Insight and Intelligence on the 2019 *Rendez-Vous de Septembre*

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MONTE CARLO

Inside the fight for fourth place in the broker race

Guy Carpenter's absorption of JLT Re has triggered an intensification of the battle for the $4.5bn reinsurance broking market, with the rise of a new challenger broker in Lockton Re and a resultant bidding war for talent.

The number two reinsurance broker's acquisition of the number four player created the world's largest reinsurance broker with pro forma revenues of $1.6bn, although essentially in line with previous market leader Aon.

Attention has focused on the talent exodus from the enlarged Guy Carpenter, with the shock departure of North America CEO Tim Gardner to Lockton Re followed by a string of less surprising exits of former JLT Re staff, some voluntary and some forced.

But the big picture here is the further concentration of reinsurance within an oligopoly, with the big three's market share now estimated at 85-90 percent, and the rest nowhere close.

We believe this bifurcation between the big three and the rest will continue, with the leverage provided by controlling the largest retail broking operations and the ability to fund the analytics arms race giving them an unassailable advantage.

As such, it seems unlikely that any challenger will be able to reclaim the Tier 2 status JLT Re had as a $300mn player, and if they do it will require massive upfront investment and 10 years of patience.

The Insurance Insider's key takeaways are:

- **Lockton Re** – The firm will have to overcome huge obstacles to hit its $400mn revenue target at maturity, including the difficulty of harnessing its $6bn-$10bn-premium US retail book given its non-corporate model and the challenge of competing for major clients given its analytics underspend versus the big three.
- **Guy Carpenter** – The broker looks set to underperform for 12-24 months on organic growth and will have to live with negative news flow around departures, but with a 1,500-basis point margin gap between Guy Carpenter and legacy JLT Re it will be able to drive big earnings growth even if revenues fall.
- **Aon/Willis Re** – Neither has hired prominent names from Guy Carpenter/JLT Re, but they are likely to be the biggest winners in dollar terms from the recalibration as cedants look to curb concentration with one broker.
- **Boutiques** – There is clearly room for boutique brokers of different models to succeed in the $50mn-$150mn revenue bracket, with TigerRisk Partners the standout candidate, but Capsicum Re on the eve of its sale to AJ Gallagher, BMS Re and Beach – now part of US retailer Acrisure – are also growing profitably.
- **McGill & Partners** – Steve McGill has said the start-up will look to build a presence within treaty and facultative reinsurance, but hiring in this area has been minimal to date with primary lines the focus and his model in this area is not yet clear.

Reinsurance brokers by tier

Tier 1 – $400mn+

Guy Carpenter ($1.6bn)	Aon ($1.6bn)
Willis Re ($700mn)	

Tier 2 – $150mn-$400mn

~~JLT Re ($310mn)~~

Tier 3 – sub-$150mn

TigerRisk ($100mn)	Beach ($50mn-$60mn)
Holborn	Capsicum
Lockton Re	BMS
RKH Re	

Source: *The Insurance Insider*
All figures except Guy Carpenter, Aon and JLT Re are estimates

Guy Carpenter

When Marsh & McLennan Companies (MMC) acquired JLT for £4.9bn ($6.0bn) in a deal largely motivated by the insurance business, it also picked up fast-growing number four reinsurance broker JLT Re.

The deal made Guy Carpenter the biggest reinsurance broker by a narrow margin, although this could prove to be short-lived given H1 revenue performance.

While the London market specialty businesses were effectively merged, with the business renamed and the leadership team comprising talent from both camps, in reinsurance Guy Carpenter essentially absorbed JLT Re.

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INSIDE

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)

Between 185% and 220%

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

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SCOR The Art & Science of Risk

www.scor.com

Factoring in Faxai

It felt a lot more restful heading off to Nice Airport this year than the last two, didn't it?

Dorian had done a Hurricane Matthew and largely spared the Carolinas, so unlike in 2017 and 2018, when Irma was barrelling into Florida and Florence was in clean-up mode, we don't currently – fingers crossed, touch wood – have a major event to talk about.

Except that as we were setting off on Saturday, Pacific typhoon 15 had been given a name and Faxai looked set to be heading near enough Tokyo that – although it was only a very small storm – it might be something that we have to start thinking about.

And yet there was none of the buzz that there would have been if a windstorm had been heading even vaguely near Miami.

This rather proved the point of someone I spoke with recently about Typhoon Jebi.

Reinsurers were putting too much of the blame for loss creep on the primary insurers' shoulders, he suggested. Instead, they should have done more homework on their exposures and been able to anticipate that the number of events that struck Japan last year might contribute to delayed claims recognition.

Reinsurers were much better prepared for the Florida loss creep from Irma than they were for Jebi and loaded up the loss reports from cedants to allow for movement accordingly.

Jebi fits the mould for the "surprise" loss events that I have covered in my time at *The Insurance Insider*, which have almost always been from diversifying, non-mainland US perils such as the Thai floods or Hurricane Maria. The California wildfires are closer to home but also fit the same under-quantified model.

> "If the market wants to grow diversifying exposures alongside its US core book, it should be focusing more heavily on avoiding the surprises"

Is it perhaps lamentable, but entirely inevitable, that this is the case, though? You might argue that it makes complete sense for carriers to plough most of their analytical resources into their peak-zone risks in the US, given the huge chasm between insurance exposures at risk. If Jebi was a major typhoon at $15bn, a damaging US windstorm could easily be three times that much without even going near Miami.

This also explains why it can make sense for reinsurers to write diversifiers at low rates.

When I first joined the publication, Mark Geoghegan sat me down to explain the principles of which risks are capital-consumptive for reinsurers using some betting analogies. Carriers could effectively take a free bet on a Thai flood risk without incurring additional capital loadings, for example, since it was entirely mutually exclusive from a US wind loss.

But at the end of the day, if the number comes up there is still considerable downside risk attached.

If the market wants to grow diversifying exposures alongside its US core book, it should be focusing more heavily on avoiding the surprises. This would not only reassure shareholders about these diversifying strategies but also help mitigate pricing volatility for cedants.

At *The Insurance Insider* we have a well-rehearsed drill for storm reporting, and now that Faxai has hit the Tokyo Bay area so directly, we will quickly need to reacquaint ourselves with the Japanese version of the National Hurricane Center and other resources.

Clearly we can all do better – let's just hope it doesn't take another difficult loss to make it happen.

Fiona Robertson,
Managing Editor,
Trading Risk
fiona.robertson@insuranceinsider.com

PartnerRe corporate member head Buker to exit

PartnerRe's Michel Buker, head of capital at Lloyd's and multi-line, is to leave the carrier later this year, *The Insurance Insider* can reveal.

Buker set up PartnerRe Corporate Member Limited for the Exor-owned reinsurer and was a director of that entity.

In August, this publication revealed that the carrier had placed its corporate member book under review as it looked to scale back its capital at Lloyd's position significantly.

The corporate member business had a significant participation on Apollo 1969, which ran up net losses of $87mn in 2017 and $58mn in 2018. Other businesses that PartnerRe has supported include the Standard Syndicate, Canopius and Brit.

Former P&C CEO Charles Goldie was also a director of PartnerRe Corporate Member, and left the business in March as part of an overhaul of the P&C segment.

Buker has worked at PartnerRe since July 2010. Prior to this, he was head of global markets at Paris Re for five years, and spent 11 years at Axa Re in a variety of roles including head of marine and a viation. Earlier still Buker worked as an underwriter at Columbus in Paris for eight years.

His departure is subject to certain procedures under French employment law, sources said.

The corporate member business at Lloyd's has been unprofitable for all participants following a string of weak underwriting results.

As reported over the weekend, Scor has also placed its corporate member business – the largest in the market at around £200mn ($246mn) – under review.

Scor has a 5 percent participation on Canopius Syndicate 4444 and a share of Ark. Other interests include DTW 1991 and Agora Syndicate 3268.

The Scor vehicle also provides all of the underwriting capital for its own Lloyd's business, Channel Syndicate 2015, but this is not part of the review.

A request for comment on Buker's exit was sent to PartnerRe.

Price contagion largely over: Willis Re's Kent

Property catastrophe reinsurance pricing pays increasing heed to regions, risk experience and company type, according to Willis Re CEO James Kent.

Speaking to *The Insurance Insider* ahead of the Monte Carlo *Rendez-Vous*, Kent noted that increased differentiation between cedants was "quite healthy" for the market.

In Florida, in previous cycles, the "market generally moved at a similar rate" after major losses, he said.

"While you saw some differentiation [during the summer renewals], it was nothing along the lines that we have seen this year, where you have had some pricing move by low-single-digit, risk-adjusted rate increases and others who paid 30 or 35 percent [more].

He added: "The better quality of data and analytics that exist, allied with the greater regulation – the capital models that are in place to oversee reinsurance companies – has driven greater transparency."

This means that "reinsurers will be more discerning on a client-by-client basis".

For reinsurers, the ability to see where cedants are increasing their own rates "supports a better reinsurance product" in both pro rata and excess of loss business, Kent said.

Kent added that while reinsurers look at each contract on its merit, the "power of the corporate trading relationship" between reinsurers and cedants also has an impact on pricing.

For smaller, national insurers that buy lower and incur multiple losses, the pricing dynamic is different, Kent noted.

"There, we are seeing some quite significant price increases, because it merits that as a logical upward price adjustment," he said.

Kent pointed to sustained high capacity in the reinsurance market as the key factor in the dislocation in pricing between retrocession, reinsurance and primary cover, with pricing in retro and insurance moving much faster than in reinsurance.

Willis Re's latest Reinsurance Market Report showed that in H1 2019 reinsurance capital increased by 8 percent from the prior-year period, to $559bn.

"That growth supports the fact that despite the challenges in 2017 and 2018, this year so far has seen the combined benefit of improved market pricing in many lines allied with a better investment environment," Kent explained.

Retention levels of cedants are also fuelling the disparity.

"How can the reinsurer say 'I have incurred a large loss from Irma, therefore I expect your price to go up 25 percent'? It doesn't work, particularly when that large global insurer is not capital-constrained [and] so not bound to buy from that reinsurer. Consequently, clients with good track records have seen preferred pricing."

Despite challenges in 2017 and 2018, Kent said he believed that the capital markets saw "real value" in reinsurance as an investment.

With interest rates more likely to fall than rise, and a bond market characterised by low or negative yields, reinsurance returns looked like an attractive bet, Kent concluded.

Consensus forms around $3bn-$5bn insured Dorian loss

A consensus is beginning to form over the (re)insurance industry's exposure to losses arising from Hurricane Dorian, with $3bn to $5bn being the most widely accepted range.

Some sources suggested a range of $1.5bn to $5bn. That would match the lower end of the range that AIR Worldwide issued last Friday of $1.5bn to $3bn, though that forecast included only Caribbean claims. (Re)insurance executives at the *Rendez-Vous* in Monte Carlo have suggested a range of $3bn to $5bn is a more accurate assessment of the industry's total exposure.

Catastrophe modeller Karen Clark & Company issued a preliminary estimate of total economic losses in the Bahamas from Dorian at $7bn. As one industry source explained, it is generally accepted that 40-70 percent of that number could be taken as an insured loss. That would put insured losses at a range of $2.8bn to $4.9bn for the Bahamas.

The islands of Abaco and Grand Bahama were the worst hit by Dorian. The most heavily populated island of the Bahamas – New Providence – was spared the worst of the storm. As such, there is a feeling in the market that the industry's losses could have been far worse.

However, there is widespread devastation on the two islands worst hit. Consequently, companies such as Bahamas First, RoyalStar Assurance, Colonial Security & General and Summit Insurance are expected to suffer significant losses from Dorian.

The major European players, and particularly those with a significant presence in the regional hub of Miami, are expected to bear the brunt of losses, with Swiss Re, Munich Re, Hannover Re, Scor and Everest Re all in the firing line when it comes to reinsurance treaties, market sources said.

There is also understood to be considerable binder capacity placed in the Bahamas, with companies such as Dual, Pioneer and Capsicum Delegated Authority all prominent players, sources said.

The storm first formed in the central Atlantic on 24 August and strengthened to hurricane status four days later. It became a Category 5 hurricane on 1 September and the same day made landfall in Abaco. Later that day, the storm made landfall on Grand Bahama.

After moving slowly over the Bahamas, Hurricane Dorian made landfall in the US in North Carolina. The storm then impacted Halifax, Nova Scotia, bringing with it winds of up 100 mph.

In the Carolinas, reinsurance losses are expected to be low to non-existent, as the level of claims set to hit homeowners' carriers are unlikely to hit the thresholds at which programmes are triggered.

It is a different story in Canada, however, with reinsurance coverages attaching at far lower levels. Many executives said it was too early to tell what losses will arise.

Key takeaways

- Insured losses from Hurricane Dorian will be between $3bn and $5bn
- Bulk of industry's exposure emanates from the Bahamas
- Bahamas First, RoyalStar Assurance, Security & General and Summit Insurance local players facing losses
- Major Europeans and Everest Re big players in the region
- Reinsurance exposure to Carolinas claims minimal
- Impact on Canada still unknown

Follow-only Lloyd's syndicate would appeal to Axa XL: Hendrick

Axa XL would consider launching a follow-only syndicate supported by third-party capital should the Future at Lloyd's strategy make it economic to do so, CEO Greg Hendrick told *The Insurance Insider*.

In an interview the executive said there was not yet enough clarity around Lloyd's CEO John Neal's plans for the creation of syndicates with dedicated follow-only capacity, "but certainly we would have a conversation if it became apparent there was something more efficient, more economic available which would allow us to match the right capital to risk".

As this publication revealed on Sunday, plans to create more distinction between lead and following markets at Lloyd's are progressing. The Corporation is due to publish its phase one blueprint detailing the execution of the vision on 30 September.

Year one is expected to see internal restructuring work on creating distinction around lead and follow syndicates. The performance management directorate at Lloyd's is said to be working on a kind of "kitemark" leadership status to 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 to do that.

Hendrick said Axa XL was focused on being a provider of both lead and follow capacity until more clarity was given on the plans. Axa XL, whose Syndicate 2003 is the second-largest in the market, leads around 35 percent of the business it writes at Lloyd's.

