Insight and Intelligence on the 2017 Reinsurance *Rendez-Vous* de Septembre

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MONTE CARLO

Market holds breath as Irma approaches

The global (re)insurance market is mired in uncertainty as it follows the fate of Hurricane Irma, which has the potential to become the most expensive insured loss ever.

Irma, one of the most powerful storms in history, has held the (re)insurance sector transfixed for days, with its projected track oscillating around the sector's peak exposures in Miami, and the stock market oscillating in response to perceived clues on the possible scale of losses.

At the time of writing, the point where the storm will make landfall and its path along the Florida peninsula remained unclear, although the latest National Hurricane Center forecasts suggested landfall on the west coast, with the city of Tampa potentially receiving a direct hit.

The insured loss quantum is highly sensitive to the storm's exact path.

A direct hit on Miami – an increasingly unlikely outcome – and an unfavourable track up the coast opens the sector up to $150bn+ of losses, whereas a more favourable central path could see the storm cost just a third of that. The west coast also has a major concentration of insured values and could suffer a loss somewhere between the two.

This leaves insurers, reinsurers, retro providers and brokers in limbo as they wait to determine where the loss falls within the $50bn-$150bn range, and quite how distressed the sector will be.

At $50bn, (re)insurers would be dealing with a Katrina-size event at a time when carriers have stronger balance sheets and access to new sources of capital, albeit with core returns under increasing pressure from compound rate reductions.

Sources have said that a $80bn-$100bn loss would create significantly more distress, but there is confidence that an event of this scale could be weathered without widespread failures.

If the losses did mount to the $125bn-$150bn range, sources suggested that market turmoil would ensue, with the potential for failures beyond the primary Floridian property market, losses to the Lloyd's Central Fund, and downgrades and capital raising even at some of the more respected companies.

Perhaps with this latter scenario in mind, Sompo International CEO John Charman said late last week: "It is the Night of the Long Knives. Those who emerge at the end of September will be worthy of it."

Harvey vs Irma

Irma as a loss will contrast sharply with its near predecessor Harvey. Harvey is a flooding event that will be majority-retained by the primary market, with a significant auto component and a highly uncertain commercial property loss quantum concentrated in Houston.

Irma will be a wind and storm surge loss concentrated in coastal Florida. The majority of the gross loss will come via Florida homeowners' policies, with a significant minority from commercial property and a relatively modest auto tally.

The Floridian homeowners' market, particularly in coastal areas, is dominated by thinly-capitalised local players following the drawback of the nationwides after earlier cat events.

All buy to low attachment points and will hand substantial losses to their treaty reinsurers, with the programmes of the nationwide and commercial writers also likely to deliver claims to cat writers despite their major retentions.

Traditional cat treaty reinsurers, operating with a global premium pool of around $20bn, could find themselves carrying tens of billions of dollars of losses.

The retro market will also be heavily impacted, with scope for most programmes to be exhausted, given the relatively low return periods that cat writers typically buy to.

Florida is ground zero for the insurance-linked securities (ILS) market and it will pick up swingeing losses from primary reinsurance, retro and cat bonds.

For Lloyd's, with its cat treaty exposure and huge coastal wind exposures via its open market, and particularly binders', property books, as well as specialty lines like marine and energy, Irma is set to be a clash loss.

Early manoeuvres

The extent of Irma's impact is unclear, but at minimum it looks likely to be the biggest insured loss since Hurricane Katrina, which cost the industry around $50bn in 2005.

Then there is the complex and thorny loss from Harvey, which is creating significant uncertainty around outwards reinsurance

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INSIDE

Night of the long knives

Awards acceptance speeches are usually quite predictable.

But when a Cat-5 hurricane is hurtling towards Florida, predictability is the first casualty.

Add to that one of the award recipients being someone as independent-minded as John Charman and the chance of a major surprise receives a big upgrade.

At the Insider Honours in London on Thursday night, Mr Charman told a 600-strong audience of peers that the industry was about to experience a "night of the long knives" in which some of the suicidal decision-making of the past few years would be exposed.

The deserving would come through the ordeal and those that had ignored the basic laws of our business would not. Out in the hall the mood was not quite sombre, but certainly less celebratory than in previous years.

There was a quiet confidence that everything that could be done had been done – the pre-storm to-do list had been carried out to the letter. But a nervousness was palpable.

A standard conversation with a senior executive at a carrier on the night would begin with the confident expression that his or her organisation was sure it had its house fully in order. But in almost the same breath that person would confide that they knew of at least two peers who were likely to have a rude awakening.

And just as for a nervous traveller shutting up the house before going on summer vacation, the lingering doubts and nagging questions were never far away:

"Did I shut off the gas?"

"Have I cancelled the milk and newspapers?"

The industry equivalents are:

"Do I really have an accurate handle on my aggregates?"

"Will my reinsurance/retro perform the way I am expecting it to?"

> "Out in the hall the mood was not quite sombre, but certainly less celebratory than in previous years"

"Will the loss go into the gaps, or expose new ones?"

"Will this event throw up new clashes that I hadn't thought of?"

"Are the politicians going to make me pay for things that are definitely not covered and for which I haven't been collecting any premiums?"

The only rational answer to these questions is wait and see – all will be revealed next week and beyond.

The original night of the long knives was a savage purge carried out in Nazi Germany in the summer of 1934. Internal and external rivals were rounded up and killed and Hitler's supreme grip on power was consolidated.

Our version will be different – and happily far healthier.

Our major events never allow a single winner to take all. Yes, the weak get killed, but in our version of Depression-era Germany, new parties would be formed, the Nazis would be forced into coalition or out of government entirely and the Second World War would never take place.

Reinsurance and protection is not a one-party state - customers will not allow too much power to be held in too few hands. Prudent management of counterparty credit risk does not permit it. If we lose some, we have to create some new ones to take their place.

As I write, Irma's track is shifting one way and another, as is its prerogative – but Florida is definitely going to be hit hard.

This is what we are here for. This is what we have prepared for. Let's do the right thing by our customers and rise to the immediate challenge of tomorrow and the weeks and months ahead. Good luck.

Mark Geoghegan,
Managing Director,
The Insurance Insider
mark@insuranceinsider.com

UK government backs Pool Re cyber plans

State-backed terrorism reinsurer Pool Re has gained the UK government's backing in principle to remove a cyber exclusion from its coverage and expects to offer protection for cyber events from 1 April next year.

Pool Re CEO Julian Enoizi said removing the exclusion would mean that cover for physical damage caused by remote digital interference by terrorists would be available to the scheme's members.

The development is the culmination of two years of work and marks the first major change to Pool Re's remit since cover for chemical, biological, radiological and nuclear attacks was added in 2002.

