc. They all started with high

expectations, however the reality has been somewhat different.

The rationale for creating regional hubs has recently come into question, especially with improved communication, IT development and easier access to markets. More importantly, underwriting results and the cost of maintaining a presence in these regional hubs have spiralled.

Very expensive locations coupled with shrinking business at unascertainable rates can only lead to one result. Many global reinsurers with a local presence have pulled out or shrunk their lines of business. What will make the difference is for local markets to follow increasing rates being implemented by Lloyd's and London company markets.

For the London market to serve the emerging markets efficiently, there needs to be a combination of local knowledge and London market expertise. IGI, for example, was founded in 2002 in Amman as an energy, property, engineering and construction reinsurer, deriving more than 80 percent of its business from the Middle East. It has evolved into an international player, with a presence in Dubai, Casablanca and Kuala Lumpur and with its largest underwriting hub in London.

Are there changes that would make the London market more attractive to emerging market clients?

Andreas Loucaides: Regulation in the UK may be seen as expensive and cumbersome, but it is there for good reason. A solid regulatory framework allows individuals and organisations investing in (re)insurance to feel comfortable. However, the London market today needs to take a close look to ensure that it encourages emerging market participants to come to London to set up organisations or place their business.

London needs to invest in new emerging technological innovations to drive efficiency and find better ways to understand the nature of risk.



Andreas Loucaides
Chief executive officer at IGI UK

Exec comp 2018: Duperreault, Greenberg and Jain all make industry top five

AIG CEO Brian Duperreault, Chubb CEO Evan Greenberg and Berkshire Hathaway vice chairman for insurance Ajit Jain all featured in the top five for industry compensation in 2018.

Other prominent names to make the top 10 included Marsh & McLennan Companies CEO Dan Glaser in sixth place, Aon CEO Greg Case in seventh and Travelers chairman and CEO Alan Schnitzer in eighth.

The Insurance Insider's headline findings from its annual study of executive compensation included:

- On a true like-for-like basis average CEO compensation rose 6 percent year on year, in line with a benchmark for the broader S&P 500 published by the *Wall Street Journal*;
- The average remuneration for the top 50 best-paid executives – including CFOs and other staff – rose by 3.6 percent to \$8.6mn;
- Total compensation for the top 50 was \$469mn, down 12.5 percent year on year, but this headline figure was skewed by an \$82mn drop-off at AIG owing to the timing of the arrival of the new executive team.

The collective remuneration of the 50 highest paid executives in the P&C (re)insurance industry stood at \$469mn in 2018, up almost 4 percent after taking the skewing influence of AIG into account.

Our annual survey includes all executives named in SEC filings (DEF 14A and 10-K) – or group annual reports in their absence – across publicly listed P&C (re)insurers.

It ranks them in order of total compensation for the year, which encompasses base salary, cash bonuses, stock and option awards and other benefits.

Top 50 pay was down by 12.5 percent in 2018 but the fall mostly reflected the comparison against an unusually high base in 2017 as a result of AIG's significant payouts to appoint Duperreault as its new CEO in May that year and the senior management changes that ensued.

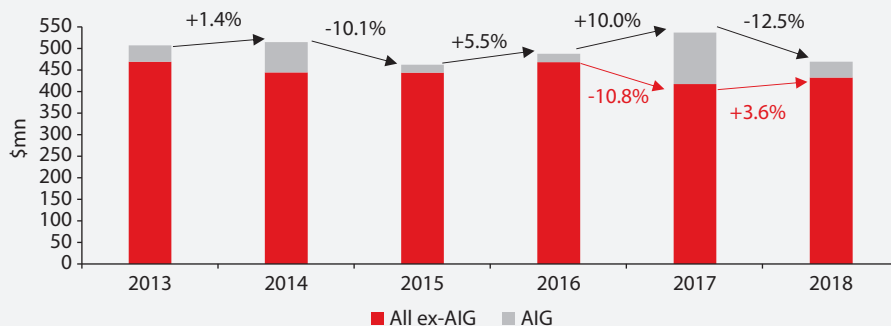
If AIG executives are excluded from our analysis, the year on year comparison of compensation for the top 50 positions changes altogether, with a 3.6 percent increase in 2018 relative to 2017.