"We don't want to give that [lead position] up in any way," he said, adding that his firm was already trying to work out ways to access risk other than just following individual risk slips, such as facilities and portfolio underwriting.

In considering the lead-follow model, there should also be a conversation with Lloyd's around how leaders are remunerated for the additional work they would undertake on areas such as claims, processing and compliance, Hendrick said.

"It seems inefficient for every syndicate to staff itself for the capabilities to be both lead and follow," he added.

Talking about the Lloyd's strategy more generally, Hendrick said while Axa was committed to Lloyd's long term, "clearly Lloyd's isn't as efficient as it should be".

"The things that get me most excited about Lloyd's strategy are what creates efficiencies in the way we do business," he said. "More automated trading and clearing are the core ones we are focused on."

The Lloyd's Risk Exchange – a dedicated, tech-enabled platform for standardised risks – is a central component of the overall cost reduction drive 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.

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

A significant part of the early work on this workstream will focus on triaging claims to increase efficiency.

Global non-life run-off liabilities surge to $800bn: PwC

PwC says the value of non-life run-off liabilities has risen 8 percent to almost $800bn, and that the momentum in the legacy market is likely to continue.

In its annual report on the sector, the consultant found that North America now accounts for almost half the segment's total liabilities, with a value of $364bn.

The rest of the world accounts for the remaining $427bn in liabilities, making an estimated total of $791bn.

The estimated figure for last year was $730bn.

In a survey of key industry players, 70 percent of respondents said that they expected the level of investment activity in the market to increase over the next two years.

Since last year's survey, nearly 100 non-life legacy deals have been completed.

A total of 79 percent of respondents to the survey also predicted that it is likely they or their clients will engage in restructuring activity over the next three years.

Director of liability restructuring at PwC Andy Ward said: "It seems likely that active legacy management is here to stay, cementing its role in the wider market.

"However, encouraging a wider pool of sellers to test the market and become comfortable with undertaking repeat transactions will be a critical factor in the sector's future growth."

The US is expected to be the busiest territory in terms of deal volume and size.

Paul Corver, former chairman of the Insurance & Reinsurance Legacy Association, described the US as a market of "potentially endless opportunity".

A key driver of the legacy sector's growth is the emergence of Asia and South America, which have grown by $28bn since last year.

The main countries leading the increase in the region are South Korea and Japan, according to PwC, with China still excluded from the analysis due to lack of data.

The size of the legacy market in the UK and Ireland increased by $11bn to $66bn.

Activity has been spurred on by the Decile 10 remedial work at Lloyd's, whereby poorly performing lines of business, and in three cases whole syndicates, have been placed into run-off.

A total of 63 percent of respondents expected regulatory developments to encourage increased legacy activity over the next two years.

Lloyd's reforms are expected to continue to influence legacy deals in the UK.

Meanwhile, the European Insurance and Occupational Pensions Authority has made clear its desire to supervise run-off undertakings, which is likely to push the matter further up the agenda of European regulators.

UK insurance leader at PwC Jim Bichard said: "As insurance groups continue to embed the culture of repeatedly selling legacy insurance portfolios to drive capital efficiency, profitability or operational savings, and acquirers continue to realise value, I believe this market will continue to grow."

Lloyd's takes stronger stance on expenses for 2020 business planning

Lloyd's will move from "encouraging" to "demanding" to see more progress on expense ratio reduction during the 2020 business planning process, performance management director Jon Hancock has said.

In an interview with *The Insurance Insider*, Hancock said as with last year, any business plans which do not include expense ratio improvement will be sent back.

Last year the Corporation was "moderately successful" in pushing syndicates to reduce expenses, but there were exceptions due to some syndicates having to meaningfully cut premium to improve their underwriting, which would have negatively impacted the expense ratio.

"We have to take a balanced approach – last year was very much about improving the underwriting performance but it cannot all be expected to be done in one go," he said.

"If the cost of that is to say, in the short term my expense ratio goes up because I have to fight hard for underwriting discipline to improve, that's a good thing. But ultimately, there are about two-thirds of syndicates in Lloyd's which run an above [the Lloyd's market] average expense ratio."

The drive to reduce expenses is a "principle not a rule" and the performance management directorate (PMD) will not enforce set targets on expense ratio reduction, as every syndicate is different, Hancock explained.

He noted that there were some syndicates in Lloyd's which had "super competitive" expense ratios and it would be foolish to expect them to cut those even further.

In 2018, the Lloyd's market ran an expense ratio of 39.2 percent, a 0.3-point improvement year on year.

Looking to H1 results, which are published on 18 September, Hancock said the numbers should show "demonstrable" improvement as a result of the actions the market has taken to remediate underwriting profitability.

"I think you will see really good progress," he said. "But I also think you will see there is still a long way to go."

Lloyd's PMD has moved to a continuous form of performance management throughout the year, but Hancock said he didn't want to "overburden or over-monitor" the market.

The Lloyd's portfolio review, which last year identified the eight worst-performing classes at Lloyd's, has been dropped. Hancock said the method had created "the wrong focus" and disruption, which the Corporation didn't want for the market.

"I don't believe there is a bad class of business, but there are better or worse ways of pricing and selecting risk," he said. "Therefore, let's treat the market like that, let's make sure everybody is qualified and skilled to write what they do.

Lloyd's is continuing with its decile approach, which segments each individual syndicate's portfolio by performance and acknowledges each business' strength and weaknesses.

"We are aspiring for a world-class underwriting performance, and you don't just do that by cutting the bad business," said Hancock. "We also do it by growing the best-performing classes and recognising new opportunities and products. That's got to be really personal to each underwriting firm."

Priebe expects Cali wildfire fund's reinsurance to emulate Fema flood cover

Guy Carpenter's David Priebe is optimistic the proposed reinsurance programme for the California Wildfire Fund (CWF) will develop similarly to the circa-$2bn of protection his company has crafted for the Federal Emergency Management Agency (Fema) to manage its flood exposure.

Back in July, California Governor Gavin Newsom signed off on legislation that would create a fund to cover the state's utilities for liabilities that arise from future wildfires that began because of their equipment.

The $21bn fund will take financing commitments from the utilities and from their clients through rate increases that will be invested in infrastructure upgrades.

The California Earthquake Authority has been tasked with administering the CWF, and in August the organisation appointed Guy Carpenter to provide it with reinsurance and advisory services.

Guy Carpenter is now looking into securing reinsurance protection for the CWF, although as sister title *Trading Risk* reported on Sunday, there is some scepticism in the market that it will be successful in acquiring the circa $2bn of coverage it is seeking.

The potential inclusion of beleaguered utility Pacific Gas & Electric as one of the possible beneficiaries of the fund has also been cited as a potential stumbling block for carriers considering giving their support to the proposed fund.

While Guy Carpenter's Priebe would not be drawn on the specifics of the programme being sought, the reinsurance broker's newly appointed chairman told *The Insurance Insider*: "There's a wide divergence in the view of the risk and then the premium needed".

Talking to this publication during the Monte Carlo *Rendez-Vous*, Priebe pointed to Fema's flood reinsurance programme as an example of how his company has helped government entities transfer risk away from taxpayers and to the private market.

Fema first turned to the reinsurance market in September 2016, securing $1mn of protection as a test purchase, before it then secured just over $1bn of commercial coverage on 1 January 2017.

Since then, Fema has further built out its reinsurance programme. On 1 January, Fema bought $1.32bn of protection from the traditional reinsurance market for one year. When combined with the $500mn catastrophe bond that Fema procured on 1 August, 2018, the governmental body now has a combined $1.82bn of protection.

"I envision the wildfire fund will develop in similar stages," said Priebe.

"It's an emerging peril with a wide degree of uncertainty and views. It's about working with capital providers and helping them to assess the peril."

He is positive, however, that a solution can be created to support CWF's needs.

"It will take a while to fully build the capital but people aren't shying away from it. We've had very positive responses from capital providers to support this programme."

Bridging the divide

Aon's Joe Monaghan explains why budget-conscious public entities are recognising the value of risk transfer

Where do you see the main opportunities in public-to-private partnerships?
Governments historically have borne the cost of helping society recover from disasters, both natural and economic. They bear this risk operationally and on the public sector balance sheet.

Extreme weather and economic volatility have increased for the public sector and in doing so, created stress on the budgets of cities, states and nations. Governments can no longer "go it alone" when it comes to mitigating climate and systemic risk.

There is a need to transfer the risk, but the ability to do so has been limited, either because solutions have not been readily available or because that risk was not observable in recent experience. For example, the US government was exposed to hundreds of billions of dollars of mortgage credit losses during the financial crisis coming from multiple agencies, like Fannie Mae and Freddie Mac, that were ultimately backstopped by the US Treasury. With the exception of mortgage insurance covering a portion of loss on a small segment of their portfolios, those agencies, and the US taxpayer, were retaining all of the default risk. Despite strong data and knowledge of regional housing downturns, the models underestimated a nationwide decline in home prices, largely because it had never occurred. In retrospect, there was a confluence of factors, including inadequate mortgage underwriting standards, that came together with predictably disastrous results. But that's the nature of systemic risk. It is often difficult to understand risk as it's building, which is why hedging the unlikely but severe outcomes is valuable.

This is true for natural disasters too. The National Flood Insurance Program (NFIP) in the US was stable, until hurricanes Katrina and Sandy resulted in losses that were multiples of the programme's resources. This required Congress to step in with tens of billions of dollars of support. Congress demanded that the NFIP find ways to hedge its volatility and the programme just happened to get a full recovery the first year it bought reinsurance in the wake of Hurricane Harvey.

These are just two examples – systemic economic risk and extreme weather – of the types of risk that governments, at all levels (national, provincial, and municipal) are exposed to across the world. Our industry has the opportunity to take those lessons learned and scale them into new solutions that meet the needs of government and society.

What are the barriers to growth in public-sector insurance?
Governments have distinct considerations when they evaluate (re)insurance as a tool. Typically, government budgets focus on annual expected expenditures and often revenues are inadequate to cover spending, so many governments are debt financing large portions of their annual expenditures. They must therefore be able to justify purchasing a risk transfer solution over immediately impactful investments in education, infrastructure or healthcare. Because public money is being deployed, the highest level of discipline and analytical rigour must be used to understand the costs and benefits of any purchase. Policymakers must have confidence that any (re)insurance solution can be justified to the public. The private sector can do a better job of understanding the unique challenges agency heads, public officials and policymakers work through in making this assessment.

Has the urgency of closing the protection gap hit home among public entities?
Absolutely, because they continue to see the impact that natural disasters and economic volatility have within the constraints of a budget that must meet many needs – health, education, economic development. Just look at the most recent example of Hurricane Dorian and its impact in the Caribbean and parts of the US. Further, we hear increasing conversations about the potential of an economic slowdown in the near future that has implications across government budgets globally.

The protection gap that we often talk about in the (re)insurance industry reflects the un- or under-insured individuals and businesses exposed to extreme events – for example the low take-up rate for earthquake coverage among homeowners in California. Governments are increasingly focused on understanding the probability and magnitude of those events and the economic loss implications on their constituents. But there is also a gap in the resources that governments have at their direct disposal in the wake of these severe events. The concept of using insurance, reinsurance and capital markets as an amplifier of direct government resources is a conversation you hear more and more within the public sector.

How are you faring in the US mortgage and wider credit space?
That marketplace continues to grow. It's been a phenomenal success for Freddie Mac and Fannie Mae but also for the (re)insurance sector. We are approaching the sixth anniversary of the inaugural mortgage reinsurance risk transfer pilot, which incepted in November 2013, and by year-end 2019 we expect about $25bn of limit will have been transferred on roughly $800bn of mortgages. These deals are expected to generate about $3bn of income to reinsurers over their lifetime. We are expanding now from single family risk to multi-family risks and have done a series of transactions there. We did a pilot for the Export-Import Bank of the United States that was very successful, and upon which we are looking to build. Various international aid and development agencies are seeking innovative public/private partnerships as well. There is a tremendous opportunity for growth, but the (re)insurance community needs to approach this sector focused on its unique constraints and considerations. It must be a partnership that brings the best of both sides to enhance the ability of governments to achieve their missions on behalf of their citizens.

Joe Monaghan
CEO of Aon's Public Sector Partnership

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Exits from the JLT Re top team – for various reasons – have included CEO Mike Reynolds, chairman Ross Howard, CFO Nick Moss, North America deputy CEO Pete Chandler, and UK and Europe CEO Keith Harrison.

Revenue leakage is likely, particularly with the $20mn-$30mn former Towers Re London business attached to Harrison and Howard, but sources have said that the old JLT Re cost base could be halved. However, Guy Carpenter's positive margin gap over JLT Re means simply running the cost base more efficiently will buoy earnings.

Rather than the smaller challenger brokers, Aon and Willis Re – as the closest parallels to Guy Carpenter – are best placed to benefit from clients that worked with JLT Re and Guy Carpenter who feel they now have excessive concentration with a single broker.

Lockton Re

In March, US retailer Lockton signalled an aggressive expansion of its small reinsurance arm by hiring Guy Carpenter's North America CEO Gardner, along with global innovation chief Claude Yoder and managing director Nick Durant.

Confirming the hires the day after they were reported by this publication, CEO Ron Lockton said the company was "going all in on reinsurance", describing it as "a critical pillar of Lockton's aggressive growth plan".

The Insurance Insider can reveal that Lockton has talked about building a $400mn-revenue reinsurance broking business at maturity.

Sources who had been briefed on the plan said Lockton Re intends to go up against the big three brokers and will target a broad book of business including large accounts.

Gardner is considered a highly credible leader, and is extremely close to AIG, one of Guy Carpenter's largest clients, while the old Towers Re London book is among the stickiest in the market.

However, the revamped Lockton Re has had a vexed start, with a lawsuit from Guy Carpenter involving a temporary restraining order against Gardner.

The firm's approach to remuneration has also raised eyebrows, with reinsurance broking sources telling this publication they were aware of staff offered upwards of double their compensation to join, including three-year guaranteed bonuses.

One senior source said the Lockton plan showed the business making a loss beyond year five, reflecting the front-loading of costs, the accounting within reinsurance broking and the long sales cycle.

