Reactions

RENDEZ-VOUS REPORTER DAY 4: WEDNESDAY SEPTEMBER 16 2015

Elkann to put PartnerRe in Big Four

The promise of an audience with Agnelli scion John Elkann sent the press pack rushing down to the Monte Carlo Yacht Club this week. The Exor CEO was in town to talk about his group's acquisition of PartnerRe.

"We fought very hard to be here and now there is certainty," he said. "There's a lot of negativism in the industry right now and people might wonder why we fought this hard to invest $7bn in the sector," he explained. "We are very optimistic because covering risk in our society is a need that will continue to exist and grow with the economy."

Elkann pointed out that Exor had been one of PartnerRe's founding backers in 1993, and subsequently exited when the reinsurer went public. This time is different, he said, stating his ambition to put PartnerRe on a par with Munich Re and Swiss Re: "I consider this to be a generational investment…most of the earnings will be retained within the business. Our plan to put PartnerRe among the Big Four is a realistic objective."

Elkann said scale is important in the reinsurance industry and added that PartnerRe will not adopt a hybrid model – a combination of insurance and reinsurance. "PartnerRe will stay a pure reinsurance company and not compete with customers. This is a recurrent theme with brokers and clients," he said.

"A happy ending with a new start" is how Emmanuel Clarke described the consummation of the Exor deal.

Exor CEO John Elkann lines up with PartnerRe's president Emmanuel Clarke

Clarke himself was made president of the Bermuda-based global reinsurer last week, after 18 years with the company.

Clarke said he could reassure clients that the deal is not a private equity play but promises long term private ownership. He said that in the current environment of uncertainty and M&A activity, PartnerRe is glad to be out of risk so that it can focus on relationships: "Our commitment is one of consistency and continuity," he said.

Clarke said PartnerRe will be more flexible for clients without the constraints associated with an SEC public company. He added there is no urgent need to make further acquisitions: "But we will examine opportunities that come our way to see if they match our strategy and longer term objectives." ●

Contents

We are disruptors – Capsicum Re 3

Roundtable: Reinsurance in Africa.....5
Alt cap will prove beneficial for Latam 7
Hamilton eyes expansion in 2016.....8
Casualty underwriters in denial 10
Toyota set for motor cover takeover 13
Julian James: Industry needs to get out more.....16
JLT Re helped by US specialty presence 18

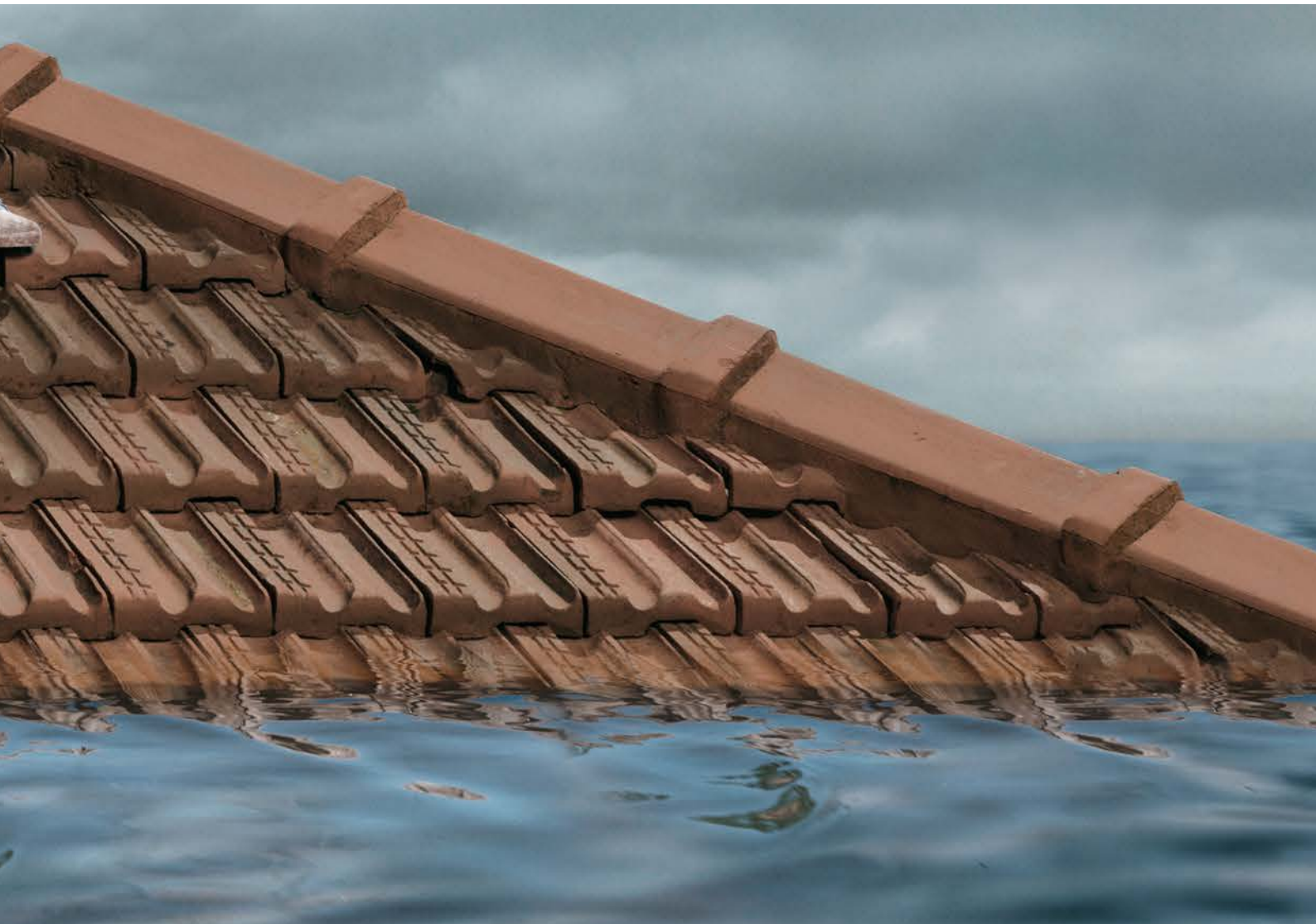
In a world of change a strong partner makes all the difference