"Clearly, it's a very significant step for Pool Re," said Enoizi. "For me, it's absolutely the right thing to do because it evolves the coverage in line with the evolving threat. What we are really doing is future-proofing the cover."

Pool Re is working with government lawyers to formulate the necessary changes to its underwriting manual and expects to distribute revised documentation on 1 October.

Speaking before the start of the Monte Carlo *Rendez-Vous*, Enoizi said he would seek to add cyber cover to Pool Re's own commercial reinsurance placement at the conference.

Pool Re has also proposed that the government remove a non-damage business interruption (BI) exclusion from the primary legislation that established the scheme. The insurance market generally offers cover for non-damage BI except in the case of terrorism, whereas Pool Re's ability to provide BI cover is contingent on there being physical damage, Enoizi explained.

He said the additional exposure caused by removing the exclusion could be offset by an increase in its members' retention levels and Pool Re's purchase of an estimated £250mn-worth ($326.8mn) of additional reinsurance protection that would sit excess of the retention.

"We saw in November 2015 that Paris cafes and restaurants were inaccessible due to the police cordon. We began a dialogue with the government and then events caught up with us [in the UK].

"What we did immediately was to propose a solution. We said you can use the private market to do this, but the most efficient way to achieve the broadest possible [non-damage BI] cover is to use Pool Re as the facilitator to get that cover out."

Nephila and Everest lead concentrated Florida cat treaty market

The top five reinsurance writers in Florida assume 23 percent of the market's ceded premium, analysis by *The Insurance Insider* has shown.

As Hurricane Irma bears down on the Sunshine State, analysis of Schedule F filings reveals a relatively concentrated cat treaty market, with $761mn of premium ceded to the top five reinsurance writers in 2016.

Reinsurers of the biggest Floridian cedants will bear the brunt of the loss from Irma, along with their retro providers.

The Insurance Insider pulled data on ceded reinsurance premium from Schedule F filings for the top 17 Floridian insurers by market share. The numbers do not include nationwide writers AIG, USAA and Chubb subsidiary Federated Insurance, whose large cessions skewed the overall data set, and they are backward-looking.

The results reveal the largest private writer of Florida reinsurance business is Nephila, followed by Everest Re, Berkley Re, Aeolus and Tokio Millennium Re.

Nephila captured $263.5mn of premium through Allianz Risk Transfer, Poseidon Re and Rubik Re – equivalent to 8.1 percent of total ceded premium across all 17 Florida carriers.

The largest insurance-linked securities (ILS) fund manager assumed premium from 12 of the Floridian carriers in 2016, but draws more than 90 percent of its premiums from just six.

Last year Nephila took on $66.6mn of premium from Universal P&C, its biggest cedant. This was equivalent to 23 percent of the Floridian carrier's total ceded premium.

Meanwhile, the fund manager assumed $57.7mn of reinsurance premium from United P&C, equivalent to 22 percent of the total ceded, and $49.1mn from Heritage, which accounted for 18 percent of the insurer's overall cessions for the year.

Nephila also has substantial relationships with the People's Trust, Florida Citizens and American Coastal Insurance Company, all of which cede more than $15mn a year to the fund.

The firm is one of two collateralised reinsurers to make the top five, alongside Aeolus, which took on $85.3mn in premium in 2016.

There are nine collateralised reinsurance entities in the data set, accounting for 13 percent of all assumed premium.

Everest's reach

Everest Re is hot on the heels of Nephila in terms of Floridian ceded premium. The Bermudian assumed $208.1mn of premium from the top 17 carriers in 2016, equivalent to 6.4 percent of the sample's total cession.

However, Everest Re had the widest reach in terms of relationships with Floridian cedants, having assumed premium from 16 out of the 17 carriers in our data set.

In this sense, Everest Re spreads its exposure more widely than its peers, with the polar opposite being Berkley Re, which assumed $123.2mn from just four relationships: American Integrity, Florida Peninsula, Olympus and Safepoint.

Everest Re has extensively managed its exposure to US wind risk via its Mount Logan Re sidecar and numerous sponsored catastrophe bonds.

As Irma approaches the Florida peninsula, the reinsurer currently has 10 of its Kilimanjaro Re cat bonds on risk, which would provide $1.525bn of protection if triggered.

Meanwhile, analysis of the proportion of any one cedant's total ceded premium to the top five reinsurers not only emphasises the market leaders' dominance, but also highlights the counterparty credit risk the Floridians are taking on in their reinsurance relationships.

Seven out of the 17 carriers cede more than 30 percent of their total ceded premium to the top five reinsurers, the most concentrated being Security First, which cedes 53 percent of its total cessions to the top five.

The next most concentrated are Safepoint, with 48 percent, and Olympus, with 42 percent.

On the opposite end of the scale is State Farm's Florida unit, which cedes just 1.5 percent of its total cessions to the five market leaders.

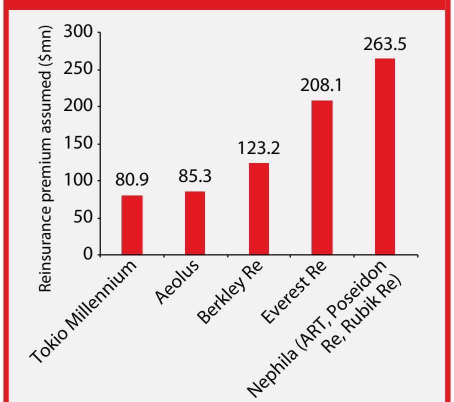
In fact, the carrier only has relationships with Tokio Millennium Re and Nephila out of the top five, and chooses to spread its cessions more widely among global carriers such as Swiss Re, Hiscox and Validus – potentially reflecting State Farm's cedant relationships at a group level.

Numbers 6 to 15

Global carriers feature more heavily in the second rank of reinsurers in the analysis, including RenaissanceRe, Swiss Re and PartnerRe.

RenRe narrowly missed out on the top five with total assumed premium of $76.5mn, when including premium taken on by its DaVinci rated sidecar, but the story may well have been different if the Florida cat fund had been included in the analysis.

Top 5 Florida reinsurers by ceded premium



Source: Company filings, *The Insurance Insider*

Largest Nephila Florida accounts

Cedant	Ceded premium ($mn)
Universal P&C	66.6
United P&C	57.7
Heritage	49.1
People's Trust	43.0
Citizens Property Insurance	22.5
American Coastal Insurance Company	16.3

Combines ART, Poseidon Re, Rubik Re
Source: Company filings, *The Insurance Insider*

Everest Re has widest Florida reach

Reinsurer	No. of cedant relationships	Total assumed reinsurance premium ($mn)
Everest Re	16	208.1
Tokio Millennium Re	13	80.9
Nephila (ART, Poseidon Re, Rubik Re)	12	263.5
Aeolus	6	85.3
Berkley Re	4	123.2

Source: Company filings, *The Insurance Insider*

RenRe writes a $375mn line on the Florida Hurricane Catastrophe Fund programme, along with its DaVinci Re vehicle.