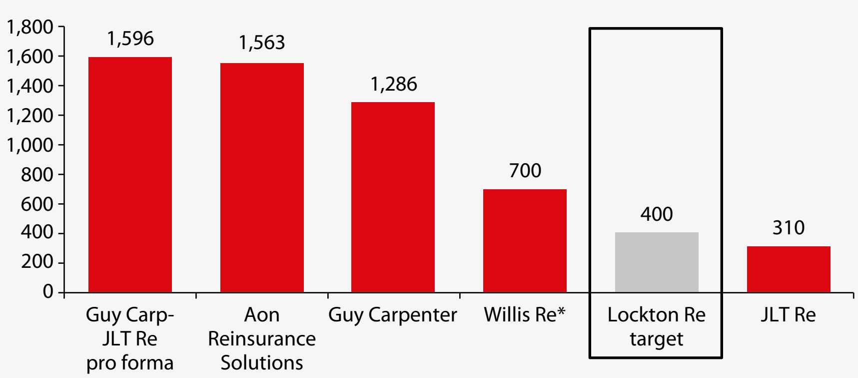
Lockton has an estimated $6bn-$10bn US retail book that rivals and cedants expect it will look to leverage to secure a share of outwards programmes. However, in looking to leverage this book within the US, it will face rivals with much bigger retail platforms.

In addition, Lockton faces an uphill struggle in establishing the kind of centralised placement guidelines and structures that are possible within more centrally controlled and corporate broking environments.

Lockton will also come up against the challenge of having to compete with reinsurance brokers that have the scale to fund much larger investments in analytics and which can utilise bigger stores of data.

As reinsurance brokers continue to move away from providing transactional and placement services towards higher-end advisory work around capital and risk management, the benefits of scale are only likely to grow.

Reinsurance broking revenues ($mn)



*According to sources, treaty only
Source: Company reports, *The Insurance Insider*

TigerRisk

There is clear room for smaller reinsurance brokers looking to attract staff who want a more entrepreneurial environment.

That driver looks likely to persist long term, although it is hard to see that these firms – particularly if they lack a major retail broking platform – can get much beyond $100mn of revenues.

TigerRisk is the prime example of this model, and is believed to have grown revenues to around $100mn after just over a decade in business. The firm's success has been driven by a culture of aggressive client advocacy, a number of highly lucrative personal relationships held by star players, and a bespoke approach that has given it a niche in large one-off deals.

One buying source said TigerRisk's more tailored approach and innovative thinking contrasted with bigger brokers, which sometimes appeared to be offering choices from a menu.

Recent hiring activity – which has included president Rob Bredahl, new London CEO James Few, senior Willis Re broker Lindsey Frase, JLT Re binders broker Neill Cotton and former Lloyds Bank executive Bill Cooper – has reignited speculation about an imminent liquidity event.

However, sources have said that it could be difficult for TigerRisk's equity holders to secure full franchise value on an exit given the high degree of concentration of revenues with Tower Hill and Farmers (where personal relationships play a major role in production), and with as much as 20 percent of revenues believed to be driven by one-off deals. Some see it as more of a partnership business – not that such businesses cannot find deal structures and the right counterparties under certain circumstances.

TigerRisk has been the most prominent in this tier given its lead on scale, but BMS – fresh from its buy-in from Canadian pension fund British Columbia Investment Management – has also signalled its intention to establish its credentials as an alternative to the big three.

Capsicum Re, meanwhile, has grown rapidly from a standing start in 2013 and looks set to be acquired by AJ Gallagher over the next two or three months.

Beach, with around $50mn-$60mn of revenues, has targeted growth among smaller clients in the US where its owner Acrisure has a major presence as a retailer.

RKH, which has been heavily geared towards facultative business to date, has also quietly added a number of new treaty specialists in a bid to secure growth.

ILS investors are still committed but newly cautious: LGT

Michael Stahel, partner and portfolio manager at LGT ILS Partners, says investors are continuing to seek diversification in cat risks

Michael, 2017 and 2018 were challenging years for the ILS market. What is your key takeaway from these loss-heavy years?

Certainly compared to our peers, the LGT ILS funds have only shown a limited impact from the losses in 2017, and we reported positive numbers for 2018 as well as 2019 to date, with no notable impact from loss creep.

However, these recent years have triggered a more cautious approach to the asset class from institutional investors given the subdued performance of the sector over the last two years. Some managers reported very negative performance numbers especially for 2017, and were additionally affected by late reporting and adverse loss development throughout 2018, and at times even into 2019. The positive element around this development is that investors and consultants were able to develop a better understanding for the different approaches of ILS managers – and that the promise of high returns of some managers correspondingly comes with very significant downside risk. The past two years have highlighted our promise of conservative, well-diversified portfolios and very transparent and cautious reporting, all of which helped us to mitigate or minimise losses to our investors.

How would you describe the current investor sentiments?

As a result of the loss-heavy years, investor interest is currently somewhat reduced. This, combined with the challenges of trapped collateral for many of our peers, now collides with an increase in demand for reinsurance protection, driven by the very same loss-heavy years and increased capital requirements from regulators and rating agencies. This has brought about some interesting market dislocation and led to rate increases for the first time in years, especially in the loss-affected regions of the US and Japan. The rate increases directly translate into higher performance for this year so far, and whilst our investor base continues to watch the space carefully, investors continue their allocation to the asset class, not least with a focus on the diversification benefits of ILS.

Can you briefly comment on the term "trapped collateral" and what it means for the industry?

In a standard transaction with a collateralised market, the contractually agreed limit is collateralised in either a trust account or through a letter of credit. After loss events, the counterparty assesses the scenario: if the loss reserves do not exceed a certain threshold, the collateral is promptly released.

However, as a result of the uncertainties in loss development in 2017 and 2018, protection buyers have taken a more cautious approach and have held on to collateral longer than in the past. This is referred to as "trapped collateral": money that is not held against actual loss reserves, but where collateral remains locked away to cover potential adverse development – such capital cannot be put to work.

Whilst it is difficult to assess the total amount of such trapped collateral, an industry estimate suggests this to be as much as 15 percent of the total ILS capacity – hence, a corresponding dampening effect on available capital. In fact, trapped collateral is now deemed one of the main drivers of the 2019 rate increases.

How has LGT dealt with this challenge?

Well, LGT ILS' venture with Lumen Re essentially mitigates this challenge for our cedants and investors. To give you some more background on this, in order to transact reinsurance contracts as a fund, ILS managers rely on a structure referred to as "transformer". At LGT ILS, we established our own transformer entity many years ago, and we have transacted more than $15bn in collateralised reinsurance limit on behalf of LGT ILS funds and mandates over the years. However, LGT ILS has often faced cedants who wanted to access capital market capacity but requested a rated reinsurer to ease the transaction process as they deem the operational tasks around managing collateral positions to be too cumbersome.

A simple work-around includes the addition of a rated reinsurer to act as "fronter". Yet, using such fronting services adds significant costs and makes negotiations at times more complicated. Furthermore, the collaboration with a fronter increases business risk, as the reliance on their service becomes significant. The risk is exacerbated by only a small number of firms offering this service to the market.

In response to these challenges, LGT ILS established Lumen Re. A significant equity contribution was made to our existing transformer entity whilst at the same time upgrading the license to a fully fledged commercial reinsurer. The reinsurer acts as an "in-house fronter" for all LGT ILS funds, whilst all capital is held in short-term government securities to mitigate any potential credit or market risk. In 2017, AM Best assigned Lumen Re an A / excellent rating, thereby confirming the entity's superior credit quality, and this superior rating has been reaffirmed with a stable outlook earlier this year.

The benefits are significant: insurers who do not wish to manage the collateral process face Lumen Re as a rated reinsurer. And yet, Lumen Re provides the capacity on the basis of a very large collateral pool, thus providing insurers with the highest possible security. Cedants and investors benefit from lower structuring costs, ease of operations, improved deal access and most importantly from the mitigation of "trapped collateral".

And how was Lumen Re's reception in the market?

The A rating underlines the strong capital pool of over $5bn. Market participants agree that LGT ILS offers an attractive alternative to "traditional rated paper", as trading with Lumen essentially removes the credit risk element of transacting reinsurance. Cedants are facing a rated carrier from an established franchise, with focus on transparency, reliability and speed of execution. The reception has thus been overwhelmingly positive, and meanwhile we are transacting over 70 percent of our reinsurance book purely using Lumen Re's rating.

Michael Stahel
Partner and portfolio manager at LGT ILS Partners

US casualty reinsurance set for further rate gains: PartnerRe's Colello

US casualty reinsurance business looks likely to achieve additional rate increases at the upcoming 1 January renewal as recent severity and frequency trends show little sign of abating, according to PartnerRe's Jonathan Colello.

The sector's renewals at the start of 2019 featured rate rises, while there was also pressure for lower ceding commissions. At the same time, new US casualty quota shares were brought to market, putting increased pressure on the availability of capacity.

As *The Insurance Insider* reported in January, further stress in the beleaguered commercial auto, general liability and medical malpractice segments meant reinsurers were able to push down quota share ceding commissions by as much as 3 points at the start-of-year renewal.

Colello, PartnerRe's recently appointed CEO for P&C Americas, told this publication that many of those market stresses remain the same as the reinsurance industry moves toward 1 January 2020.

"[The problem areas] are the usual suspects with regards to frequency and severity. It's the excess and umbrella lines, it's commercial auto, where there seems to be a new normal in terms of severity, and there's frequency in D&O [directors' and officers'], particularly in the primary. It's nothing outside of what we've heard in the last two or three years. It's a continuation of sustained increases in severity and frequency in some lines."

Colello described the issues at play in the casualty primary market as "sustained", explaining that in the majority of classes of business there has not been a further worsening of either severity or frequency.

There is, however, a compound effect that means prior-year reserves must be reconsidered.

"There's a compound effect. When you have a change in your severity trend, you have to look at the years you wrote the premium and apply that new severity trend," he said.

Colello noted the lag between what the primary market experiences and how it then flows through to the reinsurance sector.

However, Colello believes the improvements in many of the underlying casualty lines that have been reported by the primary carriers will feed through into the reinsurance market.

"I think we'll continue to see sustained increases in underlying severity and that's helping clients push rate, and their reinsurance partners will broadly experience the same improvements in the proportional structures," Colello said.

It is not just rates that will be under pressure to improve though, with reduced ceding commissions also a possibility.

"I would expect there to be continued pressure on ceding commissions, but in a rational way that prices in the original rate, the underlying loss ratios and the market's view of frequency and severity," said Colello.

Beazley appoints TigerRisk for legacy reinsurance deal

Beazley has enlisted TigerRisk to advise on a reinsurance-to-close (RITC)-type deal to address a sub-£100mn ($123mn) legacy portfolio, *The Insurance Insider* understands.

Sources told this publication that TigerRisk was approaching legacy carriers outside the Lloyd's market about the transaction, which would effectively address any volatility on Beazley's back book but would not involve a transfer of liabilities, as is the case with a typical RITC deal.

It is understood that the book in scope has less than £100mn of reserves but holds a range of short- and long-tail liabilities, including motor and general liability.

Sources suggested that Beazley was seeking the transaction as part of its portfolio management strategy.

In the first half, the carrier was among the listed London players which reported a deterioration in their combined ratio year on year, with Beazley just breaking even on its underwriting despite the period being benign for catastrophes.

During a call with analysts, CFO Sally Lake admitted that H1 reserve releases at 0.3 percent of net earned premium were "lower than you would expect from Beazley".

Reserve releases continued but at a lower rate at four of Beazley's six divisions. However, these were offset by strengthening in the reinsurance and marine divisions.

The firm also warned: "The scale of the losses that we, in common with the broader market, have incurred over the past two years means that below-average reserve releases will continue this year, impacting our full-year combined ratio, which we expect to be in the high 90s."

The RITC market at Lloyd's only has a handful of active players, with Enstar's Shelbourne Syndicate 2008 particularly dominant in the space. Other RITC players include RiverStone and Randall & Quilter.

However, as this publication revealed on Sunday, the RITC market will soon see a new entrant in the form of Premia, which is closing in on a deal to acquire Charles Taylor's managing agency and the run-off liabilities associated with Standard Syndicate 1884.