Top 10 earners

Rank	Name	Company	Position	2018 pay
1	Brian Duperreault	AIG	President and CEO	\$20,854,669
2	Evan Greenberg	Chubb	Chairman, president and CEO	\$20,357,484
3	Thomas Wilson	Allstate	Chairman, president and CEO	\$18,687,246
4	Ajit Jain	Berkshire Hathaway	Vice chairman – insurance operations	\$18,013,750
4	Gregory Abel	Berkshire Hathaway	Vice chairman – non-insurance operations	\$18,013,750
6	Daniel Glaser	Marsh & McLennan Companies	President and CEO	\$17,281,919
7	Gregory Case	Aon	President and CEO	\$16,163,875
8	Alan Schnitzer	Travelers	Chairman and CEO	\$14,648,213
9	Christopher Swift	The Hartford	Chairman and CEO	\$13,883,615
10	Marc Grandisson	Arch	President, CEO and Class III director	\$12,884,187

Source: Company reports, *The Insurance Insider*

Top 50 pay



Source: Company reports, *The Insurance Insider*

Including AIG, each member of the top 50 earned \$9.4mn in 2018 on average compared with \$10.7mn in 2017.

But leaving AIG out of the picture, the average remuneration for the 50 highest paid executives stood at \$8.6mn in 2018 compared with an equivalent \$8.3mn for 2017.

The above figures include the firm's CEO, CFO, and highest-paid named executive officers.

Looking at CEOs in isolation, average compensation totalled \$7.9mn last year, led by chief executives of US nationwides and US large cap carriers.

Average compensation for them rose across all peer groups except London, US large cap carriers and US nationwides.

However, the dynamics for each of these three groups was different, with London CEOs' average compensation plummeting by 35.8 percent but US nationwides' slipping by just 0.7 percent.

For the large cap carriers, it was again a case of AIG distorting the comparison with 2017, with that year's panel featuring Duperreault's one-off \$43.1mn initial pay packet as well as departing CEO Peter Hancock's \$24.2mn walk-away pay.

Average CEO compensation for this peer group, AIG aside, actually rose 5.9 percent in 2018.

Indeed, it was a good year for CEOs across the P&C industry: average remuneration, excluding AIG, was up by 9.6 percent year on year to \$7.5mn.

By way of comparison, median compensation for 132 CEOs of S&P 500 companies was up 6 percent reaching \$12.4mn in 2018, according to *Wall Street Journal* analysts.

CEO compensation bounces back

The better performance of CEO compensation in 2018 relative to that of the overall top 50 – with the former expanding by an average 9.6 percent as against a 3.6 percent average surge for the latter (excluding AIG) – is a mirror image of what happened in 2017.

That year, CEO remuneration fell disproportionately more than that of the top 50, with a reduction of 12.4 percent for chief executives against a fall of 10.8 percent for the overall panel (excluding AIG).

While this seems to indicate that CEO compensation packages in the industry were adequately calibrated to provide more alignment with shareholder value creation (or destruction) than the rest of the C-suite,