The reinsurer's largest relationship in the data set is with Homeowners Choice, from which it received $22.7mn of premium, closely followed by Universal, which ceded $20.8mn. Combined, these two cedant relationships accounted for more than half of RenRe's total assumed premium from the 17 Floridians.

PartnerRe came in seventh, with $66.5mn of assumed premium, while Validus' $58.1mn of assumed premium ranked the reinsurer eighth.

On a full-year 2016 results call, Validus management commented on extra worldwide aggregate protection it had purchased at 1 January, which may prove to be a prudent decision in light of Irma.

Validus Re buys $325mn of aggregate retro excess $275mn, although losses from Harvey will already have significantly eroded that deductible.

Kean Driscoll, Validus Re CEO, said the group's US wind 1-in-100-year probable maximum loss (PML) at 1 January was down by 6.5 percent on the same renewal last year.

"The decrease in PML is a result of our disciplined underwriting, enhanced retrocessional purchases and the shift of more capacity to AlphaCat," he said.

Swiss Re is another carrier in the top 15 that may benefit from its sidecar arrangements in managing its US wind exposure.

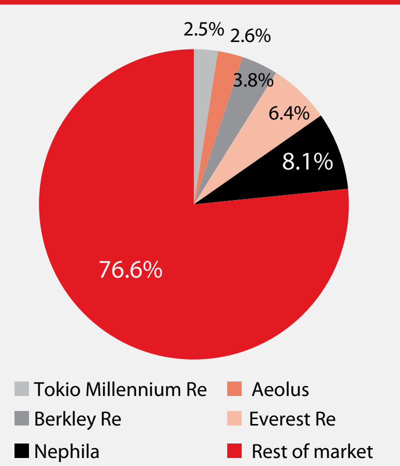
The giant reinsurer expanded its Sector Re sidecar to $492mn midway through 2017 to increase its retro support from the vehicle by $100mn in the past year.

Sector Re is predominantly a highly diversified global reinsurance sidecar, although it is understood some layers provide US-specific retro support.

Sompo also featured in the top 15, due to its acquisition of Endurance – now Sompo International – which assumed a total of $54.3mn of premium in the year alone. Much of it is likely to have been a result of Endurance's acquisition of Montpelier Re, a major Florida cat writer.

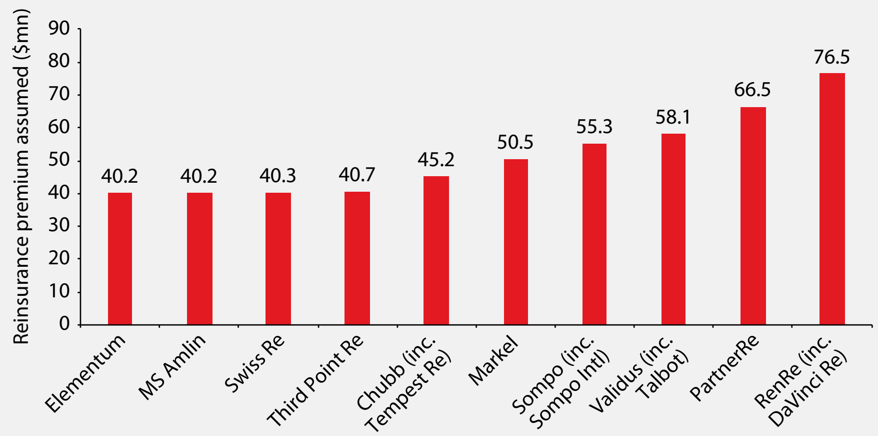
Other reinsurers to make it into the top 15 included Markel Re, which was pushed into the bracket by a $27.5mn cession from People's Trust in particular, and Chubb Tempest Re, which holds ceding relationships with 14 out of the 17 cedants in the data set. MS Amlin and collateralised reinsurer Elementum were also among the top 15 reinsurers.

Top 5 account for 23% of Floridian ceded premium



Source: Company filings, *The Insurance Insider*

Floridian reinsurers ranked by assumed reinsurance premium: numbers 6-15



Source: Company filings, *The Insurance Insider*

Cedant analysis methodology

***The Insurance Insider* pulled data on ceded reinsurance premium from Schedule F filings for the top 17 Floridian insurers by market share.**

The data is broken down by cedant and by reinsurer, to provide a granular level of data.

The top 17 cedants featured in this analysis were: Universal P&C, Citizens, Heritage, Federated National, Homeowners Choice P&C, Security First, United P&C, People's Trust, First Protective, American Integrity, Florida Peninsula, Florida Family, Olympus, Safepoint, American Coastal, ASI Preferred, and State Farm's Florida unit.

This group ceded a total of $3.25bn of premium to reinsurers in 2016, according to tallies disclosed on Schedule F filings.

The data set does not include nationwide writers AIG, USAA and Federated National, which do not provide a Schedule F breakdown for their Florida units, and whose large group-level cessions skewed the overall data set.

Units of reinsurers were grouped together to provide assumed premium totals at a group level – for example, the RenRe entry includes its Lloyd's syndicate and permanent sidecar DaVinci Re.

The reinsurer sample does not include catastrophe bonds, but does feature sidecars, captives and other collateralised vehicles.

Also excluded from the reinsurers' sample is the Florida Hurricane Catastrophe Fund (FHCF), which is the largest receiver of cessions in the market but is state-backed, and therefore not comparable for the purposes of this analysis.

A scaled-back look-up table showing ceded reinsurance premium relationships for the top 10 Floridian cedants and the top 40 reinsurers, alongside the FHCF, will be published in tomorrow's Monte Carlo daily edition.

Continued from page **1**

protection for those with meaningful exposure. Nevertheless, seasoned industry sources have pegged Harvey at an industry loss of $25bn-$30bn in recent days – making this hurricane season's supporting act bigger than 2012's Sandy.

Carriers have already started jockeying for position post-event, either with a view to bolstering their capital position and limiting their downside from events in the remainder of the year, or to exploiting the anticipated correction in pricing.

As of Friday (8 September), at least 10 or 12 cedants had solicited quotes on back-up reinsurance or retro deals. A mutually acceptable price on back-up covers has proved almost impossible to reach in most cases with Irma's impact so unclear, but the market is expected to spring to life next week as reinsurers confident in their own loss and capital position look to capitalise.

However, soft market tactics from those in a strong position are likely to differ. Some will opportunistically offer capital where it can garner the highest returns, writing so-called "survival retro" at penal rates.