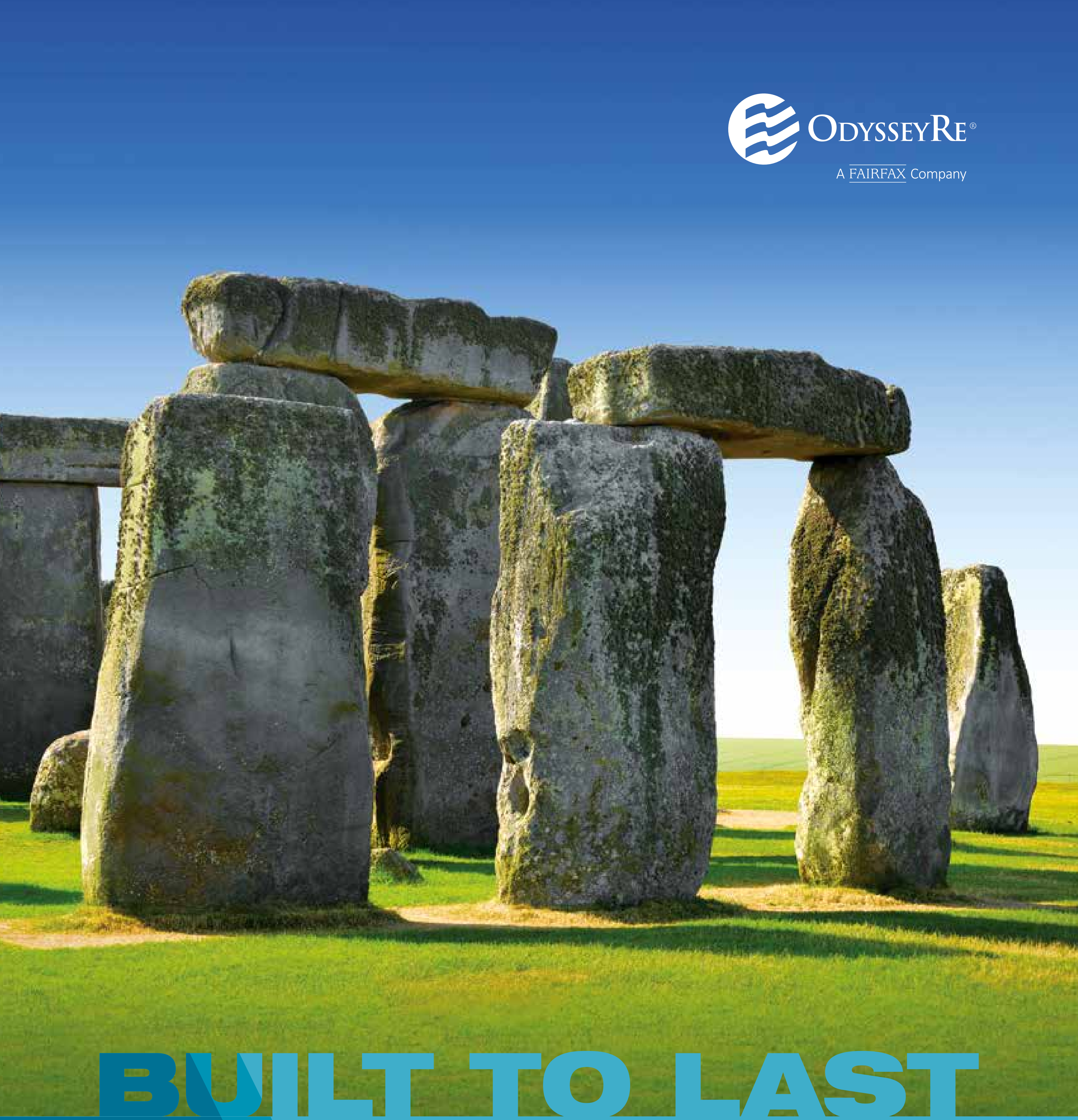
Premia fought off a consortium of European-focused legacy player Compre and Mike Millette's ILS fund in the final stages of the bidding process.

The business had been marketed to legacy players by adviser Willis Re Corporate Solutions as a "starter pack" for any such entity looking to enter the Lloyd's market.

Premia, which has backing from Kelso and Arch, has been targeting a Lloyd's entrance for some time and had secured "shelf" approval from Lloyd's to launch a syndicate of its own.

Premia has also held talks with AmTrust about taking some of the outstanding liabilities on its Lloyd's business which were not taken on last year by Enstar.

Beazley and TigerRisk declined to comment.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Moving on up

Just months into the job, Scor's new head of reinsurance sits down with *The Insurance Insider* to share his assessment of rates and where they're headed

Michel Blanc hasn't been Scor's head of reinsurance for long but he's already clear about two of the sector's pressing issues: cyber and profitability.

The new reinsurance chief joined Scor in 1992 as a casualty fac underwriter in the large corporate risks space. Since then, he has risen through the ranks, ultimately becoming CEO of Scor Global P&C for Asia before he was named reinsurance head in March.

And, after two of the worst loss years in history, he thinks profitability will be among the items that are top of the agenda for executives meeting in Monte Carlo this year.

Scor executives in July expressed optimism about the US reaction to recent catastrophe events.

However, speaking before the reinsurer's second-quarter results, Blanc noted that pricing could have been expected to increase more significantly after the sector racked up $223bn of insured cat losses across 2017 and 2018.

"Despite the larger cat and man-made events that have occurred, the market reaction on pricing and terms and conditions has been limited to loss affected programs and geography," he told *The Insurance Insider*.

> "We have seen rate improvement on loss-impacted layers of programmes but it is not across the board – and I believe that we should try to improve across the board, and restore a better margin"

"I hope that it will be accelerating, but we don't yet have certainty regarding that."

In some areas, though, Blanc says there have been "drastic rate increases". He points to the excess and surplus (E&S) market in the US in particular. There, he says, "chronic under-pricing and loss inflation trends" were compounded by the shock losses to force rates higher.

On top of the natural catastrophes, Blanc says recent man-made losses have eaten into the margins of reinsurers.

"The reinsurance industry can sustain what happened, but it has now become a necessity to improve and to restore its margin," he adds.

Blanc looks back with nostalgia to the "optimal" pricing in 2013 and 2014, when he remembers the typical return on equity was around 13 percent, compared with the 8 percent he observes today.

But he's not going to try and force the past on Scor's customers. He explains that negotiations take place "client by client" rather than by region or line.

"When we negotiate terms with a client for whom we feel that results are in line with our expectation, we negotiate differently than with a client where the terms should be improved," he says.

But that's not to say the executive doesn't see broader opportunities.

"We see the big players of the E&S market

on the primary side retrenching, which means that they are re-underwriting their commercial lines books and that translates to a robust primary rate increase."

It remains to be seen as to how that will translate into reinsurance pricing, he adds.

When he spoke to this publication, Scor had just completed its 1 July renewals, with Blanc noting there had been "discussions on commission terms" on proportional treaties.

But Blanc is not chalking up his victories yet. "It's too early to say whether the reinsurance side will see the full benefit of what's going on in the primary market in the US," he says.

Man-made opportunities

Man-made losses cost insurers $8bn last year, but Blanc thinks the sector's recent poor performance in that area could too provide an opportunity.

"If you look at engineering, there has been an increase in the number of large losses and severity is amplified by terms like advanced loss of profit, delays in start-up, which have been granted with high limits," Blanc explains.

He says that following recent losses such as the Ituango Dam in Colombia, which sources have said could cost insurers up to $1.8bn, pricing on the primary side is becoming "more reasonable".

However, he says: "It's not only a matter of rates, it's mainly, in my opinion, a matter of terms."

When asked for an example, he notes that sub-limits and higher deductibles are being used more widely to cover construction delays.

He says Scor estimated that reinsurance automatic capacity for engineering risks had fallen by around 20-25 percent at the 1 January renewals.

"That is good news for us as Scor's engineering book is assumed mainly on a proportional basis."

Blanc says there are areas where primary rates are strengthening such as Australia, which has suffered a number of man-made losses, and Japan, where Typhoon Jebi could cost the market well over $15bn.

There have also been rate improvements in India, where state-backed reinsurer GIC has drastically increased pricing and reinsurance terms on all non-marine surplus treaties it writes, forcing the primary market to hike prices, Blanc adds.

"That is good news," he says. "Considering that Scor's reinsurance portfolio is about 70 percent proportional, we should see that translating into better profitability over 2019 and hopefully into 2020.

"When you write proportional reinsurance, you should benefit right away from the better rates that we see on the primary side."

However, he notes: "There are still discussions with the cedant, obviously, regarding terms of the reinsurance contract, so it is difficult for me today to say, 'This is going to be a very robust and continuing trend'.

> "Cedants have reviewed their property portfolios and there is an alignment to say that silent cyber should not be covered under the treaty, but should be ceded to the standalone cyber treaty, and then become affirmative cyber"

"On the non-proportional side, it is too early to say whether this is going to be translated right away into the betterment of pricing," he continues.

"We have seen rate improvement on loss-impacted layers of programmes but it is not across the board – and I believe that we should try to improve across the board, and restore a better margin."

But it's not just the marginal line-by-line or client-by-client improvements that Blanc will have to push for. He also needs to keep an eye on the macro picture where many, including his boss, see the main prize.

Cyber

Earlier this year, Scor chairman and CEO Denis Kessler told a conference that cyber risks would soon become bigger than natural catastrophes, according to a report by Bloomberg.

Kessler said cyber could grow to become a $600bn-a-year peril.

But he reportedly noted: "The demand for cyber risk coverage well exceeds the supply and this is an issue."

It's no wonder then that Blanc believes it will be a "hot topic" around the tables of the Café de Paris this year.

And he thinks the market is taking tentative steps to resolve the difficulty it has had with "silent" or "non-affirmative" cyber risks that have been inadvertently covered.

"Cedants have reviewed their property portfolios to identify 'silent' and there is an alignment to say that silent cyber should not be covered under the treaty, but should be ceded to the standalone cyber treaty, and then become affirmative cyber," he says.

"Insurers collect the relevant information in order to aggregate and to run scenarios, even using cyber accumulation model, to assess what could be maximum loss based on the scenarios."

Scor writes standalone cyber on a proportional basis, he says. That's largely because the reinsurer is not yet comfortable with any of the models that have so far been produced by third-party providers as they have not been tested.

"We currently rely on our own deterministic scenarios to assess the contribution by ceded portfolio and Scor maximum loss exposure for all assumed portfolios," Blanc says.

"It is clear that it is a big exposure, we have seen already very large losses, so, that's the main reason why I believe reinsurers, and Scor in particular, are very prudent in this line of business."

To highlight the reason for his discomfort with the models, he points to the recent example of Typhoon Jebi.

The initial modelled market loss was around $3bn-$5bn, he says, but Blanc notes that that rose to $14bn eight months later. The expected eventual loss is still moving north.

"There is a lot of uncertainty in the way the model works, and what we do, is obviously try to learn from each and every event, to improve our modelling," Blanc explains.

"We are obviously collecting information, working with ceding companies and assessing what could be some changes that we have to implement, in our PML [probable maximum loss] and pricing models.

"When you have a major event, obviously we are there to pay claims. We also collect a lot of information thanks to cedants and brokers to understand what happened, then obviously we revise our modelling, it could on the PML, or capital, but also it could be on pricing only, and then we are prepared to do the next round of negotiations at the next renewal."

So there's a lot on Blanc's agenda in the first year on the job. But he has his priorities straight.

"Scor has about 35 locations around the world, so it's a big job to travel to see and meet with all my colleagues, to meet with the clients. That will be my primary immediate focus over the next 12 months," he concludes.


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A pitch for success

Third Point Re CEO Daniel Malloy explains the total return reinsurer's plans to broaden its underwriting portfolio

Daniel Malloy was walking across a softball field in New York's Central Park, where he was attending an Aon event, when he took the phone call offering him a role with Third Point Re.

At that stage, Malloy was part of the team at Aon Benfield, as it was then known, that had advised founder John Berger on the set-up of the total return reinsurer.

"I was involved in the project that became Third Point Re for around a year before the start-up… to bring Third Point up the curve to get what it takes to be a reinsurer," he says.

The reinsurer was set up with capital from Kelso & Company, Pine Brook, Dowling Capital Partners and Aon Benfield, with a plan to commence an IPO – an ambition it realised in 2013, raising a slightly less-than-expected $276mn.

Berger recruited Malloy shortly after Third Point Re's launch in January 2012, as executive vice president for underwriting, along with Rob Bredahl, previously CEO of Aon Benfield Securities, as CUO.

Bredahl became COO, CFO and eventually CEO. Malloy similarly moved up through the ranks, becoming permanent CEO himself in May this year after Bredahl left to join TigerRisk. Berger gave up his chairmanship of the business in 2017, later taking up roles at Ascot Re and the Association of Bermuda Insurers and Reinsurers.

> "Every reinsurance company is a total return reinsurer, in that a significant proportion of the profits are driven by investment return"

Lifting the stigma

Malloy has taken the helm of the business at a tough time for total return reinsurers across the board.

The vehicles were meant to provide a way to gain access to top fund managers, with attractive tax features, and an opportunity to "turbocharge" investment returns with underwriting gains.

So far, Third Point Re and Greenlight Re, the two listed "class of 2012" vehicles, have faced criticism from shareholders for failing to deliver on that vision, while AM Best appears to be intent on more scrutiny of total return reinsurers.

The CEO rejects the grouping together of firms as "total return reinsurers", and resists the analysis of the model as a whole.

"The group [described as total return] has more differences than similarities in the business they write and their investment strategy. It's hard to draw a common thread," he says.

"Every reinsurance company is a total return reinsurer, in that a significant proportion of the profits are driven by investment return," Malloy adds. He pointed out that in Q1, a number of traditional (re)insurers posted a profit despite combined ratios above 100 percent thanks to the performance of their investment portfolios.

Third Point's strategy at its inception differed from that of its Bermudian start-up predecessors created in 2001 and 2005, which focused strongly on property cat business.

The reinsurer instead targeted non-standard auto, with crop insurance, limited wind quota shares and casualty

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quota shares making up the rest of its business.

However, after a series of difficult years, Third Point Re has embarked on a "process of evolution" which began in March 2017 and is now beginning to bear fruit, Malloy said.

In the fourth quarter of 2016, Third Point Re fell to a $46.7mn net loss, including both underwriting and investment losses, although it had secured a net income of $27.6mn for the full year, compared to an $87.4mn loss the previous year.

In March 2017, AM Best affirmed the carrier's financial strength and credit ratings but said it was concerned about Third Point Re's underwriting performance.

The agency warned that further deterioration would put pressure on Third Point Re's ratings and, in May this year, AM Best revised the outlook for the carrier's financial strength rating from stable to negative, while affirming the rating as A-, the minimum rating required for reinsurers.

"We heard from AM Best that an A-rated reinsurance company has to have a strategy for running a combined ratio below 100 percent," Malloy says. The carrier had an average combined ratio of 105.6 percent from 2014 to 2018.

The past two quarters have been brighter for the carrier though, with consecutive periods of net profit.

Third Point Re reported an underwriting loss in both Q1 and Q2, although in both cases the losses were less than in the corresponding 2018 quarters, while investment returns were up on prior-year periods in both quarters.

At the end of June this year, its combined ratio was 101.1 percent.

Focusing on underwriting

For Malloy, it is clear that Third Point Re's strategy must change.

"As part of [our] evolution, we need to selectively take on more underwriting risk," he says.

"Property catastrophe has the potential for a higher margin and lower loss ratio, but it's not the only business there is."

In the second quarter, Third Point Re wrote around $16mn of property cat business, making up approximately a fifth of its total gross written premium in that quarter.

The carrier's push to broaden its risk portfolio is evident in the hiring it has done in the past two years, according to Malloy.

"We have been bringing on a talented underwriting team," he says.

To build up its presence in other lines such as specialty, Third Point Re has hired Tracey Gibbons and Rachael Afford from Allied World, TransRe's former head of capital solutions David Sinclair, Berkshire Hathaway's David Govrin and David Drury and Steven Wilson from Chubb Tempest Re and Munich Re America respectively.