The reinsurance industry is constantly evolving. The impact of a number of trends such as the growing protection gap, new distribution models changing customer behaviour and new technology could be opportunities for growth as well as threats. One thing is clear, in a world of change having a reliable, strong partner to work with can make all the difference.

An example of such a strong partnership is in big data, where the industry has taken huge steps forward. The development of the cat models we use today began in the 1990's. Now Swiss Re is discussing forward looking casualty models (FLM), using many data sources. FLM is about anticipating future business outcomes for the re/insurance industry in the light of changing economic, societal, and legal dynamics. Swiss Re is driving an industry-wide shift away from backward-looking models to FLM for Casualty.

Strong partners are needed in helping to make society more resilient. *Underinsurance of property risks: closing the gap* the Swiss Re *sigma* study projects a total global property protection gap of USD 221 billion per annum. The protection gap cannot be tackled by the insurance industry alone. The impact of natural catastrophe and other property risks is felt across society as a whole. If governments pick-up the cost for uninsured losses following a disaster, this often diverts funds from other areas and is ultimately funded by taxpayers themselves. Closing the property protection gap will be a joint effort. Many non-governmental organisations are already active in this area, such as the Rockefeller Foundation which Swiss Re works with to increase the resilience of 100 cities around the globe. Insurers, governments and other agencies can be strong partners in making society more resilient.

Advances in computing and telecommunications over the past decades are now delivering unprecedented technological breakthroughs that are changing the world in which we live. While these technologies are bringing huge benefits, they are also creating fresh challenges and new risks. What doesn't change is that to cope with the new and emerging risks there need to be strong partners.



Today the wearable and portable smartphone distribution platforms have advanced more than predicted. There could be a transformational change to our industry distribution, for example if we look at wearables devices in the health market for a moment they will open up huge opportunities for growth and profitability. In the US 56% of consumers believe that average life expectancy will grow by 10 years because of wearable enabled monitoring. 50% also believe that wearable data monitoring will cut obesity. In the future could we see rate changes every day determined by sensor rich gadget?

Whatever unfolds across all lines of business, there is undoubtedly an opportunity to transform data and information into insurance knowledge and with our partners we are exploring the underwriting implications and uses in new products. A strong partner can help get future ready to tackle tomorrow's risks.

Recently overall M&A activity has started to increase again, after a sharp decline in the wake of the financial crisis. Could this indicate the start of a new wave? If it is, then the challenge for the predator company is much more than just finding the target. The constant is performance post-integration and this is often the most difficult thing to get right. If the integration is successful, the result is a larger insurance company, which, in turn needs a larger reinsurer to help on extracting value. We are there as a partner to offer support so the client can extract that value.

It's clear that the one constant is change and now more than ever this applies to our industry. In a world of change it makes sense to have a strong partner to tackle the challenges together. A strong reinsurance partner is way more than simply capital, adding value and knowledge to get future ready.

We are disruptors – Capsicum Re

RUPERT SWALLOW
Co-founder and CEO, Capsicum Re

"We are disruptors, and that's a good thing." That was the fighting talk from Rupert Swallow, co-founder and CEO of Capsicum Re, the go-getting reinsurance broker out to scoop talent from rival intermediaries.

"Part of the power of huge [broking] organisations is the inertia they create, and part of the challenge for us is to break into that," said Swallow. "Clients love it, we're stirring things up, and bringing us into play is to their advantage. Every placement, contract and hire we make is a win for us – the epitome of disruption we can cause."

Capsicum Re was formed in 2013 as an incubator of reinsurance broker talent, by Swallow and Grahame "Chily" Chilton, with a 20% stake from AJ Gallagher. It was formed with a deadline of 2018 in mind, at which point Gallagher will decide whether or not to buy out the venture with the aim of turning it into a major London rival to Guy Carpenter or Aon Benfield.

"Our mandate is to always be aggressive and seek new solutions for clients," said Swallow. "We'll become part of the establishment if our relationship with Gallagher becomes more formalised. That's the aspiration. We want to become what Benfield is to Aon or Guy Carpenter is to Marsh, at least in the London market."

Capsicum has hired leading brokers and teams from its rivals, first under Chilton's leadership (who left to head Gallagher as CEO in February after its previous CEO David Ross resigned) and then under Swallow's stewardship. "Chily is still very connected to Capsicum," added Swallow.

The hires made over the past year have created six practices within Capsicum: marine and energy; motor business; facultative; accident and health specialty; Bermuda-focused non-marine specialty; and London non-marine specialty.

Mergers and acquisitions (M&A) are making Capsicum's disruptive urges easier, Swallow notes. "There is disruption created by M&A," he said. "It's an invigorating environment. We're focused on attack rather than defence. Ignore at your peril the forces of competition for talent." ●

Relationships trump tiering – Duperreault

Tiering has been going on for years, but cedants still want a spread of providers, and relationships are still crucial in reinsurance, according to Hamilton CEO Brian Duperreault.