Others will concentrate their capacity on supporting core clients. Some may withhold their capacity altogether, at least in the short term, as they manoeuvre for maximum advantage. "Let the weak die," one underwriting source said grimly.

The market for back-up covers will draw oxygen from the fact that more than 50 percent of the risk in the Atlantic hurricane season is outstanding, with the formation of Jose and Katia underscoring the point that yet another landfalling storm is possible.

Carriers with potential access to third party capital are also rapidly mobilising, with a number of ILS funds and reinsurer-asset managers already holding discussions and looking to draw down funds.

Longer term

By nightfall on Sunday the market will have a good sense of the storm track and the wind speeds at landfall, allowing the loss to be modelled. To date the modelling agencies have been reticent in issuing numbers. RMS broke its silence on Friday afternoon to tell *The Insurance Insider* that early indications suggested that there was a 90 percent chance that the wind loss would be $85bn or less. Karen Clark released a range of pre-landfall loss simulations to Dowling which showed that, based on tracks from Thursday at 6pm Eastern Time, the claims burden could be $137bn-$150bn. The projected wind track has since moved west, reducing the likely quantum of losses. Market scepticism remains about the ability of the models to accurately calculate the loss, given past misses. Insurers are likely to face a welter of "unmodelled" issues after the storm, with the assignment of benefits issues set to hurt insurers badly and political pressure to pay out likely to be irresistible.

The difficulty in maintaining flood exclusions was again demonstrated last week, when the MTA won a victory against its insurers, which had looked to impose a sub-limit on its Sandy loss – one of the biggest single hits from the 2012 event.

Other practical issues include the dearth of loss adjusters and the demand surge that is likely to force replacement costs up significantly, further inflating claims.

The latter two issues are just another example of the way in which Harvey and Irma will intriguingly interact to shape the market outcome and, thus, the way renewals are approached.

Asymmetry

The Floridian primary market will fare worst in the loss, according to broking sources. Most of the Florida homeowners' writers ostensibly buy to a 1-in-100-year return period to satisfy ratings agency Demotech, but there is scepticism among both brokers and underwriters that their programmes truly reach these exhaustion points.

Efforts are already underway to determine which are most likely to go through the top of their reinsurance programmes, and failures are expected in some quarters. Attempts to rebuild are likely to be hampered by punitive reinsurance rates and the difficulty of adequately raising primary pricing.

The ILS market will suffer disproportionately in the loss, with some sources forecasting a hit of $30bn-$40bn to a total capital base of $80bn if Irma inflicted $100bn of sector losses.

This would include heavy cat treaty losses in Florida where Nephila, Aeolus and Elementum have big exposures; major cat bond losses to the $12bn of exposed cat bonds; and close to total losses to US-exposed retro programmes, including the industry loss warranty market.

As much as 85 percent of the retro market is written on a collateralised basis, with the dominant players including Catco, Aeolus and Nephila.

Market sources expected Lloyd's to take a heavy hit after years of growing coastal property exposures, with big books written via MGAs including Amrisc, Arrowhead, Icat and Catalytic.

The marketplace also has major exposure to Floridian cat treaty business, and the broader US cat market.

The pending losses come at a time when the market was already running at an accident-year loss ratio of more than 100 percent even with a relatively benign cat experience, and with ratings agency scrutiny growing. There will be winners on the carrier side too. Munich Re looks relatively underweight in Florida. Berkshire Hathaway – the ultimate hard market carrier – has cut its US cat treaty and retro books to the bone in recent years. Richard Brindle's Fidelis will benefit from its relative youth.

MS Amlin, Tokio Millennium Re and John Charman's Sompo International will be strongly positioned thanks to the substantial liquidity of their parents. The brokers will benefit from rising brokerage as they place back-ups and more highly rated renewals, with some evidence of share price gains already.

Market impact

Rate rises in the US property cat treaty market seem certain at 1 January. The magnitude is difficult to predict, but the 200 and 300 percent increases seen post-Hurricane Andrew are not expected by anyone. The scale and longevity of the rate rises is likely to depend heavily upon the success of the ILS market in weathering the loss and reloading.

It is clear there are pension funds that would be willing to put new money to work in the sector despite their losses, but others are likely to succumb to fear and hold back.

There will be no class of 2018. The structures for capital to enter the space – either via sidecars or fund management platforms – already exist.

New company formation is too slow and cumbersome – with the sector already overly fragmented – although incumbents could look to capital raises, potentially via private equity for reasons of speed.

Some underwriting sources have drawn parallels with 1999-2001, when a highly soft market and disastrous casualty results driven by under-reserving collided with the 9/11 shock loss.

However, despite mounting competitive challenges and compressed returns, the market's underlying results have not been as weak as at that point.

Irma is clearly a market-changing event, with excess capital finally taken out of the sector and the potential for consolidation through distressed M&A. But it is impossible to say more than that until the event has run its course.

Citizens and reinsurers braced for Irma

Florida Citizens faces arguably the biggest financial and administrative challenge in its 15-year life as Hurricane Irma heads towards southern Florida shores.

Among its reinsurers, Nephila and Validus have the largest overall exposure to the state-owned carrier's potential losses.

A direct hit from Hurricane Irma to Miami, where property values have soared in recent years, could generate insured losses of well over $100bn.

But even if it makes landfall further up the coast the event could be devastating, given the preponderance of high-value property along the Florida shoreline.

For Citizens, the hurricane follows months in which it has borne the brunt of an explosion in assignment of benefits (AOB) litigation.

In its 2017 annual budget it named additional litigation claims as one of the two largest sources of disruption this year, alongside private market contraction.

That contraction, or repopulation, has arisen as AOB-struck carriers have withdrawn capacity and means that Citizens' own exposure, particularly in personal lines, will probably rise in the second half of the year.

Even before Irma reared its head, Citizens had predicted that its loss ratio would deteriorate because of litigation claims, pushing its personal lines account to a net loss in 2017.

Citizens' budgeted loss ratios for this year include a provision for average non-hurricane catastrophe activities but no provision for hurricanes.

It renewed its reinsurance on 1 June, increasing its spend by 55 percent year-on-year in buying a $1.03bn reinsurance programme.

However, owing to falling exposures, it reduced the overall size of its risk transfer programme by allowing $1.5bn of cat bonds to mature without replacing them.

The residual insurer currently has $300mn of cat bonds in issuance.

As many as 28 different groups and affiliates participate on its programme, but the top 10 writers have more than 90 percent of the slip.

The total collateralised share was more than a third of Citizens' $1.0bn cover, or $372mn, compared with 24 percent of last year's programme, perhaps reflecting the larger lines handed to insurance-linked securities (ILS) players that had maturing cat bonds.