CONTINUED ON PAGE 29

Top 50 highest paid P&C (re)insurance executives in 2018

Rank	Name	Company Name	Position	2018 pay	Ranking change y/y
1	Brian Duperreault	AIG	President and CEO	\$20,854,669	0
2	Evan G. Greenberg	Chubb	Chairman, president and CEO	\$20,357,484	+1
3	Thomas J. Wilson	Allstate	Chairman, president and CEO	\$18,687,246	+1
4	Ajit Jain	Berkshire Hathaway	Vice chairman – Insurance operations	\$18,013,750	New entry
4	Gregory E. Abel	Berkshire Hathaway	Vice chairman – non-insurance operations	\$18,013,750	New entry
6	Daniel S. Glaser	MMC	President & CEO, Marsh & McLennan Companies	\$17,281,919	0
7	Gregory C. Case	Aon	President & CEO	\$16,163,875	+2
8	Alan D. Schnitzer	Travelers	Chairman and CEO	\$14,648,213	0
9	Christopher Swift	The Hartford	Chairman and CEO	\$13,883,615	+4
10	Marc Grandisson	Arch	President, CEO and Class III director of Arch	\$12,884,187	+27
11	Peter Zaffino	AIG	EVP – general insurance and global COO	\$12,620,459	-6
12	William R. Berkley	W.R. Berkley	Executive chairman of the board	\$12,325,841	+3
13	Christa Davies	Aon	EVP and CFO	\$12,318,169	+20
14	W. Robert Berkley, Jr	W.R. Berkley	President and CEO	\$11,852,862	+4
15	Kevin J. O'Donnell	RenaissanceRe	President and CEO	\$10,819,363	+14
16	Carl H. Lindner III	AFG	Co-CEO and co-president	\$10,209,385	+4
17	S. Craig Lindner	AFG	Co-CEO and co-president	\$10,191,495	+5
18	Dino Robusto	C.N.A.	CEO	\$10,109,176	-1
19	Douglas Dachille	AIG	EVP and CIO	\$9,707,396	-8
20	Kevin T Hogan	AIG	CEO, life and retirement	\$9,121,469	-8
21	Douglas Elliot	The Hartford	President	\$8,999,113	+2
22	Mark Watson	Argo	CEO, Argo Group	\$8,346,464	+72
23	D. Craig Mense	CNA	Former executive vice president and CFO	\$8,157,197	+29
24	J. Patrick Gallagher, Jr.	AJ Gallagher	Chairman, president and CEO	\$8,062,954	+3
25	John W. Keogh	Chubb	Executive vice chairman and COO	\$7,859,298	+3
26	Albert A. Benchimol	Axis	CEO, president and director	\$7,804,796	+13
27	Denis Kessler	Scor (EUR)	CEO	\$7,701,550	+9
28	Steven E. Shebik	Allstate	Vice chair	\$7,157,835	+6
29	Dominic J. Adesso	Everest Re	President and CEO	\$7,066,735	-4
30	John Q. Doyle	MMC	President and CEO, Marsh	\$7,023,080	+11
31	John Dugenske	Allstate	Executive VP and chief investment officer	\$6,764,401	-12
32	William H. Heyman	Travelers	Vice chairman and chief investment officer	\$6,621,541	+10
33	Siddhartha Sankaran	AIG	Former EVP and CFO	\$6,598,362	-17
34	John J. Lupica	Chubb	Vice chairman; president, North America Major accounts and specialty insurance	\$6,208,344	+11
35	Paul Krump	Chubb	President, North America Commercial and personal insurance	\$6,203,320	+5
36	Avrohom J. Kess	Travelers	Vice chairman and chief legal officer	\$6,009,603	+10
37	Julio A. Portalatin	MMC	President and CEO, Mercer	\$5,983,531	-5
38	Steve K. Arora	Axis	CEO, Axis Reinsurance	\$5,923,087	new entry
39	Christian Mumenthaler	Swiss Re (CHF)	Group CEO	\$5,908,484	+8
40	Jay S. Benet	Travelers	Vice chairman and former CFO	\$5,896,441	+4
41	Glenn T. Shapiro	Allstate	President, Allstate Personal Lines	\$5,316,299	new entry
42	Peter C. Hearn	MMC	President and CEO, Guy Carpenter & Company	\$5,071,744	new entry
43	Philip V. Bancroft	Chubb	CFO	\$5,039,875	+7
44	John Haley	Willis Towers Watson	CEO	\$4,991,828	+25
45	Gregory Toczydlowski	Travelers	EVP and president, business insurance	\$4,855,275	new entry
46	Mark McGivney	MMC	CFO, Marsh & McLennan Companies	\$4,815,102	+12
47	John B. Berding	AFG	President of American Money Management	\$4,794,144	+7
48	Mark D. Lyons	AIG	EVP and CFO	\$4,759,888	+30
49	Jeff Consolino	AFG	EVP and CFO (principal financial officer)	\$4,683,800	+7
50	Eric Andersen	Aon	Co-president	\$4,539,172	+17
Total pay				\$469,227,586	-12.5%

Source: Company reports, *The Insurance Insider*

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that was only part of the explanation behind the superior performance of CEOs against the overall top 50.

In fact, one third of the boost to CEO average compensation over and above the overall top 50 was due to changes to the pay league panel, which saw six companies de-list in 2018 and 2019.

AmTrust was taken private in 2018 following an MBO supported by Stone Point Capital. This was announced in January but not made effective until November last year.