"It's absolutely a relationship business, no matter what," he said. "It's important to bring capacity to the table, but a lot of it is still about how a cedant feels about you. That may not always seem to mean much but it means a lot when there's a claim."

He acknowledged the long-term trend of reducing the number of reinsurers on any given panel, but said this had limitations. "From a buyer's point of view, they may consider tiering and have demands on them, but in general a buyer still wants a spread. They don't want their eggs all in one basket," said Duperreault.

> "It's important to bring capacity to the table, but a lot of it is still about how a cedant feels about you. That may not always seem to mean much but it means a lot when there's a claim."

Hamilton does not have a problem, he said, "We see the size test, and we're considered large enough," said Duperreault. The firm's book has a relatively simple plan, he noted, with a balance of insurance and reinsurance, focused on London, Bermuda and the US. "We're happy with our strategy and now is the time of execution. It can take years but we're happy with the progress." ●

Reactions

Editor
David Benyon
+44 (0)20 7779 8193
dbenyon@euromoneyplc.com

Americas Editor
Christopher Munro
+1 212 224 3473
christopher.munro@euromoneyplc.com

Senior Reporter
Victoria Beckett
+44 (0)20 7779 8218
vbeckett@euromoneyplc.com

Americas Reporter
Sam Kerr
+1 212 224 3425
sam.kerr@euromoneyny.com

Contributing Editor
Garry Booth
+44 (0)1986 874161
zigzagpublishing@btconnect.com

Design & production
Siobhan Brownlow
Paul Sargent

Photographer Joshua Tucker

Commercial director
Goran Pandzic
+1 212 224 3711
gpandzic@euromoneyny.com

Senior sales executive
Ben Bracken
+44 (0)20 7779 8754
ben.bracken@euromoneyplc.com

Office manager/reprints
Christine Jell
+44 (0)20 7779 8743
cjell@euromoneyplc.com

Divisional director
Danny Williams

Reactions:
3rd Floor, 41 Eastcheap, London EC3M 1DT, UK

Annual subscription rates:
Corporate multi-user rates are available, please contact ben.bracken@euromoneyplc.com
Single user: £920 / €1,150/ US$1,475

Subscription hotline:
London: +44 (0)20 7779 8999
New York: +1 212 224 3570

Back issues:
+44 (0)20 7779 8999
Subscribers: £27.50;
Non-subscribers: £45.00

ISSN 0953-5640

Customer services:
+44 (0)20 7779 8610

Regional reinsurance in Africa

Africa's emerging insurance market is tough as well as diverse, but the role of reinsurance will be vital in its development, senior executives advocated, speaking at a *Reactions* roundtable held in association with the Casablanca Finance City Authority (CFCA) in Monte Carlo.

"Reinsurance is the backbone for the developing African financial industry. With such rapid development, innovative methods and a proper insurance infrastructure are needed to manage the associated risks," said Said Ibrahimi, chief executive of the CFCA. "The stronger this backbone becomes, the more our citizens and investors will trust the markets. This trust will encourage them to invest into the market, creating more market efficiency and liquidity."

Clearly, the growth prospects across Africa are substantial and since this is so highly correlated with insurance penetration, the sector is expected to develop rapidly over the next few decades.

Africa's continued emergence will largely depend on the development of hubs for reinsurance business within the region. In this respect, Africa looks to thriving examples in Singapore, Shanghai or Dubai for inspiration.

"Reinsurance has boomed in a number of emerging markets, namely in Singapore, the Middle East, and Brazil, and certain lessons from their development can be applied to establishing a strong reinsurance environment in Africa," said Najwa El Iraki, head of business development at CFCA. The key to understanding Africa's re/insurance markets is an appreciation that you simply can't lump these diverse and complex markets together," said Brendan Plessis, head of emerging markets at XL Catlin. "If we consider those hubs which have, and are, in the process of establishing themselves as real players in the global re/insurance market, clearly an efficient and fit for purpose regulatory environment is key," he added.

Morocco's Casablanca Financial Centre is vying to welcome reinsurance business within the region, as a business-friendly crossroads with Europe, the Middle East, and a gateway into Africa, specifically the largely Francophone markets of Greater North West Africa.

About 80 international companies have joined CFC over the past 3 years. Insurance sector examples include AIG, Trust Re, International General Insurance, Chedid Re, Euler Hermes, Coface, Ascoma and Saham Assurances. PartnerRe also entered into a partnership with Moroccan insurer Mamda and French reinsurer MCR to establish Mamda Re in the CFC, a new reinsurance company dedicated to agricultural risk in Africa.

"Most reinsurers set up offices in reinsurance hubs due to favourable regulatory and tax structures," said Ibrahimi. "Morocco is able to offer this and more. It is a very politically stable country and is in one of the most strategic geographic business locations in the world. It is at the crossroads of Europe and Africa and has a cultural connection with the Middle East."

"However, there are a number of challenges that need to be addressed in order to promote the proper functioning of our reinsurance industry. Insuring the large infrastructure projects, especially cross-border projects, will require access to more capital. CFC understands that an advanced regulatory framework is needed to ensure a proper business environment for the investment into these economies," added Ibrahimi.

Nurturing re/insurance talent is another aspect necessary to develop. In this respect, the role of established players in existing market hubs is going to be important. Stronger capital foundations will also help the market.