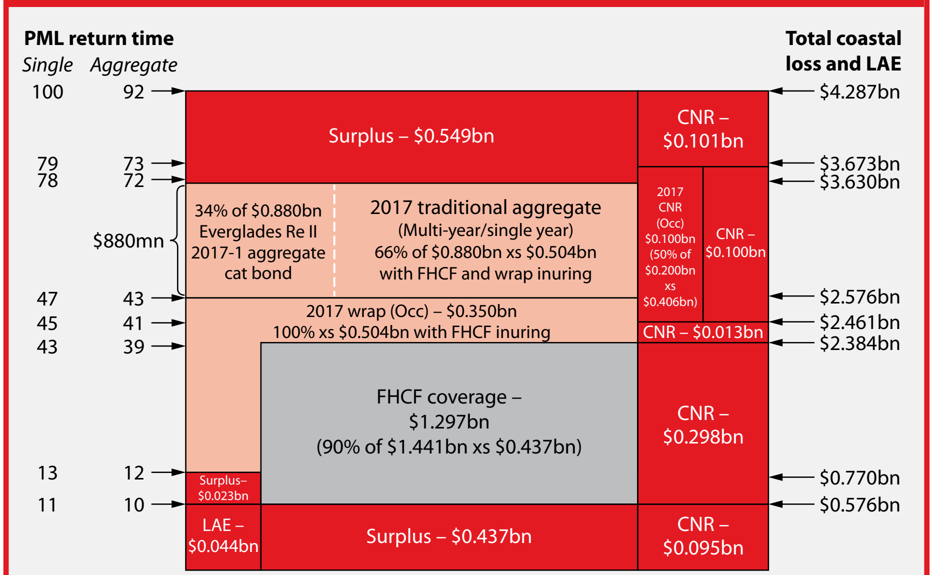
The lead reinsurer was ILS manager Nephila and related entities, whose line of $286mn was equivalent to 27.8 percent of the total.

Bermudian (re)insurer Validus wrote an 18.3 percent line in aggregate across the three covers in deploying $189mn of limit, as it pared back its share from 2016.

Its fund management arm AlphaCat also wrote $65.1mn or a 6.3 percent line.

Everest Re, another of the biggest players in Florida, has a $159.3mn line, up 62 percent year-on-year, while fourth-placed Munich Re more than quadrupled its line to $70mn.

Citizens firm order terms



Source: *The Insurance Insider*

Florida Citizens reinsurers

Carrier	Line size (mn)
Domestic reinsurers	
American Standard	$3.520
Everest Re	$159.260
Mapfre Re	$3.150
Munich Re America	$70.040
OdysseyRe	$0.700
Swiss Re America	$25.250
Domestic total	**$261.920**
Bermuda reinsurers	
Argo Re Ltd	$1.000
Ariel Re Bermuda Ltd (o/b/o Lloyd's Syndicate 1910)	$12.650
BGS Services (Bermuda) Ltd (o/b/o Lloyd's Syndicate 2987 – Brit)	$2.000
Fidelis Insurance Bermuda Ltd	$24.200
Pillar Capital Management (fronted by Hannover Rück SE)	$12.790
RenaissanceRe	$61.222
Sirius International	$3.850
Validus Re	$184.180
Bermuda total	**$301.890**
International reinsurers	
Allianz Risk Transfer	$26.400
Humboldt Re	$10.105
Kelvin Re	$10.105
International total	**$46.610**
Accessed through GC/Willis UK	
General Insurance Corp of India	$2.640
Lloyd's Syndicate 0435 – Faraday	$3.905
Lloyd's Syndicate 0780 – Advent	$0.700
Lloyd's Syndicate 1183 – Talbot	$4.450
Lloyd's Syndicate 1458 – RenRe	$5.440
Lloyd's Syndicate 1729 – Dale	$0.875
Lloyd's Syndicate 2001 – Amlin	$15.475
Lloyd's Syndicate 2007 – Novae	$3.870
Lloyd's Syndicate 2791 – MAP	$5.000
Lloyd's Syndicate 2987 Brit	$1.425
MS Amlin Bermuda	$1.500
Pioneer Underwriting (o/b/o Cathay Century Insurance Co Ltd)	$0.700
Pioneer Underwriting (o/b/o Peak Reinsurance Co Ltd)	$1.500
GC/Willis UK total	**$47.480**
Collateralised reinsurance	
AlphaCat Re	$65.120
LGT Capital (Collateralised Re Ltd)	$47.300
Poseidon Re Ltd (Nephila)	$238.438
Rubik Re (Nephila)	$21.162
Collateralised total	**$372.020**
Grand total	**$1,029.920**

Source: *The Insurance Insider*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Florida cat fund vulnerable to worst-case Irma

Florida's homeowners' insurers are heavily reliant on a state-backed reinsurance vehicle that entered the 2017 hurricane season in its strongest ever financial position.

After years of benign storm activity in the Sunshine State, the Florida Hurricane Catastrophe Fund (FHCF) has $17.6bn of liquid resources on hand to meet its maximum liability to carriers of $17.0bn, including $14.9bn of cash and $2.7bn in pre-event bonds.

Based on those claims-paying resources, it would take a hurricane event resulting in ground-up losses exceeding $26.0bn to exhaust the FHCF's cash balance.

The FHCF, which was formed in the aftermath of Hurricane Andrew, also has a $1bn reinsurance programme in place that kicks in when industry losses to Florida insurers reach $18.5bn.

This is because the fund begins paying out itself when industry losses hit $7bn and the reinsurance layer triggers when FHCF losses reach $11.5bn.

But with worst-case scenario projections for potential Irma losses set well above the resources of the cat fund and its reinsurance as the storm advanced on Florida, the FHCF could face a complete blowout.

Under such a scenario, its own outwards programme would be a total loss, with RenaissanceRe and Swiss Re dominating the $1bn private market coverage.

The cover, bought by the FHCF for the last three years, includes $375mn of limit from RenaissanceRe and its DaVinci vehicle and $175mn from Swiss Re (see table).

The next participants are some way behind these carriers, with Zurich-based insurance-linked securities manager LGT's Collateralised Re putting down $75mn, Arch Re $60mn and Validus and its asset management platform AlphaCat taking $50mn and $40mn respectively.

Sompo Canopius Syndicate 4444 wrote $35mn and a handful of other carriers wrote between $10mn and $20mn, including Tokio Millennium Re, Hiscox and Chubb Tempest Re.

Major Floridian carrier Nephila only put down $20mn on the programme this year.

The state reinsurance scheme paid a $61mn premium for this year's cover, which was a 4 percent face-value discount to last year's rate.