"They have been instrumental in the change," Malloy explains. "Most of them have 25 years' experience or more."

The strategy for this relatively new team is clear: to diversify Third Point Re's underwriting portfolio, improving its overall performance, while the carrier adjusts its investment strategy to smooth out volatility.

"We are allocating more risk 'chips' to underwriting," says Malloy.

"We have more than sufficient capital for investment and underwriting. As we take on more underwriting risk, we are able to show less risk on the investment side," he adds.

Malloy highlights Third Point Re's decision to move $400mn from the Third Point Enhanced LP fund into fixed income strategies in August, on top of a $350mn sum switched in May.

He also mentions that Third Point hedge fund manager Dan Loeb is "working to create a less volatile return", reducing the fund's net exposure by protectively hedging opportunities at this late stage in the economic cycle.

Third Point Re is also looking to take advantage of a rating environment which, though far from a true hard market, is showing signs of upwards rating pressure.

Malloy notes flat-to-low percentage increases on loss-free property cat covers, with increases of 15-20 percent on loss-affected accounts.

"The ongoing development of these losses will mean great increases later on," he adds.

In specialty, rates were generally flat, although this was better than Third Point Re had budgeted for this year, Malloy notes.

On quota share business, which comprises the majority of Third Point Re's premium, Malloy says cedants have been achieving the improvements to their own rates which were "absolutely necessary", while Third Point had seen improvements in the terms and conditions of these covers.

Third Point Re's portfolio is split between traditional quota share business, reserve covers and what it refers to as "opportunistic deals", or event-driven reinsurance in which cedants need to secure cover quickly.

An example of this was Third Point Re's participation in the credit risk transfer programmes put in place for government-sponsored mortgage entities Fannie Mae and Freddie Mac after the financial crisis in 2008.

The opportunistic segment is "a meaningful proportion" of Third Point Re's portfolio and "one of the better-priced areas," Malloy says.

He adds that the carrier's reserve covers business is also stable. This unit targets "well-run businesses" that, while satisfying Solvency II requirements, want to buy additional reserve covers to satisfy their own internal reserve modelling.

"We're different in that we don't offer an exit visa from hell," Malloy explains.

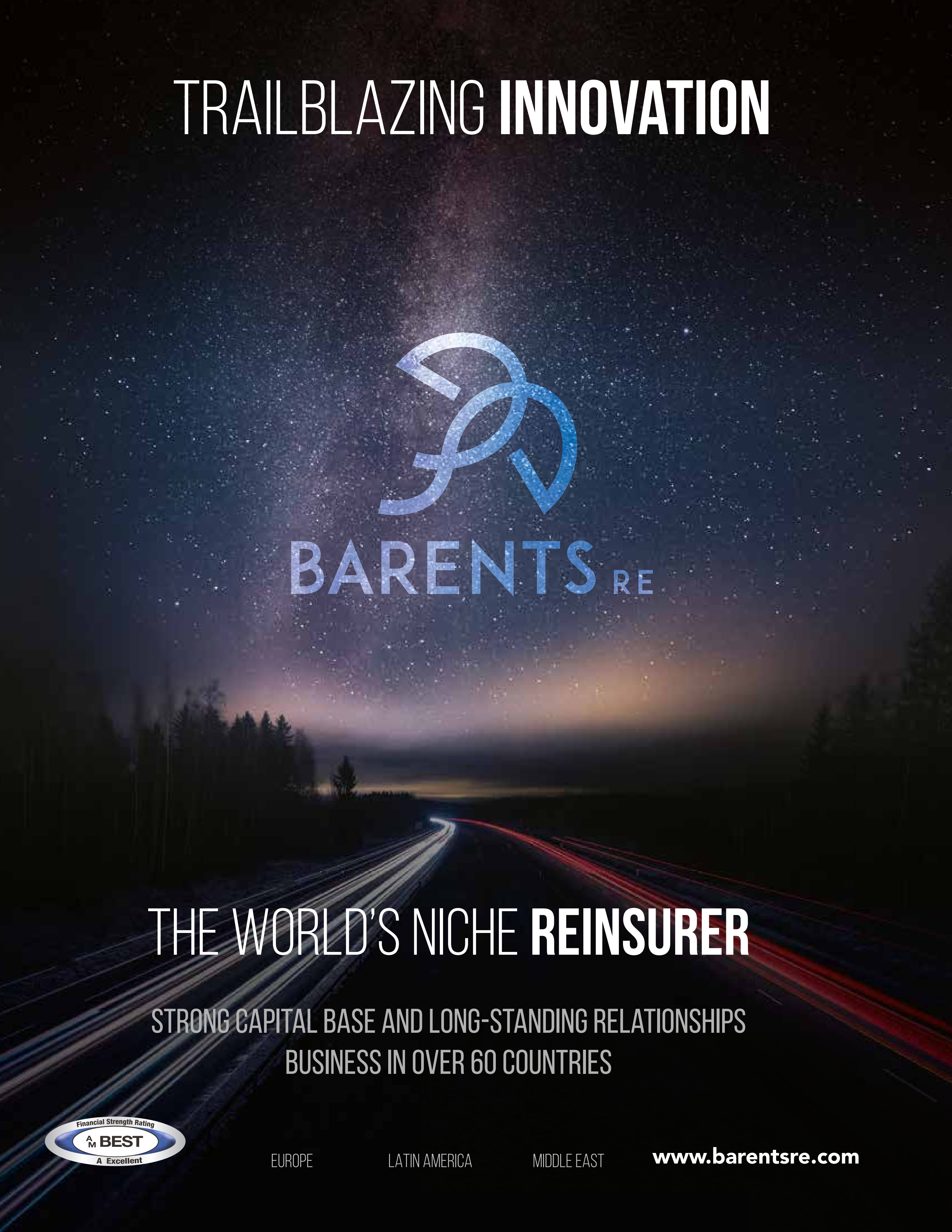
For Lloyd's syndicates in particular, the reserve covers are in demand as a capital management tool, as the Corporation's models are clear on the amount of capital freed up by a loss portfolio transfer. In the US regulatory system, the solvency calculation is less clear.

"It gives me comfort that [in Lloyd's] there is an institutional bias towards conservatism," Malloy says.

Curriculum vitae

May 2019: Became CEO of Third Point Reinsurance Ltd
August 2017: CEO of Third Point Reinsurance Company
March 2018: Became CUO of Third Point Reinsurance Company
2012: Joined Third Point Re as executive vice president, underwriting
2003: Joined Aon Benfield, co-leading the specialty lines practice group
1998: Became president and board member of Stockton Reinsurance in Bermuda.
1993: Joined Centre Re Bermuda, becoming president
1981: Entered reinsurance industry as a broker for Sedgwick Re

> "As part of [our] evolution, we need to selectively take on more underwriting risk. Property catastrophe has the potential for a higher margin and lower loss ratio, but it's not the only business there is"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Championing change

Aaida Abu-Jaber, head of PR and marketing and diversity and inclusion (D&I) champion at IGI, talks about leading the charge in addressing gender imbalance in the Middle East – and explains how even the smallest changes can make a big impact

You have achieved a 50:50 gender balance at IGI. How did you accomplish that?

IGI actually achieved the gender balance organically without actively pursuing it. IGI's leadership and culture are talent-focused and all-else blind. Since its inception, IGI has focused on finding the best talent in the industry regardless of gender, race or ethnicity considerations. IGI relies on the best local talent and we are proud to have employees coming from more than 15 countries worldwide with different racial and ethnic backgrounds. I think over the years this mentality has resulted in our gender balance. We want to set an example for companies in our region and beyond to follow in kind. Sometimes you don't need to implement something specific if you promote fairness in your company.

IGI's board and senior management team is still overwhelmingly male – what is IGI doing to make sure this 50:50 workforce eventually translates to gender-balanced leadership?

We must realise first that the industry has historically had a reputation of being male-oriented, which deterred women from joining it. There is a dearth of female professionals in (re)insurance, especially in the Middle East and North Africa (Mena) region. This is starting to change, and we are seeing more and more women come up through the ranks.

We realise at IGI that we need a more concerted effort to increase female representation at the senior and board levels. We are addressing this and working on gender-balanced recruitment at all levels. We are studying succession planning to develop and promote females into senior roles internally. We have already implemented some flexible working measures and recently introduced paternity leave, a relatively new concept in our region.

Part of the solution is realising that there is a problem. We know there is a lot to be done and the process is already underway. But we also know we are not alone, and we need to work as an industry to address the current gender imbalance at senior levels.

The whole industry is facing D&I challenges, but many would argue these are more acute in the Middle East. What is IGI doing to address this?

There is a lot to be said and done when it comes to the diversity of the workforce in the Middle East. According to the World Economic Forum's Global Gender Gap Report 2018, Western Europe ranks first in the world with 75.8 percent gender parity, while the Middle East ranks last at 60.2 percent. Women in the Middle East are talented and highly educated but under-represented in the workforce. There are several economic, societal and cultural reasons for this. There are fixed mindsets which need to change, but governments and women leaders in the Middle East are working diligently to tackle the situation.

IGI recently partnered with World of Letters and Women as Partners in Progress, a social enterprise run by Arab women leaders and professionals to address gender imbalances in the workplace in the Mena region. They come from a wide range of sectors, and I have joined this group representing the (re)insurance sector. We held a major conference in Jordan in August to come up with an agenda and action plan for the coming year.

What do you feel are the most significant factors in supporting female career development?

I feel strongly that there is a responsibility on women who have made it into senior and executive positions to play an active role in supporting their female colleagues. Who else is better suited to guide a woman than another woman who has experienced it, survived and prevailed? This support can come in many forms such as recruiting, training, mentoring and promoting. Women need to take it on themselves to champion the D&I cause and be the advocates of change and progress.

Many smaller companies argue that they do not have the resources to make a difference on the D&I front. Is that true?

There is no doubt that resources are important when it comes to implementing programmes such as D&I. Regulation, adopting the latest technology and corporate and social responsibility all exert pressure on resources, so D&I is bound to struggle to get a piece of the pie.

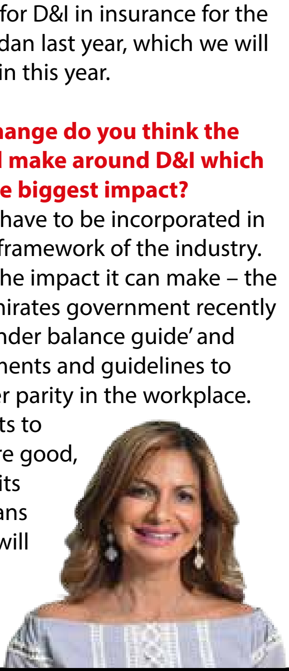
But lack of resources should not be an excuse to shy away from the responsibility that lies on all of us. When everyone plays their role – big or small – positive change happens.

As a small fish in a large pond, we try to look for unconventional ways to shed light on the D&I cause. An example is our participation in the Guinness World Record Games in Lyon, where by supporting Equal Playing Field, an organisation that challenges gender inequality in sport, we highlighted the parallels between sports and (re)insurance when it comes to gender parity. I am so proud that we also promoted the (re)insurance industry in a positive way by being there. We showed our industry is aware and supports the D&I cause.

We also find that partnering with other companies with greater resources and more mature D&I programmes than ours is an effective way to promote the cause. We should not duplicate resources. An example is our partnership with Lloyd's to host the Dive In festival for D&I in insurance for the first time in Jordan last year, which we will be hosting again this year.

What single change do you think the industry could make around D&I which would have the biggest impact?

D&I guidelines have to be incorporated in the regulatory framework of the industry. We have seen the impact it can make – the United Arab Emirates government recently launched a "gender balance guide' and issued requirements and guidelines to advance gender parity in the workplace. Voluntary efforts to promote D&I are good, but regulating its promotion means actual change will take place.



Aaida Abu-Jaber
Head of PR and marketing and D&I champion at IGI

Does (re)insurance have an image problem?

Andrew Newman, president and global head of casualty, Willis Re: I don't think the industry has an image problem today, but maybe it once did. Perhaps because of that, but perhaps because the industry needs new, additional skills, talent remains a real challenge for the sector. The good news is that we can recruit from amongst the best and brightest – individuals who may be disillusioned with other parts of the financial services spectrum. So any image problem that may have stymied recruitment appears to have passed, but not before leaving our industry with a gap to fill.

Peter Roeder, Munich Re board member: From a people perspective, the (re)insurance sector is facing the same challenges as most other industries do: attracting top talent, especially in the tech area, to be able to continue to offer our clients industry-leading products and services. We are competing with a much broader range of companies and sectors for potential employees, who often have very few professional touch points with our industry. While we are attracting talent in our more traditional disciplines, it is now increasingly important to showcase the broad range of activities we offer, such as insuring the Internet of Things, for instance, which changes the business model and requires new skillsets and professional profiles.

Laurent Rousseau, deputy CEO of Scor Global P&C: Let's face it, people's perception is that the (re)insurance industry lags behind other sectors in terms of innovation, career dynamics and role in society. Yet in reality, we are at the heart of most key societal changes: climate change, advanced technological changes, digitisation, people's health, sustainability of the world's water and food supplies. These are all topics where insurance and reinsurance play a vital role and heavily influence outcomes. As the world around us becomes more stochastic, we as an industry need to better articulate the purpose of (re)insurance and of risk-taking in today's and tomorrow's society. The (re)insurance industry needs to continue to articulate to the general public what it already does to help individuals across the globe live better and safer lives.

Will Curran, departmental head of reinsurance, Tokio Marine Kiln: We as an industry fail to publicise the positives of what we actually do, whether that is insuring the companies which drive the global economy, or helping people protect what matters most. For the first time in my career this was made clear to me when I visited Santa Rosa in March 2018. I visited a burn site where more than 1,000 homes had been lain to waste as a result of the Tubbs Fire in 2017; it was an eerie and sobering experience. The only sound was that of construction work. Yet it was here that insurance and reinsurance had met to help rebuild people's lives. If the (re)insurance market could capture and broadcast the tremendous sense of hope our industry brought to those residents it would appear less abstract.