"CFC recognises that greater availability of experienced professionals will be important in ultimately strengthening margins for reinsurers. Local initiatives should be implemented to nurture the development of local professionals. This is why we are collaborating with such institutions as the Chartered Insurance Institute to provide training programs and certifications to improve the local talent to that of global standards", said El Iraki.

"In particular, companies are in need of actuarial, risk management and specialised underwriting skills to support their development," said Nick Charteris-Black, of AM Best. ●

Participants

- David Benyon, editor, Reactions
- Said Ibrahimi, CEO, CFCA
- Najwa El Iraki, head of business development, CFCA
- Pierre-Edouard Fraigneau, director, North Africa, AIG
- Thierry van Santen, CEO, Allianz Global Corporate & Specialty France
- Nick Charteris-Black, managing director, market development EMEA, AM Best
- Ahmed Rajab, CEO, MENA, Aon Benfield
- Farid Chedid, chairman & CEO, Chedid Re
- Richard Hewitt, head of business intelligence, EMEA, Guy Carpenter
- Wasef Jabsheh, vice chairman & CEO, IGI Insurance
- Vincent Vandendael, director, global markets, Lloyd's
- Mehdi Tazi, CEO, Saham Assurance Maroc
- Frank O'Neill, CEO, MEA, Swiss Re
- Mounir Kabban, president, United Insurance Brokers
- Brendan Plessis, head of emerging markets, XL Catlin

Alt cap will prove beneficial for Latam

The entry of alternative capital into Latin America will be as beneficial to the region as it has been elsewhere even if it does increase competition for the established reinsurers in the market.

That is the opinion of Ingrid Carlou, the chief executive of Mexican reinsurer Patria Re, who spoke to *Reactions* during the Reinsurance Rendez-vous in Monte Carlo.

Some have questioned whether investors have the appetite to back alternative capital-backed instruments in Latin America owing to the lack of clearly defined and well researched models that can be applied to the region, but Carlou is under no misapprehension that these funds will soon be making their mark.

"The real question is not if it will come but when will it come. There are already some examples of large risks using alternative capital. It might be incipient when compared with other markets, but it is already a reality. I don't think any market can be immunised against the transformation that the industry is going through."

INGRID CARLOU
CEO, Patria Re

Some governments in Latin America have already started to utilise the rise of alternative capital, while innovative structures such as the Caribbean Catastrophe Risk Insurance Facility have proven popular and successful as it has paid out claims to governments and countries when they have been hit by major weather events.

And Carlou believes that more governments and public bodies in Latin America will turn to this source of risk financing to offset some of the costs they face when natural disasters hit.

"It seems logical that all the techniques, rules and methodologies that are used in private risks can be applied to governmental risks," Carlou said.

"It should only be normal that sooner or later the public sector thinks about taking some of its own medicine. Clearly, countries can only benefit from using professional risk administrator schemes to prevent and manage perils and risks."

However, Carlou said more work has to be done before Latin America can take advantage and create innovative risk transfer solutions.

"[Unlike in] Europe or the US, we do not self-insure public risks and there is great need for policy in this area to be developed and implemented. We feel such policy should aim to increase transversal management and centralisation." ●

Ursano predicts more consolidation

TigerRisk's Tony Ursano is adamant further consolidation will take place across the re/insurance sector and he expects there will be increasing interest to acquire alternative capital specialists.

"It's indisputable that there will be more consolidation," Ursano, who is TigerRisk's president, told *Reactions* at the Reinsurance Rendez-vous in Monte Carlo.

"There's no doubt in my mind whatsoever. There will be consolidation everywhere – on the brokerage side, more broadly with MGAs and wholesalers, on the carrier side and on the ILS fund manager side."

This latter element is currently garnering plenty of attention following on from Markel's acquisition of CATCo Investment Management, and Ursano would not be surprised if more of these deals are in the offing.

"You have a series of entrepreneurs who have been successful in building businesses and they have their own liquidity objectives," said Ursano.

"If someone is willing to pay them a premium for the business they've built, then why not? The strategic logic of either getting access to risk by affiliating with a fund or by getting access to investors – we're going to see a lot more of that."

Ursano also believes the flow of money from East to West will continue, with more companies following in the footsteps of businesses such as Fosun, China Minsheng Investment Corporation (CMIC), Mitsui Sumitomo, Sompo and Tokio Marine by investing in re/insurance businesses in the established western markets of the world.

"I don't think the Asians are done yet," said Ursano, who advised CMIC on its acquisition of Sirius. "I think there will be more of the sort of deals that saw Mitsui Sumitomo acquire Amlin." ●

Industry 4.0 risk revolution

Does the industry have the financial and intellectual resources to survive the fourth industrial revolution? Or will it be left behind? This was the challenge posed to a panel of insurance thought leaders.

XL Catlin CEO Mike McGavick said the industry has lost ground: "The challenge is that the familiar physical world has fallen to bits. I'm worried that talent is not yet matched to the future."

The industry is striving to keep pace, Thomas Blunck, Munich Re board member said. "We're developing products for baskets of risk, working with clients on areas like business interruption around cyber and on new technology like fuel cells."

Asked whether insurers might go bust from cyber risk, Eric Andersen, CEO of Aon Benfield said the industry has the tools to avoid catastrophic cyber losses. "There will be losses, even bankruptcies maybe. But the industry can't stand by and watch this business go by and not participate," said Andersen.

Hamilton eyes expansion in 2016

BRIAN DUPERREAULT
CEO, Hamilton Insurance Group

Hamilton Insurance Group is targeting further expansion of its business in the coming months with the company set to bolster its newly created Lloyd's operation as well as add additional skills and talent to its Bermuda base.