Meanwhile, Validus, XL Group and JLT dropped out as a result of their acquisitions by AIG, Axa and Marsh & McLennan Companies (MMC) respectively during 2018, bringing the total number of companies covered by the panel to 32, down from 36 the previous year.

In 2017, only XL Group's Mike McGavick's remuneration had exceeded the CEO compensation average for the year – with all three other CEOs below the average – so the presence of the four companies combined brought the 2017 overall average down.

A like-for-like comparison – that is, excluding those four companies from the 2017 average (as well as AIG) – shows the change in average remuneration for CEOs standing at 6 percent.

This was in line with the broader performance of CEOs at S&P 500 companies.

2018 biggest movers

Rank	Name	Company	Total (\$)	Change in ranking
Top 5 risers				
22	Mark Watson	Argo	\$8,346,464	+72
48	Mark D. Lyons	AIG	\$4,759,888	+30
23	D. Craig Mense	CNA	\$8,157,197	+29
10	Marc Grandisson	Arch	\$12,884,187	+27
44	John Haley	Willis Towers Watson	\$4,991,828	+25
Top 5 fallers				
33	Siddhartha Sankaran	AIG	\$6,598,362	-17
31	John Dugenske	Allstate	\$6,764,401	-12
19	Douglas Dachille	AIG	\$9,707,396	-8
20	Kevin T Hogan	AIG	\$9,121,469	-8
11	Peter Zaffino	AIG	\$12,620,459	-6

Source: Company reports, *The Insurance Insider*

The two other companies that de-listed were Aspen and Navigators.

However, summary compensation tables for these two were made available on their 10-K filings, providing a last snapshot of the compensation of their top executives just before the curtain fell on their disclosure.

The usual suspects

Despite intense corporate activity and the resulting changes to our panel of CEOs in 2018, the top 50 pay league table remained relatively unaffected, as no executives from the six companies that were de-listed – except for XL Group – had made it to the top 50 in 2017.

Individually, the top of the chart was populated with veterans of this study, with

many holding on to similar positions as in the past two years.

Chubb's Evan Greenberg stood on the podium for the fourth consecutive year, this time just barely below top-earner Duperreault.

Greenberg received total compensation of \$20.4mn, 6.5 percent up on the previous year but still below his record \$24.4mn in 2016.

Meanwhile, Allstate chairman and CEO Thomas Wilson advanced one position into the third place, despite his total remuneration slipping 0.4 percent to \$18.7mn.

The personal lines carrier's chief had received a \$4.8mn boost in his non-equity incentive plan compensation in 2017 when he was credited with the second-biggest improvement in net income of all companies covered that year.

Similarly, Travelers chairman and CEO Alan Schnitzer had benefited from an additional \$4mn in stock and option awards in 2017 as the board of the Hartford-based company marked the completion of his first full year as CEO. With the transition over, his total compensation was down 3.8 percent in 2018, at \$14.6mn, still allowing him to hold eighth place in the league table.

Also remaining in the same position as in the previous year was Dan Glaser, MMC president and CEO, who received \$17.3mn in compensation, 1.6 percent up from 2017.

By contrast, rival Greg Case – the Aon CEO – enjoyed a 10.6 percent increase in his take-home pay, the biggest increase among the top 10 earners in 2018. This is likely to have reflected the extension of his contract in April last year to confirm him in post until 2023. Case earned \$16.2mn and advanced two positions in the charts, to seventh place.

Meanwhile, The Hartford's chairman and CEO, Christopher Swift, saw a 5.9 percent

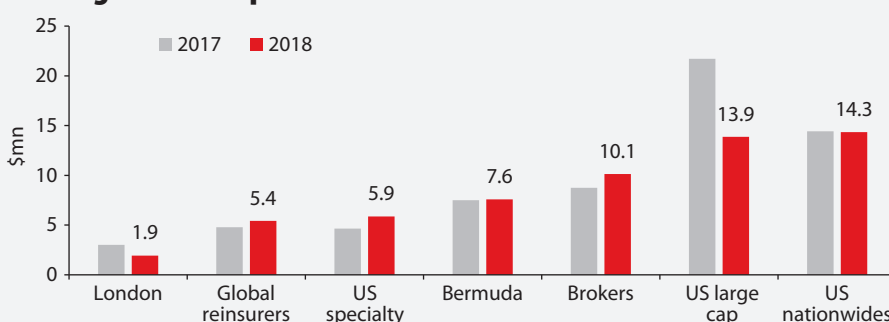
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Corporate activity affecting our executive pay league panel