Sven Althoff, member of the Hannover Re executive board: Reinsurance is a very attractive industry to work in. Reinsurers are experts in risk prevention, risk management and risk compensation. Global economic development, demographic change and global warming are just some of the topics we deal with on a daily basis. Reinsurers play an important role in the economic and social development of societies on a global scale. I do not think that we have an image problem in the sense that the reinsurance industry has a poor reputation. To a certain extent we have the problem that the sector is not as well-known as other industries by the general public and many have started their career in the industry more by chance than because they always wanted to work in reinsurance.

Luca Albertini, CEO and founding partner, Leadenhall Capital Partners: ILS managers are often confronted with the issue of recruiting from other industries and having to explain reinsurance and its opportunities. Clearly reinsurance is not yet an obvious career choice for many, and some (me included) come in by accident. On the other hand, those who are available to listen are often positively surprised by the interesting opportunities offered by reinsurance and ILS. ILS managers like us have attracted and retained far more talent into reinsurance and ILS than those we have lost to other sectors.

Sam Thompson, client relationships manager and business development, Capsicum Re: The (re)insurance industry can be regarded as old fashioned compared to other areas of financial services, particularly those that have embraced technological change. Brokers queuing up with files full of paper to place a risk is not an efficient way to transact business.

But this industry is a hidden gem and things are changing. We're seeing more

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Lumen Re

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companies embrace graduate and apprenticeship schemes and there is a push for the industry to evolve and become more tech savvy. The quality and diversity of talent has dramatically improved over the last 15 years and it's becoming a more attractive industry to the brightest minds.

How well is the (re)insurance industry doing in aligning executive pay with performance?

Althoff: At Hannover Re, we strongly align executive pay with performance. We are quite transparent on that. Just take a look at our annual report. In general, I would say that the (re)insurance industry is better aligned than other sectors, and therefore I don't think there is an issue here for our industry as a whole. A number of (re)insurers have also improved the alignment of their management compensation with performance over the past years.

Rousseau: Not all players provide their executives with the same incentives, and we lack comparability for any definite answer. At Scor, a very significant part of the top management compensation is provided through shares, creating a powerful alignment of interests with investors. In addition, this share allocation along with the management's annual bonus is directly linked to the annual group objectives in terms of solvency and profitability. We believe this variable remuneration scheme captures the long-term perspective of company value that the management is trying to deliver to all its stakeholders.

Albertini: For ILS managers the alignment is strong. Most allocate a share of the revenues for the compensation pool. Poorly performing ILS managers can lose the trust of investors and therefore reduce resources available to the compensation pool. The right model for ILS managers combines short-term incentives (the yearly total compensation) with long-term alignment (with key players being equity partners of the firm or having other forms of long-term pay). In addition, we have a deferral plan whereby part of the variable compensation is co-invested in our funds.

Thompson: Performance and pay is an interesting and complex topic across the (re)insurance industry. Generally, in financial services, salaries are competitive but the emphasis is placed on performance, which offers the opportunity to earn significant bonuses. In some areas of reinsurance however, bonuses are a less significant part of the overall package. It could be argued that expensive hires based on large salaries alone – without the extra motivating factor of significant performance-based bonuses – don't necessarily guarantee the highest performance.

It's all about where the incentive is placed and I personally don't believe it is right to have mediocrity rewarded with over-generous salaries, whatever industry you're in.

How do you rate the sector's efforts to increase the representation of women and minorities at senior level?

Rousseau: We believe the sector has made great strides in this domain, but there's still room for improvement from all players. It starts with a mindset, and I believe most large companies in the (re)insurance industry have a medium-term goal of parity throughout their organisations. The progressive modernisation of the sector, through topics such as digitisation and climate change, should be opportunities to help open the sector to new pools of talent. It should also help to diversify the industry's senior management over time.

Thompson: People want there to be a quick fix to the diversity and inclusion challenge, but unravelling centuries of a male-dominated system isn't a swift process. In my opinion, diversity results from promoting inclusivity. If all members of a work environment feel valued and supported, the workplace becomes somewhere that people want to be part of, and it naturally then becomes diverse.

In many companies there is a real drive to address diversity, but many of the sector's senior women and minorities have already been lost as a result of previous behaviour. The focus needs to be on ensuring this environment changes in the future so that in a decade's time there is a greater diversity pool for these senior roles. How we train, support and mentor young women in (re)insurance is particularly important.

Newman: We are better than many in the financial services spectrum, at least according to headline data, but not as good as other industries. At Willis Re, we are not satisfied with that, and our recruitment practices and our overall culture reflect that dissatisfaction. The industry must address the gender and diversity dynamics that have plagued it, but I am quietly confident that it will. If the change is not driven by progressive enlightenment, it will be by the desire for self-preservation, given the unprecedented need for skilled people.
I think our business is filled with more opportunity than at any time I can recall. In our world of rapid change, clients have never needed guidance more. Reinsurance is an exciting place to be.

Albertini: I do not like judging others. When I set up Leadenhall in 2008 my first hire in non-life ILS was Jillian Williams and I built a team with her. Jillian is now our chief underwriting officer based on merit, performance and contribution. In my career I have reported for quite some time to women and each of them – Veronique Trausch, Diane Reitano and Lourdes Moreno – helped me to become the person I am today. I will always be grateful to have had the opportunity to work for them and I see women represented at senior level as key to success.

Roeder: The diversity of our employees is one of the most valuable assets for the future success of our industry as we benefit from combining different mindsets, mentalities, experiences and knowledge. This means diversity is critical to our business and it is therefore important to increase the representation of women and diversity at a senior level within our industry. That is why we have to continuously increase our efforts to leverage the full potential of a highly qualified and diverse workforce. Despite regional differences regarding the culture and the development of diversity, the share of women in managerial roles in the Munich Re Group is at 30 percent and trending upwards.

Althoff: If you just look at the numbers and percentages you can come to the conclusion that the industry is moving but not quickly enough. In order to be successful on a sustainable basis you have to increase the pool of potential candidates and this naturally takes some time. At Hannover Re we are aware of the challenge. We are working on it as a top management priority and believe there is a lot which can and should be done. We have for instance introduced mentorship programmes and we are seeing good results. Other examples would be efforts to better balance work and family life and initiatives to avoid

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unconscious bias in hiring and promoting employees.

What traits does the industry need most in its senior managers?

Roeder: Industry transformation requires leaders in the sector to behave in a less hierarchical way, and focus more on building trust and driving a vision and purpose through their organisations. With so much change in the industry from digitalisation to a multi-generational workforce with varying needs, leaders must find ways to embrace diversity, encourage creativity and motivate their teams in order to remain competitive and find new, profitable solutions. For this, an affinity for change, collaboration and integrity are at least as critical as a leader's technical capabilities.

Thompson: The industry is seeing a shift in what the next generation want from their work environment. People want more balance to their lives, the ability to work flexibly, to have a clear career path and to work with people that care. Senior managers across the industry will be required to understand these dynamics in order to create the inclusive and diverse working environment that participants of the industry are calling for.

Rousseau: A strong leadership team should assemble individuals with a broad set of skills that complement each other. As the world around us is rapidly evolving and changing, so are the risks that the reinsurance industry needs to tackle. Therefore, in addition to relevant expertise, we need leaders who will remain open to these changes and help the industry to adapt when necessary. Experience, expertise, interpersonal skills, client mindset, curiosity, intensity, integrity, rigour, creativity, self-awareness and a variety of cultural backgrounds – these are just some of the things we look for to lead the company in an increasingly challenging business environment.

Curran: The industry needs senior managers with a focus on the future and an abundance of enthusiasm. Senior managers need to be clear on the long-term goals of the business, effectively communicate their vision and lead enthusiastically from the front. They also need to foster trust among colleagues, demonstrating they have the vision, commitment and leadership to drive change in the industry, and so carry their teams with them. It's vital that we generate trust in our colleagues if we are to be successful and it is just as important that we create the same degree of trust with our clients, bearing in mind our business is built on a promise to pay.

We need to be risk aware but not risk averse and have the ability to make a decision in a timely manner, particularly difficult decisions. This is important in both good times and in bad. We need also to motivate, attract and retain top talent and encourage collaboration in the workplace.

Dirk Lohmann, head of Schroder Secquaero: We need to develop the next generation of underwriters and leaders. Hard as it is to believe but we have almost a full generation of underwriters who have never experienced anything but a soft or softening market. There will be a correction at some point in time, and here it is incumbent upon the existing generation of leaders to provide good mentoring skills to the next generation. In addition, I think that one characteristic that one should have in our industry is to be inherently curious and always open to new ideas and ways of doing things. If our industry is to stay relevant, then we need to be on top of the issues and challenges facing our modern society.

Albertini: In today's market the senior managers need to have a strong understanding of all of the external factors which could have an impact on the reinsurance industry. For example, some had a vision of how the convergence of the ILS market with traditional reinsurance could reshape the industry before it had happened. Now there are many more possible agents of disruption which can create both threats and opportunities. Also, to solve some of the industry issues such as cost, the senior managers must be able to constantly question rather than protect the status quo.

Althoff: That highly depends on the company strategy and corporate culture. Market experience certainly is an advantage, as well as an international perspective. Knowledge in change management and adaptability are also important skills as both primary insurers and reinsurers currently face a dynamically changing environment. As reinsurance is still a "people business", senior managers also need to have empathy and good communication skills.

Newman: The key quality we look for is the ability to take part in and manage the ongoing change in the reinsurance advisory business. Clients now need guidance on an unprecedented scale. Structuring and execution of transactions are critical core skills, but only part of what our clients need and demand, and not the sole driver of the value we deliver.

To serve our clients well requires strong interpersonal skills, trust and confident technical expertise. Those abilities haven't changed, but the necessary technical skill requirement has widened. The ability to structure and execute reinsurance transactions impeccably used to differentiate a reinsurance broker, but those skills are now the minimum table-stakes. The guidance and support that helps clients resolve their strategic priorities and deliver growth are what drive the real value we deliver.

CONTRIBUTORS

Luca Albertini, CEO and founding partner, Leadenhall Capital Partners

Sven Althoff, executive board member, Hannover Re

Will Curran, departmental head of reinsurance, Tokio Marine Kiln

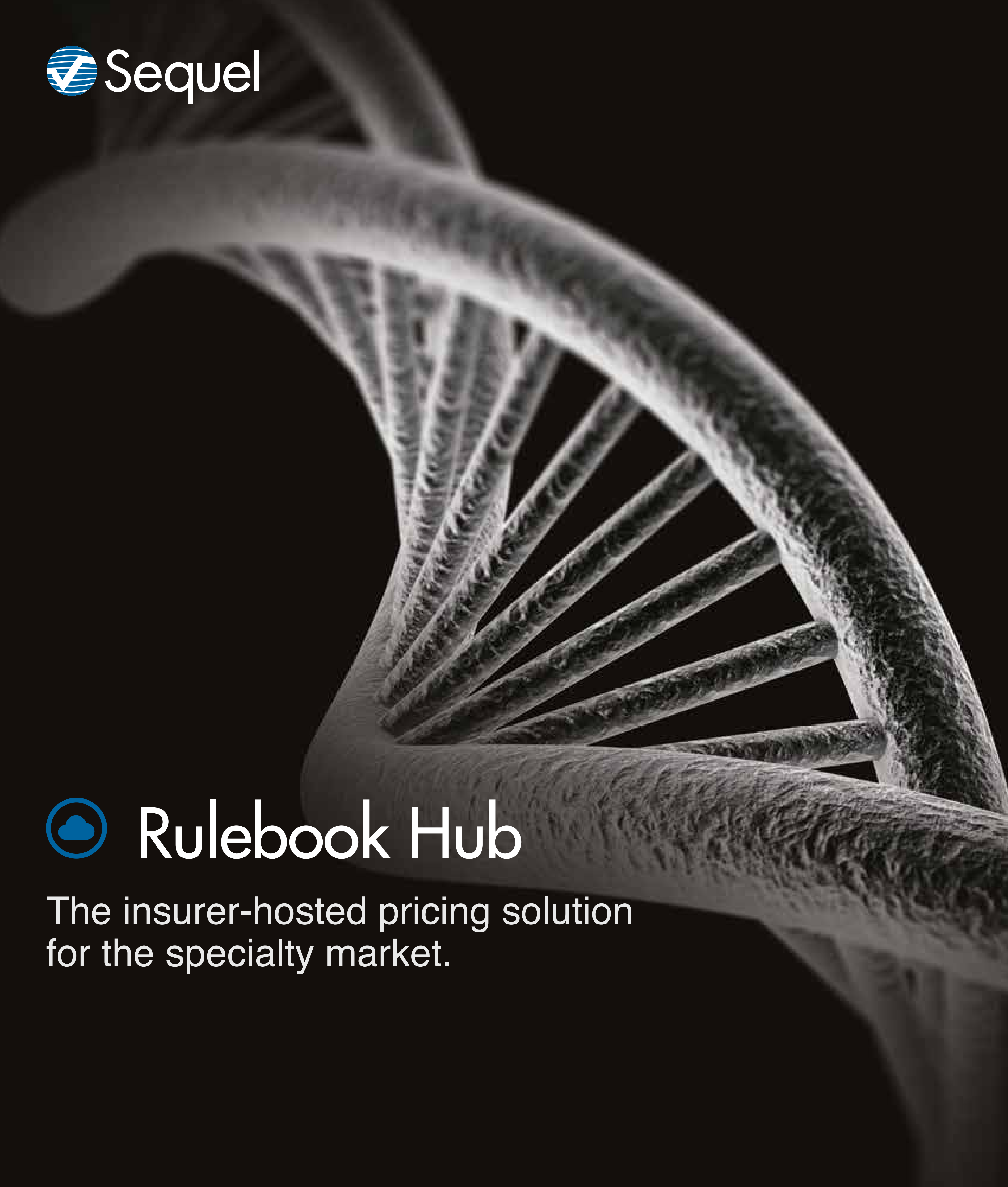
Dirk Lohmann, head of Schroder Secquaero

Andrew Newman, president and global head of casualty, Willis Re

Peter Roeder, Munich Re board member

Laurent Rousseau, deputy CEO of Scor Global P&C

Sam Thompson, client relationships manager and business development, Capsicum Re



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The ‘quiet’ storm

Forget for a moment the hurricanes, the wildfires and the typhoons.