It will be a year ago in November that the Brian Duperreault-fronted Hamilton entered into an agreement to acquire Sportscover Underwriting Ltd, a Lloyd's managing agent which oversees the operation of Syndicate 3334.

That deal meant that Hamilton, which only opened for business in early 2014, added a Lloyd's operation to expand its offerings to the market.

Having acquired Sportscover, Hamilton has taken its time to work out exactly what it wants to do with the business and 2016 will see Syndicate 3334 ramp up its activity considerably.

"We originally inherited an operation that had planned to write about £20m of business upon renewal with basically no new third party business," said Bob Deutsch, Hamilton's chief strategy officer.

"We'll write much less than that because we're very focused on underwriting profitability and that historical business that was available didn't quite meet our criteria. We recognised that and that was a decision we made very early on. Our focus has been getting ready for 2016, and so we submitted in July our business plan for Lloyd's."

As Deutsch explained, that business plan will transform Syndicate 3334 into a far more diversified unit.

"The plan we're going to submit is diversified across multiple lines of business with substantially higher premium volume than what had been planned for 2015. Lloyd's has been very supportive of what we're trying to do. We've hired some very seasoned underwriters, and we've hired non-underwriting staff as well in claims, IT, finance and other back office functions. We're really trying to build an infrastructure that can write a substantial amount of profitable business in two, three or four years' time."

Hamilton's Lloyd's operation will write a wide variety of business. Some of that will be transferred from Hamilton Re because it is better suited to the Lloyd's market, either for rating or licensing reasons. In other cases, Hamilton will be taking bigger lines on existing contracts, and as such it may be a better fit for the Lloyd's platform.

"In addition, there will be some business that we'll be able to attract into Lloyd's because of the relationships Hamilton Underwriting's chief executive Dermot O'Donohue has, along with some of the underwriters," said Deutsch. "Some business is already in Lloyd's and we'll be competing for it, but that's natural."

Hamilton is also looking beyond the established markets and into new geographies to expand its business. As Deutsch explained, having acquired Sportscover, Hamilton picked up a small team of two people in Shanghai. Hamilton will now look at growing this business in China, although there is also interest in building out operations in continental Europe.

However, as Deutsch said, all of this will be done in a controlled fashion and into lines of business that the company already has experience and knowledge of.

It is not just Hamilton's Lloyd's business that is eyeing up growth opportunities though, with Kathleen Reardon, the CEO of Hamilton Re, also set to see her part of the company expanding in the near future.

"Since Monte Carlo last year, Hamilton Re has continued to grow and diversify its product offering," Reardon told *Reactions*.

"We've been adding talent and we have a casualty reinsurance underwriter joining us in a week or so to further enhance our Bermuda business. In the first quarter of 2016 we are also adding property direct and facultative."

As Reardon explained, right from the beginning, Hamilton wanted to have a diversified business.

"We didn't want to be a monoline cat only reinsurer, and so we were offering multiple lines of business from the start. We started an insurance offering last August in 2014 when we joined the Iron-Starr joint venture, and adding property D&F is the next step for us to build out our platform in Bermuda."

KATHLEEN REARDON
CEO, Hamilton Re

As Duperreault explained, one of the reasons why Hamilton has been so successful in expanding its business is because it is seen as an attractive place to work. With the considerable amount of merger and acquisition activity that is taking place within Bermuda, there are plenty of opportunities for firms such as Hamilton to take advantage of the personnel fallout from some of the deals.

"When there's market disruption, people start to have a look around at what opportunities are available elsewhere, and that's what we're seeing at the moment.

"That's been true for as long as I've been in the business, but it's particularly true at the moment in Bermuda which is such a small market and everyone knows each other. It's quite efficient to pick up great talent when you know they're available.

"We're able to attract talent because we're an attractive place to work."

Casualty underwriters in denial

Casualty reinsurance underwriters are sleepwalking into trouble, according to Simon Bird, long-tail treaty portfolio director at Brit. Bird believes that with abundant capital flowing into the primary and reinsurance markets, everything looks calm on the surface.

"After the global financial crisis, investment income disappeared and the underwriting years 2009 – 2011 were great," he told *Reactions*. "And all the bad news was sheltered in the 2008 account."

After several years of continuing reserve releases, however, Bird said, the market is running on fumes. "Participants returning to the market are giving away broader cover and extending policy periods while rates are weakening," he said. "2012 to 2014 won't perform the same as previous years and the market has lost the shelter of 2008.

"Brit has drawn a line in the sand and shed a lot of premium. I wish others would too. But many casualty reinsurance underwriters have an expression – 'I can make that work'. It means they are going to tweak the model to get the planned loss ratio," he told *Reactions*.

October 1 marks the renewal of UK solicitors' PI business and Bird is worried about the outcome. "The margins are tiny and every year new capacity comes in – it never fails to disappoint," he said.

Bird says that he is unfazed by the merger and acquisition taking place and the potential for his company to be sidelined by bigger competition. "Brit has been a leader in casualty for 15 years and we continue to develop the casualty product, bundling treaties and writing multi-line classes," he says.

"We're writing new business and we are particularly strong in the mid-tier market, especially in North America. There's a strong bond between the US and Lloyd's."

Lloyd's is riding high at the moment, Bird says, and he cautiously welcomes the influx of new players. "But they have to be careful about letting people in willy nilly," he says. "Their business has to be accretive to Lloyd's and not simply slicing the cake more thinly." ●

Rhoads excited about Markel CATCo opportunities

Markel's acquisition of CATCo Investment Management has further convinced Jed Rhoads that alternative capital is here to stay and he is excited about the prospect of developing new products with the latest addition to the firm's stable.