Company	Deal type	Deal announced	2018 Summary Compensation Table available
AmTrust	Delisted from Nasdaq (Nov-18) and from NYSE (Feb-19) following an MBO	Jan-18	No
Validus	Acquired by AIG for \$5.6bn or 1.6x Validus' fully diluted book value	Jan-18	No
XL Group	Acquired by Axa for \$15.3bn, at 1.5x fully diluted book value	Mar-18	No
Aspen	Acquired by Apollo for \$42.75 per share in cash, at just over 1.1x trailing book value, valuing the equity at \$2.6bn	Aug-18	Yes, 10-K
Navigators	Acquired by The Hartford for \$2.1bn, or 1.7x Navigators' fully diluted book value	Aug-18	Yes, 10-K
JLT	Acquired by MMC for \$6.5bn and delisted as of April 2019	Sep-18	No

Source: Company reports, *The Insurance Insider*

Average CEO compensation



Source: Company reports, *The Insurance Insider*

CONTINUED FROM PAGE 29

increase in his total compensation, allowing him to leapfrog four positions into ninth.

The board of the Connecticut-based company approved a \$4.8mn annual incentive programme award representing 160 percent of his target on the back of him delivering “strong underlying financial results” and “entering into an agreement to acquire Navigators”.

His remuneration rise followed a 30.1 percent increase in 2017, which had allowed him to jump from 17th place to 13th that year.

Newcomers

A significant novelty of the 2018 pay league panel, and the top 10 in particular, was the inclusion of Ajit Jain and Gregory Abel from Berkshire Hathaway.

The appointments that saw them feature in the company’s summary compensation table for the first time were seen as a hint at a possible succession to 88-year-old Warren Buffett, CEO of the company, and his 95-year-old business partner and vice chairman of the board Charlie Munger.

With a biblical intonation, Jain and Abel were named vice chairman insurance operations and non-insurance operations, respectively, of the Nebraska-based company in January 2018.

With the same total compensation of just over \$18mn each, Jain and Abel shared fourth spot in the league table.

Finally, another breadth of fresh air in the top 10 came with the promotion of Marc Grandisson to the top job at Arch, taking over from Dinos Iordanou in March 2018 as president and CEO.

As part of the leadership succession plan, Grandisson was awarded options to buy 616,284 shares worth \$4.5mn.