After several years of relatively stable casualty results, the tide is turning. As insurers continue releasing reserves, an actuarial analysis by Morgan Stanley has found a $9.8bn deficiency for the P&C industry – a year-on-year deterioration of over $5bn.

The bulk of the shortfall derives from just three lines: other liability, other liability claims made, and commercial auto.

Many of us have forgotten that the impact of the accumulation of adverse reserve development from multiple accident years on a subsequent calendar year can be as significant as a devastating property cat loss. Calendar-year loss development in 2002 ranks as the fourth-largest event ever recorded. If we were to combine the loss development from 2001 to 2004, it would rank as the largest event ever – nearly 50 percent higher than Hurricane Katrina.

As in most industry shaping events, several key elements have combined to create this quiet storm.

Wade Gulbransen
Head of North America Reinsurance, TigerRisk

Litigation finance, or third-party funding of lawsuits in return for a share of the proceeds, is growing rapidly. Investors, especially hedge funds and private equity, are funding lawsuits for uncorrelated returns of as high as 75 percent. One estimate by MarketWatch put the market at $50bn-$100bn.

Nuclear verdicts are also running away. According to Amanda Weiman, VP and claims expert at Swiss Re, “from 2014 to 2018, the median of the top 50 nuclear verdicts almost doubled, increasing to $54.3mn from $27.7mn.”

Opioid crisis: More than 1,600 suits are pending against drug makers, distributors and even retailers. The Centers for Disease Control and Prevention estimates that the total “economic burden” of prescription opioid misuse in the United States alone is $78.5bn a year, including the costs of healthcare, lost productivity, addiction treatment and criminal justice involvement.

#MeToo: Starting in the entertainment industry, the #MeToo movement has expanded exponentially, including a recent suit against fast-food chain McDonald’s.

Mass shootings in the US are now averaging one a day. Estimated payouts from the Mandalay Bay hotel shooting alone will exceed $1bn.

Plaintiffs’ bar: Lawyers are continually finding new ways to access insurance policies, including a spike in meritless lawsuits which insurers have come to accept as a cost of doing business.

These factors, as well as increasing loss-adjustment expenses, have contributed to higher severity across several casualty lines. Rate adequacy can mitigate the ultimate impact on company balance sheets, but are rate levels contemplating the full impact of severity on loss trends?

As companies announced second-quarter results for 2019, several CEOs cited “social inflation” – higher jury awards, more liberal treatment of workers’ compensation claims and legislated rises in compensation – as a driving force on their casualty results.

TigerRisk works closely with clients to track, understand and mitigate volatility across all lines, using both retrospective and prospective risk-transfer solutions.

More than ever before, TigerRisk is developing unique and effective casualty structures to strategically connect the right risk to capital and the right capital to risk. No broker is as experienced in providing clients with the benefits of loss portfolio transfers and adverse development covers.

TigerRisk is uniquely positioned to bring the right mix of capital, tools and expertise to ensure our clients are protected from unanticipated loss development.

We cannot ignore this trend. The quiet storm is coming. It’s time to prepare.

TigerRisk

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- Chairman Jim Stanard
- President Rob Bredahl
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European reinsurer H1 results suggest optimism for hardening market

Europe's four largest reinsurers produced encouraging results for the first half of 2019, with top-line increases across the board amid a period of moderate catastrophe activity.

Additionally, there were positive rate rises from some reinsurers, propelled by significant loss creep from prior-year events, particularly from Typhoon Jebi.

Strong renewals throughout the period also brought about evidence of modest market hardening after two years of major losses from cat events.

Despite the challenging nature of the global P&C reinsurance market, where the current supply of reinsurance exceeds demand, most European reinsurers were optimistic about their results for the remainder of the year.

Our coverage for this analysis includes the P&C reinsurance operations at Swiss Re, Munich Re, Hannover Re and Scor.

Top-line growth

Compared with the prior-year period, all four reinsurers reported growth in premiums.

For the first half of the year, Hannover Re grew its P&C reinsurance gross written premium (GWP) by 21.3 percent to EUR7.8bn ($8.6bn).

Looking at the past three years of H1 premiums, Hannover Re has consistently had stronger top-line growth compared with the other three reinsurers, with increasing year-on-year rises.

The German reinsurer said the growth stemmed from its structured reinsurance programmes, which offer solvency relief as well as traditional reinsurance.

Hannover Re's premium growth was boosted by renewals throughout the first half of the year, pointing to an increase in pricing for Hannover Re, as was the case for other reinsurers.

For the Q2 renewals, Hannover Re noted that premium growth increased by 20.3 percent – driven by new business, price increases and higher volumes on existing business.

The carrier reported risk-adjusted price increases of 2 percent at the June and July renewals, on both proportional and non-proportional business.

CEO Jean-Jacques Henchoz said these increases were evidence of a hardening market, stemming from the significant loss activity experienced in 2017 and 2018.

For Q2 renewals overall, Hannover Re had substantial premium growth rises of 39 percent in cat excess-of-loss lines. This was partly driven by significant rate increases, including rises of 15 percent to 30 percent for Florida business and 60 percent for Californian wildfire business.

Swiss Re produced the highest premium growth out of all four reinsurers during H1 2019. The carrier's GWP soared by 29.6 percent to reach $12.4bn.

According to Swiss Re, the increase was driven by large casualty transactions, mainly in the Americas, as well as growth in nat cat business.

H1 renewals also aided the growth in premiums this year. Volume for the reinsurer's renewals rose by 23 percent,

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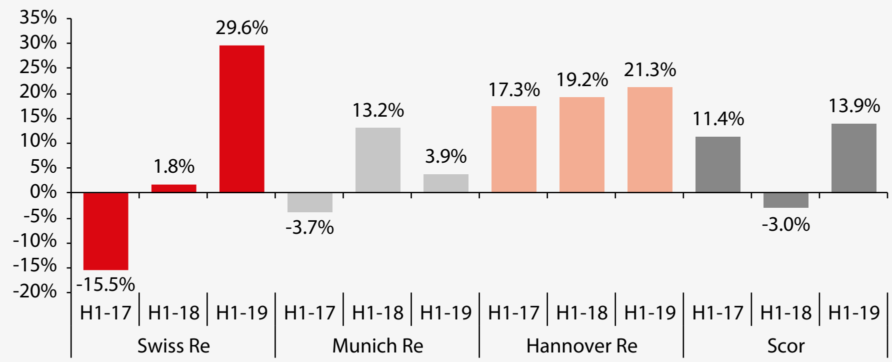
P&C reinsurance operating profits

	H1 2019 operating profits	YoY % change
Munich Re	EUR1,094bn	+15.3%
Swiss Re	$1,094mn	+2.2%
Hannover Re	EUR657mn	-4.6%
Scor	EUR341mn	-5.3%

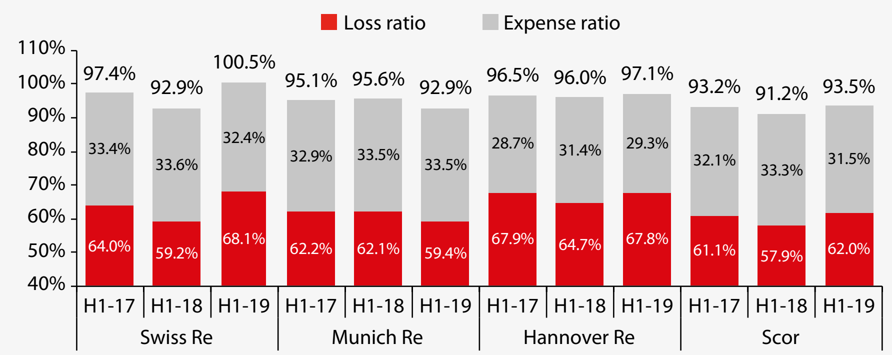
Source: Company reports, *The Insurance Insider*

P&C reinsurance GWP % growth



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

P&C reinsurance combined ratio breakdown



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

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with 16 points of this increase driven by transactions and 7 points from growth in core business.

Rate rises were more conservative for Swiss Re, with an overall 1 percent increase. It said renewals of loss-affected nat cat business experienced favourable rate increases, particularly in North America, but rates for non-loss-affected markets were stable with "some small ups and downs".

The reinsurer added that "price increases achieved include updated and more conservative expected claims assumptions". This essentially refers to adjustments in relation to losses from Jebi and the Californian wildfires.

Elsewhere, Munich Re produced premium growth of 3.9 percent to EUR10.3bn for the first half of the year, but 9.3 percentage points lower than the 13.2 percent growth it achieved in H1 2018.

The reinsurer said the growth in premiums was primarily driven by positive currency translation effects, and added that if exchange rates had remained unchanged, GWP would have increased by just 0.1 percent against the prior-year period.

Similar to the other members of our European reinsurer cohort, Munich Re experienced strong premium growth at the July renewals. Premiums grew by almost 9 percent with new business coming from the Americas.

Munich Re noted that it achieved a risk-adjusted price change of around 0.5 percent, adding that significant price increases were seen in loss-affected markets but more stable in other lines.

Speaking about these modest price increases on an earnings call, Munich Re CFO Christoph Jurecka expressed optimism: "Looking at these figures, we are very happy that we continue to grow into this hardening market."

Renewals in April, which cover a somewhat smaller volume of business, had price increases of 1.4 percent, while the January renewals brought about no change in price.

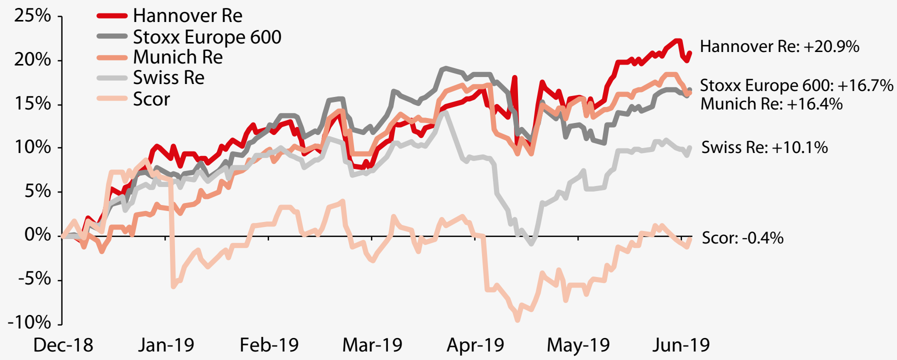
Scor, which is the smallest reinsurer out of the four in terms of overall premiums, booked GWP growth of 13.9 percent to EUR3.4bn during H1 2019.

The French reinsurer said it expected the growth to "normalise in H2 2019 and to return within the upper range of the Vision in Action growth assumptions revised in 2018 to a range of 5 to 8 percent".

Vision in Action was Scor's three-year strategic plan which focused on profitability and solvency. It has just been replaced with a new programme.

Out of the four reinsurers, Scor had the highest price improvements during the June/July renewals; the French reinsurer recorded a 3.8 percent increase, leading to a year-to-date advancement of 1.7 percent.

H1 2019 European reinsurer stock movements



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

June/July renewals

	Price increase	Premium volume increase at renewal
Swiss Re	+1%	+17%
Munich Re	+0.5%	+8.9%
Hannover Re	+2.0%	+20.3%
Scor	+3.8%	+6.2%

Source: Company reports, *The Insurance Insider*

Losses and underlying result

Loss experience for the four reinsurers was varied as some experienced moderate cat activity in addition to other large losses and rising late claims from past events.

Swiss Re's combined ratio climbed by 7.6 points to 100.5 percent for H1 2019 due to unfavourable prior-year development – notably loss creep from Jebi – and other large loss experience during the first six months of this year.

Indeed, losses from Jebi affected the H1 combined ratio by 5.1 points, with the bulk of claims developing in the first quarter. As a result, Swiss Re reported a 15 percent rate rise on loss-affected Japanese accounts at the 1 April renewal.

The reinsurer said it was also hit by claims from floods in North Queensland as well as the Ethiopian Airlines crash and the consequent grounding of the Boeing 737 Max fleet.

Scor also experienced further loss deterioration on Jebi during the period, adding a further EUR33mn gross loss. However, on an earnings call, Scor Global P&C CEO Jean-Paul Conoscente explained that the losses from Jebi have now been absorbed by the firm's retrocession protections, making the net impact to Scor nil.

Nevertheless, Scor's H1 loss ratio still deteriorated by 4.1 points year on year to 62 percent. In Q2, the reinsurer booked claims stemming from various events including US tornadoes, floods in Brazil and a European storm.