"While I still have some concerns about the ILS space, I feel more certain than ever that this is a permanent part of our business," Rhoads, who is Markel Re's president and chief underwriting officer, said.

"At least as far as CATCo's product goes, many of my concerns have gone away. They do things in a much more sophisticated way than I had previously understood.

"I've always wanted to have a footprint in the ILS space and the traditional space because I don't know which way the industry is trending, but to have a foot in both camps gives us optionality that is useful.

"From a strategic point of view, I can't wait for Tony Belisle [CATCo's director and chief executive] and Markel to close the deal so we can start talking about new products to launch."

Space, aviation, energy down 14%

The reality is that rates on aviation, satellites and energy lines are still not stable and "all depressed", according to Laurent Lemaire, the chairman and chief executive of Dubai-based specialty insurance and reinsurance managing general agent Elesco.

"The reality is they are not stable," Lemaire told *Reactions*, speaking at the reinsurance Rendez-vous in Monte Carlo. "They're all depressed, all rates [across those three lines] are going down," he said.

"I'd like to tell you it's minus 5%, but the rate is more like minus 14%," said Lemaire. "In the space market, for example, if you take the price at the peak of the market back in 2002 as 100, then by that index today it is at 35. Aviation is probably even worse, and energy is much in line. There's not really much difference between satellite, energy and aviation pricing. It's a very challenging market environment, but we've delivered profits."

LAURENT LEMAIRE
Chairman and CEO, Elesco

Elesco operates in the Dubai International Financial Centre, with presences in the US, Paris and London. It was established in 2006 as a vehicle for investing capital. The outfit's space business, totalling $160m capacity, is nearly all direct, he said, while its energy ($85m) and aviation ($115m) segments contain a lot of reinsurance.

"We work in very challenging market conditions," Lemaire said. "There are no set up costs for capital providers; it's plug and play. We underwrite on behalf of 60 carriers, very well distributed," he added.

The geographical spread of capital providers includes roughly 20% from China, 15% from Bermudian players, 5% from the US and another 5% from Latin America. The mix of backers includes around 20 of the top insurance groups, he said, used to write a mix of direct insurance and reinsurance business. ●

ROBERT BILODEAU
rbilodeau@wilmingtontrust.com
212-941-4411

ROBERT QUINN
rgquinn@wilmingtontrust.com
347-637-0368

TODD WINCHEL
twinchel@wilmingtontrust.com
212-941-4406

Experience is the best partner for insurance collateral solutions.

At Wilmington Trust, we pride ourselves on being a premier provider of corporate trust services. So we can provide or coordinate multiple captive services all under one roof, allowing you greater control, customization, and ease of management. And with our team's quick response time, more than 15 years of experience focused solely on insurance trusts, and hands-on process, we're well equipped to handle your needs.

QUICK
RESPONSE TIME

HANDS-ON
KYC PROCESS

Our team is here at Rendez-Vous De Septembre, so call us today to catch up in Monte Carlo.

REINSURANCE TRUSTS | ILS TRUSTS | CAPTIVE TRUSTS | RETROCESSION TRUSTS | DEDUCTIBLE TRUSTS | SURETY TRUSTS

RENOWNED FOR A REASON®

WILMINGTON TRUST

Toyota set for motor cover takeover

The combination of Mitsui Sumitomo and Toyota, previously a Mitsui Group subsidiary, and telematics company Insure The Box could have a disruptive potential in the motor insurance industry, said Willis Re's Andrew Newman. Insurer Catlin sold Insure the Box to Mitsui Sumitomo in December 2014 for £85m.

"User-based information is going to cause disruptive change to the industry," said Newman, Willis Re global head of casualty. "Companies selling cars can also sell car insurance and telematics products, he explained. "We are all looking at whether insurers like Aviva and RSA could take each other out, for example, but who would have thought that Toyota could take everyone out of the motor business in conjunction with Apple or Samsung for example," Newman suggested.

"As usual the dullness of the status quo

ANDREW NEWMAN

masks a lot of frenetic activity going on underneath the surface. I think the potential for real disruption in the insurance industry is looming," said Newman.

Cyber attacks on businesses such as the 2013 attack on Target is not a big threat to the industry, said Newman. However, cyber attacks taking down national power grids or payment systems is the real threat. "I sound a bit like Jeremiah here, predicting the end of the planet as we know it," he laughed.

Meanwhile, reinsurers are not giving enough credit to those cedants managing casualty risk better than others, said Newman. He noted that some casualty underwriters may already be unprofitable but this will not be seen for several years. "Because we don't have very good risk quantification in casualty it could take five years for this year to be seen as unprofitable. It could take several years before people start reporting technical losses," said Newman. He quoted Warren Buffett saying: "Only when the tide goes out do you discover who's been swimming naked."

Rates dropping may be more problematic in the casualty markets than in property. "The problem with the casualty market is there is no model for creating a technical pricing floor so it could go way lower," Newman said. ●

Maiden Re looks to Europe

Pat Haveron, President of Maiden Reinsurance Ltd.

Explain for us how Maiden's collateralised reinsurance solutions work. What are the differing benefits of this offering to clients?