According to FHCF meeting materials, the $11.5bn trigger level on its reinsurance represents a payout for a 1-in-32-year storm.

A total loss to the cat fund would leave the FHCF needing to refinance if it is to form a meaningful part of the reinsurance structures put in place by the state's homeowners' carriers in the coming years.

In the event that a storm burns through cash resources at the cat fund, it can either call on pre-event bonds already issued, or look to go to the capital markets and issue post-event bonds.

That leaves it largely reliant on the state of the debt markets to secure bonding capacity, which could potentially lead to post-event financing problems in tight credit markets such as those seen in the financial crisis.

In its latest report in May this year, the fund's adviser Raymond James estimated that in the first 12 months from that point the FHCF would have bonding capacity of some $8.1bn – an amount $400mn higher than in October 2016 and $500mn higher than in October 2015.

If it chose to leave its pre-event proceeds outstanding and issue post-event bonds to meet its maximum obligation for the 2017-2018 hurricane season, it could then use its bonding capacity of $8.1bn, pre-event bonds and reimbursement premiums for a total estimated claims-paying capacity of $11.4bn.

That would represent 67 percent of its potential maximum obligation for the 2018-2019 season of $17.0bn.

It would then need to find an additional $5.6bn in funding to reach its statutory obligation for that storm season.

FHCF limit forms a significant part of reinsurance structures put in place by Florida's homeowners' insurers.

Participating insurers pay into the fund each year, with their premiums based in part on the value of the property they cover and the level of coverage they select.

Insurers can set their participation level in the FHCF cover at 45 percent, 75 percent or 90 percent, potentially lowering the limit they buy from the vehicle and replacing it with cover from the private market.

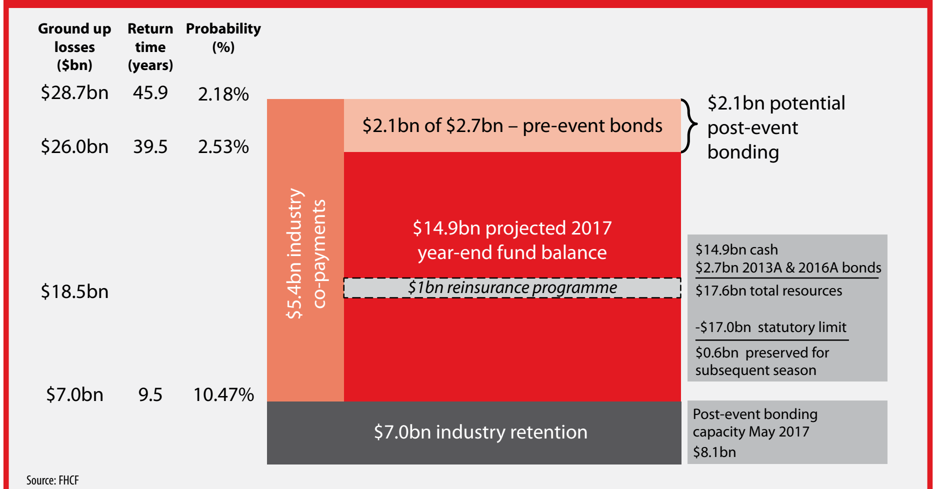
FHCF reinsurers

$10mn+ lines only

Company	Participation ($mn)
RenaissanceRe	262.5
Swiss Re America	175
DaVinci Re	82.5
Collateralised Re (LGT)	75
Arch Re	60
Validus Re	50
AlphaCat	40
Lloyd's Syndicate 4444 (Sompo Canopius)	35
Lloyd's Syndicate 1458 (RenRe)	30
Tokio Millennium Re	20
Nautical Management / Lloyd's Syndicate 2357 (Nephila)	20
American Standard Ins Co of Wisconsin	15
Chubb Tempest Re	15
Hiscox Ins Co (Bermuda)	15
Korean Re	12
Argo Re	10
Markel Bermuda	10
XL Bermuda	10
Lloyd's Syndicate 1910 (Ariel)	10

Source: FHCF

FHCF 2017/18 claims paying ability



Source: FHCF

Everest's wind PML produces biggest Irma loss impact

Probable maximum loss (PML) data released by most of the major (re)insurers indicates that Everest Re could take the most significant loss relative to its capital base from a 1-in-100-year storm.

Irma, a Category 5 hurricane, was expected to make landfall in Florida over the weekend after wreaking havoc in the Caribbean.

Everest Re expects a projected $1.54bn loss from a 1-in-100-year southeast US wind event as of the end of 2016, equivalent to 19.1 percent of shareholder equity.

For a 1-in-250-year storm this would rise to $1.93bn, or 23.8 percent.

Bermudian peer Validus disclosed a PML of $602mn for a 1-in-100-year US hurricane event as of the end of Q2, which would represent a 13.0 percent hit to shareholder equity.

Its exposure at a 1-in-250-year return period rises to $880mn, or 19.0 percent of shareholder equity.

RenaissanceRe, one of the biggest catastrophe reinsurance writers in Florida, does not disclose its PMLs, but Schedule F analysis run by this publication has previously shown it is one of top 10 reinsurers in Florida by assumed reinsurance premium.

London-listed Lancashire is the next most exposed, with a PML of $156mn for a non-Gulf of Mexico US hurricane at a 1-in-100-year return period. This represents 11.5 percent of shareholder equity.

However, Lancashire, a major writer of high reinsurance layers, is the most exposed to a 1-in-250-year event, with its PML equivalent to 24.0 percent of equity.

The broader Bermuda market has high single-digit exposure to a 1-in-100-year US wind event. Based on the most recent available disclosure, Sompo International would absorb a 10.6 percent hit, Allied World 10.3 percent, Aspen 9.6 percent, Hannover Re 9.4 percent, XL 8.2 percent and Axis 8.0 percent. These projected losses widen to a 10-15 percent range if a 1-in-250-year return period is used.

Disclosure from the continental reinsurers is patchy. Hannover Re reported at year-end 2016 that its exposure to a 1-in-100 US and Caribbean hurricane was EUR850mn ($1.0bn), or 9.5 percent of shareholder equity.