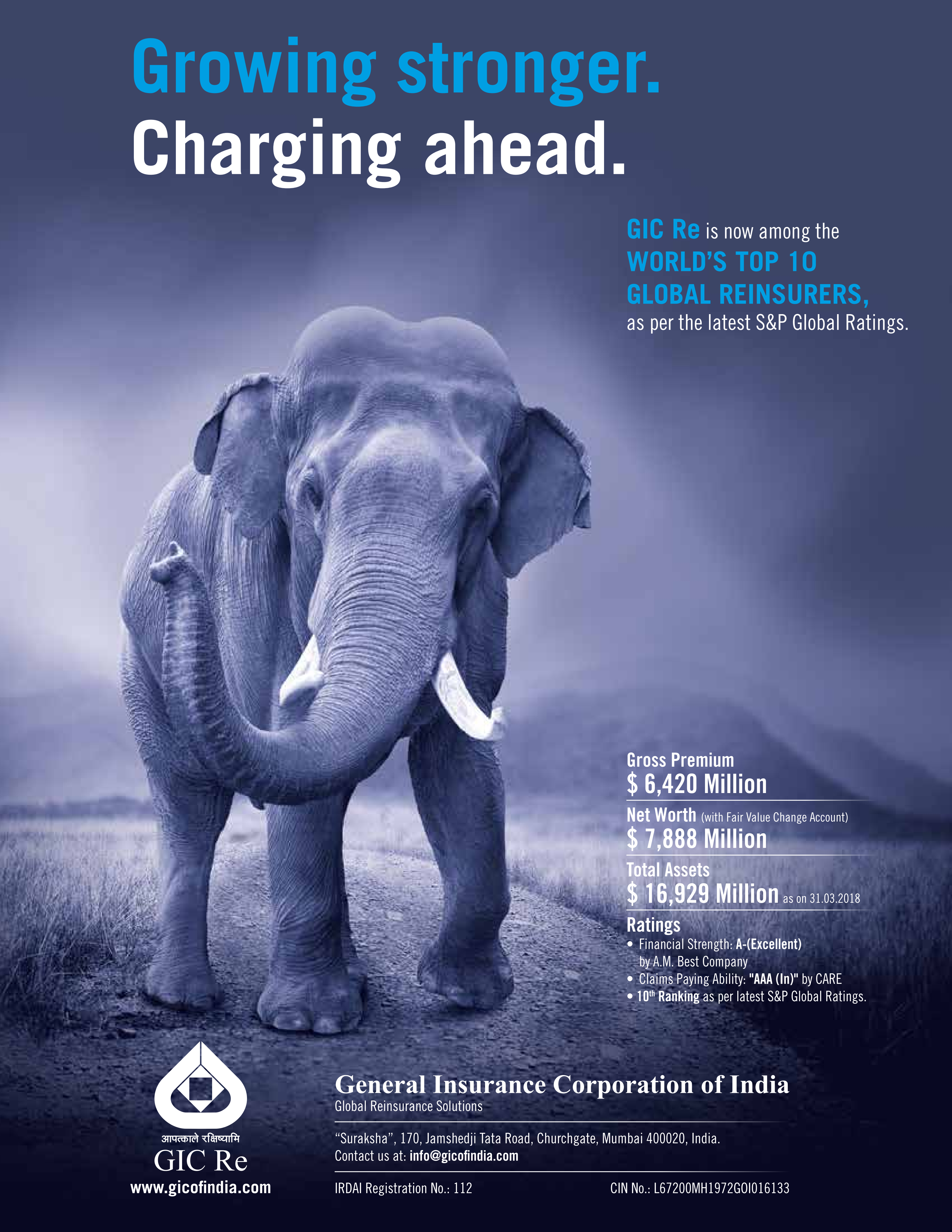
Munich Re was one of the only reinsurers to experience relatively low major man-made losses during the first half of this year. Losses of this type amounted to EUR330mn – 46.2 percent lower than in the prior-year period.

Due to Munich Re's benign loss experience, its H1 2019 combined ratio improved by 2.7 points to 92.9 percent.

However, the reinsurer did not escape loss creep from Jebi. Late claims relating to this event amounted to EUR80mn in Q2, which is around 50 percent of nat cat claims for the second quarter.

Hannover Re, meanwhile, reported a 1.1-point worsening of its combined ratio year on year to 97.1 percent. Its largest losses included the explosion at a Philadelphia refinery in June, floods in Queensland and the crash of the Ethiopian Airlines plane.

The total burden of large losses for H1 2019 amounted to EUR140.5mn, 50.6 percent higher than the prior-year period. However, Hannover Re was still well below its H1 2019 EUR370mn budget for major losses. For the full year, the reinsurer's net large loss budget is EUR875mn, 6.1 percent higher than the budget for 2018.



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M&A maps new direction for ILS industry

Further M&A deals among reinsurers and ILS managers look likely in the coming years, after multiple prior transactions have brought the segments closer together.

As retro markets tighten it remains to be seen whether this will accelerate the trend, as reinsurers look for ways to try to manage down net retentions and keep their cost of capital low.

But any would-be buyers won't have a clear field. For institutional investment shops, the ILS industry is one where they can still earn relatively high fees due to the opacity and niche characteristics of the asset class, and if Pimco is able to pull off its move into the asset class this may push other big-name managers to look at their own offerings.

The ownership shift

Five years ago the ILS industry still largely comprised independent firms, with reinsurers having a trailing foothold in the third-party capital business.

But since then, reinsurer-owned platforms have propelled themselves to take a leading share of ILS assets under management, according to analysis from sister publication *Trading Risk*.

Organic growth helped at platforms such as RenaissanceRe, AlphaCat, Mt Logan and Hiscox Re & ILS, but M&A was a huge driver through landmark acquisitions such as Markel's Nephila takeover in 2018.

However, in 2019 ILS M&A has continued to show a mix of competing influences. While Scor's bolt-on of Coriolis fits the narrative for reinsurer domination, two other deals were done in the asset management sector.

Schroders bought up the shares in Zurich-based Secquaero that it did not already own, and White Mountains took a minority stake in Elementum (Although many in the industry saw this as a reinsurance trade deal, White Mountains has previously disposed of its (re)insurance subsidiaries, and is no longer a risk carrier).

For ILS managers, the attraction of a reinsurer sale is that it is more likely to help the platform resolve issues around access to rated paper and diversifying into non-catastrophe business, if this is an area of strategic focus for them.

For reinsurers such as Scor, acquisitions may be a way to quickly gain critical mass in dealing with third-party capital – an impetus that will likely only gain strength over the coming year as retro capacity dries up.

However, two of the largest investment management-owned ILS firms – LGT and Credit Suisse – are starting to set up their own rated balance sheets, offering a third-way operating model to would-be ILS sellers.

Competing attractions

There is no single winning formula. Both major ownership models – institutional asset manager and (re)insurer parent – have their pros and cons. In general, the asset manager model is seen as offering a head start with distribution and investor relations capabilities, whereas (re)insurer owners are perceived to have an edge in access to underwriting risk and leverage from their rated balance sheets.

However, the reinsurer ILS model still has its share of challenges, even with the key attractions of leverage and underwriting resources on offer.

And crucially for investors, the range of affiliated ILS platforms makes it harder to evaluate them as a single bloc.

One group in the reinsurer-affiliated market comprises satellite platforms that were formerly independent managers, such as Nephila or Leadenhall, which operate beyond their parents' control. Similarly, some in-house platforms – such as Scor Investment Partners – have maintained a distance from the parent reinsurer.

Then there are the firms that have grown up integrated within a reinsurer, such as AlphaCat or Hiscox Re & ILS. These source risk in tandem with the parent, though overseen by separate portfolio management teams.

Finally, there are small teams within a reinsurer that oversee third-party capital almost as part of their retrocession activities. Here, ILS initiatives are more likely to focus on sidecar vehicles that offer a pre-agreed slice of their portfolios to investors.

Investors will be looking for aligned interests from any ILS asset manager, but this is particularly the case for the reinsurer platforms, where the parent is directly sharing certain risks with ILS investors.

If most risk going to third-party investors from reinsurers is via quota share, so long as the parent retains a sufficient share of the risk, it may seem a straightforward way of achieving alignment of interests.

But prod a bit further and it's not necessarily such a simple answer. In most cases, investors would not be getting a net share of the risks assumed by reinsurers after they buy retrocession protection which, in many cases, is critical to their final portfolios.

Moreover, if a reinsurer-manager is overseeing only quota share portfolios, will they be able to offer fiduciary oversight when their ILS team is not underwriting the original business?

In the early days of reinsurer ILS platforms, the market discussion centred on matters that are perhaps more ephemeral – the cultural barriers to getting reinsurance underwriters on board with sharing risk with ILS affiliates.

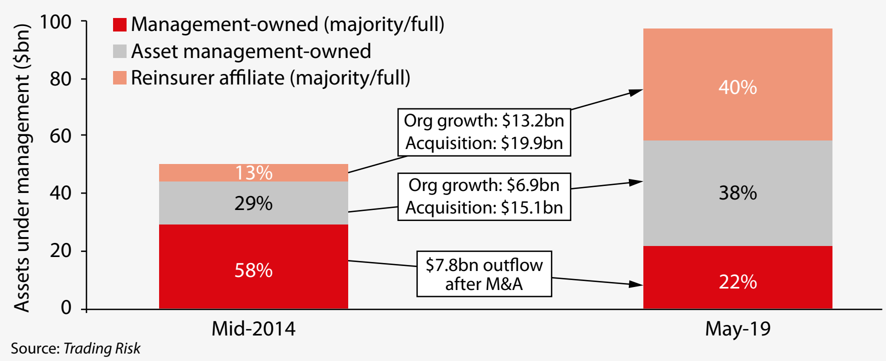
Despite initial worries about alignment, it seems reinsurer-managers have largely come through unscathed in the past couple of active catastrophe years.

However, in some cases the reinsurer reserving model may be challenging to adapt for ILS frameworks, LGT ILS Partners executive Christian Bruns argues.

Reinsurers are used to setting conservative reserves, with the expectation of releasing some of the excess over time – precisely what ILS investors want to avoid, he notes.

"They want clinical precision."

Reinsurers catch up to lead ILS AuM



Source: *Trading Risk*

The Insurance Insider 2019 EVENTS

***Insider* Progress: Nurturing a Changing Workforce**
18 September 2019 | 8:30 - 11:30
Clyde & Co, Beaufort House, 15 St Botolph Street, EC3A 7NJ
#InsiderProgress

(Webinar) *The Insurance Insider* | On Air: Keeping ahead of the hackers
19 September 2019 | 15:00 - 16:00
Watch live or on demand
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***The Insurance Insider* Cyber Rankings Awards**
20 September 2019 | 12:30 - 17:00
Banking Hall, 14 Cornhill, London, EC3V 3ND
#InsiderCyberAwards

(Webinar) *The Insurance Insider* | On Air: Foundations for our future
26 September 2019 | 11:00 - 12:00
Watch live or on demand
#InsiderWebinar

***Trading Risk* New York**
3 October 2019 | 08:15 - 15:30
(followed by networking drinks)
Convene, 75 Rockefeller Plaza, New York, 10019
#TradingRiskNY

Guy Carpenter's Baden-Baden Reinsurance Symposium
20 October 2019 | 16:30 - 18:30
(followed by a cocktail reception)
Kongresshaus Baden-Baden, Augustaplatz 10, 76530 Baden-Baden, Germany
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The London Market Conference
7 November 2019 | 08:15 - 16:00
(followed by networking drinks)
etc venues 155 Bishopsgate, Liverpool Street, London, EC2M 3YD
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For further information on attending any of the above events, please contact:
events@insuranceinsider.com
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For further information on speaking, exhibiting and sponsorship opportunities, please contact:

Sajeeda Merali, Commercial Director
sajeeda.merali@euromoneyplc.com
+44 (0) 20 7397 0613

Benjamin Bracken, Head of Marketing Services
ben.bracken@insuranceinsider.com
+44 (0) 20 7779 8754

Oliver Nevill, Head of Strategic Partnerships
oliver.nevill@insuranceinsider.com
+44 (0)20 7397 0619

THE TEAM

EDITORIAL DIRECTOR
Mark Geoghegan
mark@insuranceinsider.com

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

ACTING MANAGING EDITOR
Catrin Shi
catrin.shi@insuranceinsider.com

EDITOR
Laura Board
laura.board@insuranceinsider.com

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

FEATURES EDITOR
Gavin Bradshaw
gavin.bradshaw@insuranceinsider.com

SENIOR REPORTERS
Fiona Robertson
fiona@insuranceinsider.com
Lucy Jones
lucy.jones@insuranceinsider.com
Rachel Dalton
rachel.dalton@insuranceinsider.com
Emmanuel Kenning
emmanuel.kenning@insuranceinsider.com
Bernard Goyder
bernard.goyder@insuranceinsider.com
John Hewitt Jones
john.hewittjones@insuranceinsider.com

REPORTERS
Sofia Geraghty
sofia.geraghty@insuranceinsider.com
Anna Sagar
anna.sagar@insuranceinsider.com
Samuel Casey
sam.casey@insuranceinsider.com

DIRECTOR OF RESEARCH & HEAD OF AMERICAS
Gavin Davis
gavin.davis@insuranceinsider.com

SENIOR ANALYST
James Thaler
james.thaler@insuranceinsider.com

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

COMMERCIAL DIRECTOR
Sajeeda Merali
sajeeda.merali@insuranceinsider.com

HEAD OF MARKETING SERVICES
Benjamin Bracken
ben.bracken@insuranceinsider.com

HEAD OF STRATEGIC PARTNERSHIPS
Oliver Nevill
oliver.nevill@insuranceinsider.com

SUBSCRIPTIONS DIRECTOR
Tom Fletcher
tom.fletcher@insuranceinsider.com

PARTNERSHIPS MANAGER
Joel Lagan
joel.lagan@insuranceinsider.com

SENIOR ACCOUNT MANAGER
Georgia Macnamara
georgia.macnamara@insuranceinsider.com

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

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

HEAD OF MARKETING & ANALYTICS
Lynette Stewart
lynette.stewart@insuranceinsider.com

BRAND MARKETING & ANALYTICS MANAGER
Aimee Fuller
aimee@insuranceinsider.com

EVENTS MARKETING ASSISTANT
Luke Kavanagh
luke.kavanagh@insuranceinsider.com

EVENTS DIRECTOR
Sara Donaldson
sara.donaldson@insuranceinsider.com

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

CONFERENCE PRODUCER
Miraal Mayet
miraal.mayet@insuranceinsider.com

EVENTS OPERATIONS MANAGER
Holly Dudden
holly.dudden@insuranceinsider.com

EVENTS EXECUTIVE
Amelia Blanks
amelia.blanks@insuranceinsider.com

PRODUCT MANAGER
Carlos Pallordet
carlos.pallordet@insuranceinsider.com

DATA ANALYST
Khilan Shah
khilan.shah@insuranceinsider.com

PRODUCTION EDITOR
Ewan Harwood
ewan@insuranceinsider.com

SUB-EDITOR
Steve Godson
steve.godson@insuranceinsider.com

JUNIOR SUB-EDITOR
Simeon Pickup
simeon.pickup@insuranceinsider.com

SENIOR DESIGNER
Mike Orodan
mike.orodan@insuranceinsider.com

1st Floor, 29 Ludgate Hill, London, EC4M 7JE, UK, Tel Main: +44 (0)20 7397 0615, Editorial: +44 (0)20 7397 0618, Subscriptions: +44 (0)20 7397 0619


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