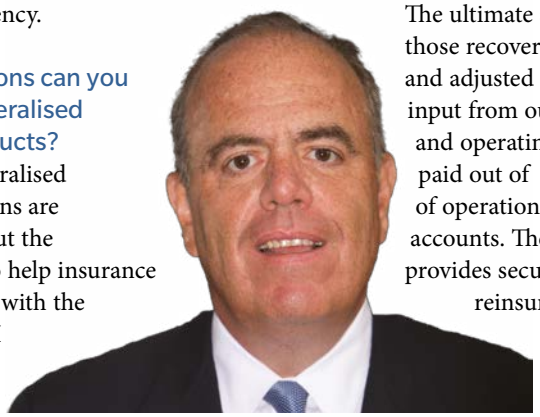
Insurers will be able to effectively manage their counterparty risk component, as Maiden's reinsurance collateral will offset the capital requirement as it is a deduction to the Loss Given Default (LGD) calculation. The effect of this offset is that Maiden Re's collateralised reinsurance solutions provide greater Solvency II benefits than uncollateralised solutions from higher-rated reinsurers.

Increased transparency is one of the benefits of our collateralised reinsurance offering. On a regular basis, we compute and share with our clients our expectations of the ultimate liabilities for each account. This computation is the basis for our collateral funding and provides an opportunity to regularly review and discuss with our clients how each account in performing. Based on the calculated collateral needs a Solvency II compliant custodial account is established and funded for each client.

The collateral custodial account is placed with an EU financial institution and is funded with highly rated assets. A key aspect of these collateral accounts, is that our clients retain the right to liquidate or retain the underlying collateral in the unlikely event of a reinsurance insolvency.

In what jurisdictions can you offer these collateralised reinsurance products?

Maiden Re's collateralised reinsurance solutions are available throughout the European Union to help insurance companies comply with the coming Solvency II requirements and are tailored to meet the requirements of the specific jurisdictions in which insurers operate.



Unique to Solvency II is the impact collateral has on an insurer's counterparty risk, as collateral offsets the capital requirement as it is a deduction to the Loss Given Default (LGD) calculation. The effect of this offset is that Maiden Re's collateralised reinsurance solutions provide greater Solvency II benefits than uncollateralised solutions from higher-rated reinsurers.

Collateralised reinsurance continues to be one of the fastest growing areas in the industry with London potentially primed to become a hub for collateralised reinsurance space. Where do you see as the biggest opportunities across Europe?

Our approach to collateralised reinsurance is a bit different than how the term is being used in some of the capital market discussions of ILS transactions and cat bonds. Maiden is not looking to securitise a single transaction and Maiden does not participate in catastrophe reinsurance markets. Maiden places high quality securities in an individual custodial account for each of our clients that collateralises outstanding recoverables for our entire relationship with that client. The ultimate anticipated value of those recoverables are reviewed and adjusted periodically with input from our client. Claims and operating expenses are paid out of the normal course of operation, not the custodial accounts. The trust balance provides security in the case of reinsurance insolvency and eliminates counterparty risk from the Solvency II LGD calculation, which we think is unique across Europe.

Will changing regulatory capital standards regulation such as Solvency II provide additional international opportunities for Maiden through offering capital solutions to assist clients with their capital management?

As risk-based capital standards are promulgated and implemented globally, we think Maiden's combination of collateralised reinsurance and subordinated debt will gain traction in many other global markets and we are increasingly engaging with those markets to evaluate opportunities there. Globally, we believe insurers without natural access to this unique range of capital solutions will respond positively to Maiden's offerings and our relationship-based approach to clients.

What does the future hold for Maiden and its international growth?

Maiden is fully committed to expanding our presence within the European Union and providing customised capital solutions to European insurers. We're optimistic that the opportunities we are already seeing here in Europe will expand as the market fully implements Solvency II. As a company committed to being a reinsurance specialist, the combination of our collateralised reinsurance products and value added support along with our subordinated debt offering via IRC enables Maiden to provide customised and highly differentiated solutions to regional and specialty insurers in Europe and beyond. Maiden uniquely offers the full complement of capital solutions that will enable insurers globally to proactively manage their capital and strengthen their business. ●

Industry needs to get out more

This year's Rendez-vous has a more subdued atmosphere than in previous years, according to Julian James, president of global markets at Allied World. "Or maybe there are simply fewer people here and that explains how quiet it seems," James told *Reactions* between espressos in the Hermitage.

It is the first year in living memory that the lobby of the Hotel de Paris has not been thronging with risk professionals. But the Hotel Hermitage also seems eerily quiet by Tuesday. James thinks one reason might be that in the modern reinsurance market here's a long gap between a September conference and the January renewals deadline.

He is frustrated at how self-obsessed and introspective the industry is. "People in our business practically ignore external issues like the global economy, the increasing inter-connectedness of risk and the persistently wide uninsured risk gap," he said. "There's a lot happening that people don't talk about."

JULIAN JAMES
President of global markets, Allied World

James, who is part of a select group that got a room in the Hotel de Paris this year, says that Allied World is working hard on designing new products that address intangible risks, however. "We are looking at developing new triggers on insurance products, for example and we are very active in representations and warranties insurance for M&As."

A former director at Lloyd's, James says the market is a hot bed of innovation but is worried that electronic trading might stifle the interaction between brokers and underwriters that stimulates creativity. "The spirit of dialogue is important and I believe that preserving face to face market is important for innovation," he said. "Process needs to be improved but it shouldn't be at the cost of dialogue."

James celebrates the success Lloyd's is enjoying in attracting new capital and attributes its success to Lloyd's chairmen past and present. "Lord Levene recognised that Lloyd's needed to lift its profile," James said. "And John Nelson has done a fantastic job."