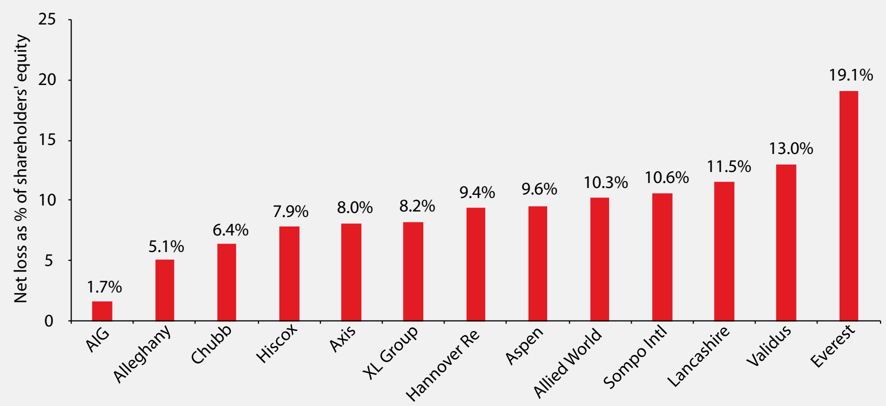
Munich Re and Swiss Re do not provide PMLs for this return period. Munich Re discloses a projected EUR4.4bn loss from a 1-in-200-year event, which represents 13.8 percent of equity.

Despite moves to scale back its exposure, Swiss Re is still more exposed than Munich to a 1-in-200-year event, with an Atlantic hurricane PML of $5.1bn or 14.8 percent of equity at year-end 2016.

Some of the US primary players also issue PML numbers. Chubb disclosed a potential net claims burden of $3.07bn for a 1-in-100-year event, which is 6.4 percent of its equity base.

AIG said that its 1-in-100 PML for a Florida storm is only $1.28bn or 1.7 percent of equity, something that may point to the under-exposure of the nationwide writers, which have drawn back from Florida over the last decade.

1-in-100-year US windstorm exposures as % of shareholders' equity



Data correct as of latest PML disclosures
Source: Company filings, *The Insurance Insider*

Lloyd's writers cede out wind risk

Disclosures on realistic disaster scenarios at Lloyd's carriers show that some make significant use of reinsurance to limit their net exposures.

Based on its 2016 annual report, MS Amlin's reinsurance arrangements reduce its net exposure to a Florida windstorm in Tampa by about £1.0bn ($1.3bn). This scenario would generate a gross loss of £1.23bn for the carrier, which falls to a £271mn loss after reinsurance.

Similarly, Hiscox's reinsurance means its exposure to a $125bn Florida windstorm falls to a $178mn net loss from an initial $1.03bn gross exposure, based on year-end 2016 numbers.

And Beazley disclosed in its most recent annual report that a Gulf of Mexico windstorm generating a $112bn industry loss would leave it with gross losses of $623mn. This falls to $215.3mn post-reinsurance, which is equivalent to almost 15 percent of the syndicate's total equity.

Novae does not disclose gross estimates, but disclosed a $95mn expected net exposure to a $75bn Florida windstorm event, which would be equivalent to more than 31 percent of shareholders' equity.

Lloyd's exposure

Syndicate	Peril	Exposure	Total equity	Exposure relative to equity (%)
Novae	Florida windstorm ($75bn insured loss)	$95,000,000	$303,100,000	31.34
MS Amlin	Florida windstorm, Tampa (1-in-100-year event)	$355,000,000	$4,235,101,010	8.38
Hiscox	Florida windstorm ($125bn industry loss)	$178,000,000	$1,858,843,000	9.58
Beazley	Gulf of Mexico windstorm ($112bn industry loss)	$215,300,000	$1,506,100,000	14.30

Source: Company filings

Irma threatens more than 40% of cat bonds

Florida-based carriers have sponsored about $1.9bn of cat bonds across a wide range of risk levels, but the bulk of the cat bond portfolio threatened by Hurricane Irma is made up of multi-peril issuances with national US exposure.

Almost $12bn of the cat bond market is exposed to a first-event US wind loss in Florida, according to data compiled by sister publication *Trading Risk*.

This constitutes 87 separate cat bond layers that represent more than 40 percent of the total $27.8bn of cat bonds issued since 2014 that are still on risk.

The total cat bond market exposure to a US wind event is higher, at roughly two thirds of non-life volumes – or almost $17bn when second-event covers and northeast or single-state bonds outside Florida are included.

Florida-based carriers have sponsored about $1.9bn of cat bonds across 20 layers. Many provide cascading cover that can trigger below their initial attachment point if other reinsurance cover has been wiped out by a first event. That means they could be on risk for future storms this season if they are not immediately impacted by Irma.

While many of these cat bonds tend to be placed towards the top of Floridians' reinsurance towers, some small higher-risk layers have very low retentions – such as some of the Casablanca Re layers for Avatar and one Manatee layer for Safepoint.

Cat bonds for Floridians

Bond	Sponsor	Final size ($mn)	Coverage	Initial trigger ($mn)
Everglades Re II 2017-1 class A	Florida Citizens Property Insurance	300	Annual aggregate	2151
Sanders Re 2017-2	Castle Key (Allstate)	200	Per occurrence cascading	Unknown
First Coast Re 2017-1 class A	Security First Insurance	175	Per occurrence cascading	691
Citrus Re 2015-1 A	Heritage P&C Insurance Company	150	Per occurrence (cascading)	1480
Citrus Re 2017-1	Heritage P&C Insurance Company	125	Per occurrence cascading	Roughly 1,000
Manatee Re 2015-1 A	Safepoint Insurance Company	100	Per occurrence cascading	265
Integrity Re 2017-1 Class C	American Integrity Insurance	100	Per occurrence cascading	736
Citrus Re 2015-1 B	Heritage P&C Insurance Company	97.5	Per occurrence (cascading)	560
Manatee Re 2016-1 A	Safepoint Insurance Company	75	Per occurrence cascading	306
First Coast Re 2016-1	Security First Insurance	75	Per occurrence (cascading)	1,110
Casablanca Re 2017-1 A	Avatar P&C Insurance Company	66.95	Per occurrence cascading	374.4
Market Re 2017-1	Not disclosed	65.1	Per occurrence cascading	Unknown
Oak Leaf Re 2017-1	Southern Oak	53.995	Per occurrence, annual aggregate	Unknown
Integrity Re 2017-1 Class D	American Integrity Insurance	35	Per occurrence cascading	701
Citrus Re 2015-1 C	Heritage P&C Insurance Company	30	Per occurrence (cascading)	360
Casablanca Re 2017-1 B	Avatar P&C Insurance Company	26.3	Per occurrence cascading	Roughly 88
Manatee Re 2016-1 C	Safepoint Insurance Company	20	Per occurrence cascading	30
Casablanca Re 2017-1 C	Avatar P&C Insurance Company	6.75	Per occurrence cascading	25

Source: *Trading Risk*

Reinsurers stack up cat bond cover

The carriers with the most cat bond cover for Florida wind are Everest Re, USAA, XL and Heritage, according to *Trading Risk* data.

Everest Re leads the way, with $2.3bn of cover from Kilimanjaro Re issuances in 2014, 2015 and 2017.