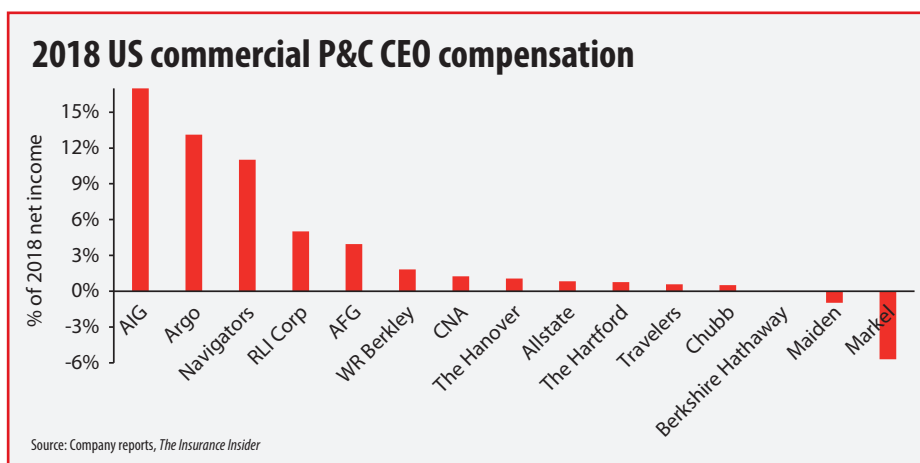
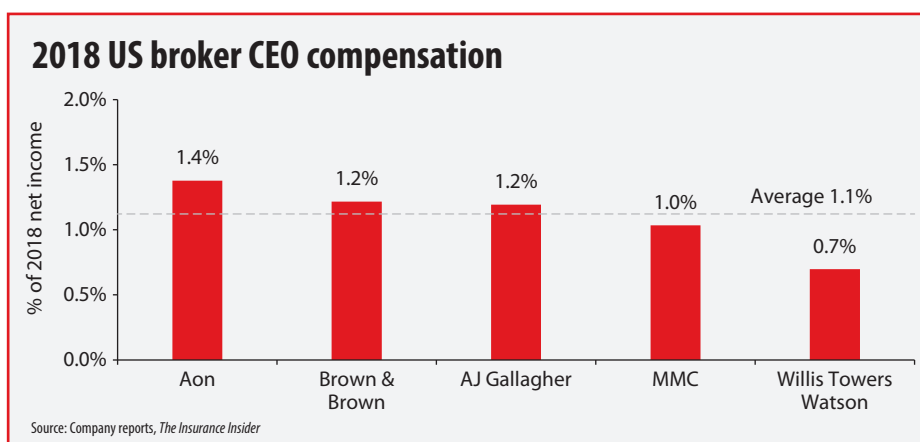
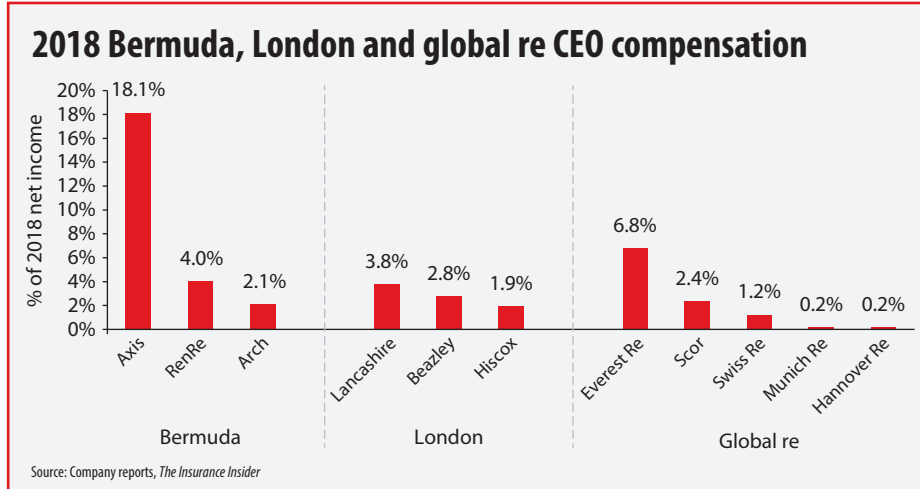
As a result, the former COO’s compensation shot up from \$7.1mn in 2017 to \$12.9mn, catapulting him 27 positions up to 10th place in the pay league.

Risers and fallers

The list of biggest movers was again dominated by the leadership shake-up at AIG, with one of the five most significant risers and three of the five biggest fallers belonging to the company.

On the upside, Mark Lyons was awarded \$4.8mn having joined the company in June 2018 and being appointed EVP and CFO on 4 December.

This was 34 percent more than the \$3.6mn he had pocketed in 2017, during his last full



year as CFO of Arch.

Lyons replaced Siddhartha Sankaran, who was released in February 2019 with a lump sum severance payment of \$4.4mn.

Sankaran’s total remuneration for 2018 stood at \$6.6mn, down 44.9 percent from the \$12mn he received in 2017 when AIG’s board decided to grant one-off restricted stocks units to members of the executive leadership team to “promote stability” during the transition following the resignation of Hancock in March 2017.

But the most significant move of all was that of Argo’s boss Mark Watson III, who climbed 72 positions in 2018.

Watson earned total compensation of \$8.3mn, up from \$3mn the prior year when he had fallen out of the top 50 altogether.

The surge came as a result of performance awards approved by Argo’s board in November 2018 acknowledging the “performance achieved by our management team over the three-year period of the 2015 Performance Awards”.

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Clyde & Co, Beaufort House, 15 St Botolph Street, EC3A 7NJ

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20 September 2019 | 12:30 - 17:00

Banking Hall, 14 Cornhill, London, EC3V 3ND

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3 October 2019 | 08:15 - 15:30

(followed by networking drinks)

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