Note: Allied World Global Markets has expanded its casualty team with the appointments of James Emerton as vice president and Martin Fisher as assistant vice president. They will be responsible for UK/International corporate business and they will be based in Allied World's London office. ●

Willis Re sees further US opportunity

Willis Re has increased its market share by 70% in North America during the last six years and the broker is confident of further growth in the region.

Much of that has been organic, although the one acquisition it has made – of SurePoint Reinsurance Advisors – has given an accident and health offering.

"We've had a number of new [A&H] wins which to us justifies exactly what we wanted when we made the acquisition," said James Kent, president of Willis Re America.

As Kent explained, there are additional growth opportunities.

"[Those wins have] been supported by consistent growth across many other business lines such as regional P&C, medical malpractice, surety, workers' compensation, casualty, mortgage, professional lines and large property."

Competition in North America's reinsurance broking market is fierce, but Kent said opportunities exist.

"Despite the market headwinds it points to the opportunity out there. It is very competitive, and everyone is looking for ways to grow. If you've been successful in growing, then people are going to want that themselves and it wouldn't be a market if we didn't have people moving around. We have been fortunate to have strong associate retention in the last five or six years, and that's been a bit different this year, but we respect that it happens and we've also brought in staff as well as seen some leave."

But Kent believes Willis Re will continue to grow its business and personnel who will be attracted by its client focused and segmented approach backed by a flat management team that engages with other units such as analytics and broking.

"It's a very collaborative culture. It's also an honest culture where we can see where we're good but also where we need to improve." ●

Allianz Re not interested in M&A

Allianz Re has no intention of acquiring other reinsurance entities, CEO Amer Ahmed told *Reactions*. "We are happy with the portfolio we have. We don't have any desire or plans to change that," said Ahmed.

Since 2010 the German reinsurer has been focusing on key clients and sectors rather than looking to expand. "We are not a mainstream reinsurer. I think we have tiered ourselves and got in there first," he said.

He also argued that many non-peak risks remain poorly modelled, which spells trouble as the industry increasingly moves away from traditional peak risks to find business lines with harder pricing. "Some of these risks are not well understood so not well modelled. The data available is not as good as it should be," said Ahmed.

JLT Re helped by US specialty presence

JLT's reinsurance arm is already beginning to reap the benefits of its parent's wider US retail specialty presence and has won business on the back of it.

It is now almost two years since JLT acquired the reinsurance broking operations of Towers Watson and, as Mike Reynolds explained during the Reinsurance Rendez-vous in Monte Carlo, the integration of those operations is "now all behind us".

Since then, the broker has, in the words of Reynolds, "put a tremendous amount of investment into our platform".

"We're in great shape and we've been investing heavily both in terms of people in Europe and in North America, and we've also invested in analytics. We feel like we're in a very good spot."

During the first six months of 2015, Reynolds said JLT Re managed to build out its business. That, Reynolds said, is in contrast to the reinsurance broker's rivals.

> "In the first half of the year we grew while everyone else went backwards so that's a decent reflection on how we're doing."

"In the first half of the year we grew while everyone else went backwards so that's a decent reflection on how we're doing," he said. "We're taking market share and so we're pretty pleased with where we are."

The move into North America has been very beneficial for JLT Re, and according to Reynolds, the significant investment the reinsurance broker has made since then has helped to make its offering more attractive to clients. Its market presence in North America has also been bolstered by the launch of JLT Specialty USA almost a year ago.

"JLT as a group has invested quite heavily on the specialty retail side in North America. We now have 150 people in North America and they have tremendous traction. That really helps us in building out JLT's profile in North America and it also helps us with market presence.

"We've seen some opportunities come out of that business. We've done five or six deals at this point in time which weren't really there before and so this has been a new way for us to generate business. In terms of the opportunities we're seeing, there's been a marked increase in them." ●

Scor sees ILW and cat bond prices rise

VINCENT PRABIS
Head of ILS strategies, Scor

Scor saw prices rise for both industry loss warranties (ILW) and catastrophe bonds this year, according to Vincent Prabis, Scor's head of ILS strategies. Price hikes have been "more subtle" for reinsurance and retrocession, said Prabis.

However he noted that it is much easier to monitor ILW prices or cat bond coupons as there is a direct comparison, whereas variations in terms and conditions muddy the waters on reinsurance and retrocessional premiums.

Scor's ILS arm has been increasingly focusing on private ILS deals and collateralised reinsurance, moving away from cat bonds as a result.

"Cat bonds haven't performed well in the first six months of this year. As [investors] become more educated about the space they realise that if they can afford to in invest in a product less liquid," said Prabis. "What that means is having a portfolio with fewer cat bonds and more private contracts."

Some of the business alternative capital is entering are diversifying it away from cat risk.

"You hear some very strange things, areas that sometimes you raise your eyebrows over," he said. ●

Correction: Rising sea levels heighten risk of storm surge on US East coast

In our piece on the rising risk of storm surge on the US East Coast (Day 1, Sun September 13) a table on projected losses contained mistakes. This is a corrected version of the table (below). We apologise for any confusion this may have caused.

Storm surge losses

	Current	2030	2070	2100
Baltimore	$126m	$214m	$360m	$487m
Boston	$476m	$748m	$1.1bn	$1.5bn
Miami	$13bn	$17bn	$25bn	$33bn
New Orleans	$411m	$414m	$625m	$836m
New York	$9bn	$13bn	$18bn	$23bn
Tampa	$17bn	$19bn	$22bn	$25bn

100-year return period storm surge losses – the economic loss that has a 1% chance of being exceeded in any given year – according to RMS modelling. All dollar amounts are in 2015 dollars.