USAA's cat bonds Residential Re 2016 and 2017 provide the carrier with a total $1.6bn of cover, while XL can draw on $1.8bn of Galileo and Galilei issuances.

Heritage has $687.5mn of cover from Citrus Re 2015, 2016 and 2017. It highlighted the multi-year cat bond cover as it outlined last week how much it will rely on reinsurers to pick up Irma claims.

ILS managers too have used cat bonds to hedge their portfolios, with Nephila sourcing $410mn of Blue Halo cover via Allianz Risk Transfer.

State-backed Florida Citizens Property Insurance's Everglades Re II 2017-1 class A issuance is the largest bond, at $300mn. It covers Florida named storms over a three-year term on an annual aggregate, indemnity basis.

The Everglades cat bond forms part of a broader $880mn aggregate layer excess of $504mn within the programme this year.

Biggest sponsors of Florida wind-exposed cat bonds

Sponsor	Amount ($mn)	Bonds	Risk/peril and territory
Everest Re	2,325	Kilimanjaro 2014 + 2015 + 2017	Named storms and quake in US, Puerto Rico
USAA	1,630	Residential Re 2016 and 2017)	US named storms
XL Bermuda	1,875	Galilei 2016 and 2017, Galileo 2015	US multiperil
Heritage P&C	687.5	Citrus Re 2015, 2016,2017	US wind (Florida) + US named storms
Nationwide Mutual	675	Caelus Re 2016 and 2017	US multi-peril
Scor Global P&C	450	Atlas IX Capital 2015&2016	US and Canada wind and quake
Allianz Risk Transfer (Nephila)	410	Blue Halo Re 2016-1, 2016-2	US named storms and quake
AIG	400	Tradewynd Re 2014-1	US named storms
Munich Re	390	Queen Street bonds	US hurricane, Australia cyclone, US wind (hurricane), European wind
Axis	350	Northshore Re II	US named storms
Catlin Insurance Company	300	Galileo Re 2015-1 A	US named storms
Florida Citizens	300	Everglades 2017	US wind (Florida)
Castle Key (Allstate)	200	Sanders Re 2017-2	Florida named storms
Tokio Millennium (Credit Suisse)	160	Spectrum Re 2017-1	US multi-peril and Canada quake

Source: *Trading Risk*

Few trades were occurring on the secondary cat bond market as Irma headed towards Florida.

Uncertainty and a wide range between what sellers were offering and what buyers were willing to bid had also restricted trading volume on the cat bond market, sources said.

However, bonds without exposure to Hurricane Irma were being offered, as investors sought to free up capital to act post-event, they added.

One Citrus Re 2017-1 bond was heavily written down – despite not being the most at-risk of the Citrus bonds – dropping to 50.0 cents from 100.5 cents on a $1mn trade.

S&P Global Ratings estimated that 13 cat bonds may be at risk from the threat posed by Hurricane Irma, based on its ratings data – which covers only a very limited scope of the cat bond market outstanding.

MARKET CONDITIONS

As the great and the good of the reinsurance industry gather at Monte Carlo, we ask some of the market's top executives to set the scene ahead of this year's *Rendez-Vous*

What is your early take on the way that overall market dynamics are shaping up for 1 January?

Torsten Jeworrek, member of the board of management, Munich Re: Despite the overall soft market, there are still selected markets and lines of business which look promising and where Munich Re is eager to take chances. However, for the upcoming 1 January renewal, Munich Re does not expect an overall change in prices on average, but rather in selected regions or lines.

Stephen Young, CEO of reinsurance, Sompo International: Overall, the market will continue to be challenging as we have record levels of capitalisation and a tremendous surplus of capacity for most lines of business. However, results in some longer-tail lines have shown difficulties with companies re-underwriting or even withdrawing entirely.

With respect to property cat treaties, unfortunately, we still see weakness in US cat rates as significant insurance-linked securities (ILS) capacity continues to be allocated to this line of business, along with the new North Atlantic hurricane and North American earthquake models that were not considered for mid-year renewals. Interestingly, we are seeing lower levels of rate reductions for cat business in Europe and increased cat rates in Asia due to the large number of frequency losses from New Zealand, Australia, China and Japan.

Victor Peignet, P&C CEO, Scor: In some markets and/or segments, business has become so competitive that current economics simply aren't sustainable. Loss ratios have been running higher than expected for years now and terms have deteriorated. We must beware of being the boiled frog. The water is already pretty warm.

We have seen some markets this year where we have had to cut back the book substantially, including the Florida specialists. But overall, pricing in Scor's P&C book has been more stable than the market, declining only 0.5 percent on a year-to-date basis through July. Looking forward, some regions or lines of business will see improved pricing, while competition shifts and drives rates down in other regions or lines.

Charles Goldie, CEO of worldwide specialty, PartnerRe: I expect a 1 January renewal that looks very much like the renewal periods that we have seen over the past several years. For business that has generated profits recently, renewals will be competitive. Reinsurers will need to demonstrate value to buyers either through longevity, commitment and value-adding expertise or by cutting prices and offering generous terms. Buyers will need to make tough decisions about balancing those two categories of sellers.

Brendan Barry, chief underwriting officer, Greenlight Re: I expect renewals to be pretty early as buyers see that there is good value in the market and they will want to wrap things up as quickly as possible. If the hurricane market has been non-eventful it may be off a little, but I don't expect continued large decreases. That market is more or less at the bottom. Overall, there have been small pockets of discipline but no real improvement in terms of pricing, really just a halt to the declines in limited spaces.

Neil Strong, partner and head of global origination, Securis Investment Partners: Clearly as always, making a bold statement with 75-90 days left of a predicted active wind season would not be a clever stance. If losses were to remain benign then we would again expect limited pricing pressure, but managing expectations, there is not too much room to manoeuvre. There would appear to be no shortage of inflows into the ILS market, so managers will be keen to deploy in the 1 January window.

We also expect there to be further conversations about broadening of terms and conditions. We pay particular focus to this and hold a firm stance on issues such as cyber.

Luca Albertini, CEO of Leadenhall Capital Partners: The structure of the market is changing. Reinsurance buyers favour more stable, sustainable and relevant relationships, and are not just chasing lower prices. For this reason, I believe that the core of the 1 January renewals will follow a disciplined approach by market leaders, as the relevance and creditworthiness of some non-core players weakens.

Stephan Ruoff, CEO of Tokio Millennium

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Re: The availability of capital is abundant and so far, the results of most carriers have proven to be relatively robust in first half of the year. What we are seeing is an acceptance of the mix of capital from reinsurers and "convergence capital" becoming the new norm, where there are simply pools of capital looking for a good match with pools of risk. The dynamics of the market will not change dramatically unless capital positions are heavily impacted or financials take a turn for the worse.

Amer Ahmed, CEO of Allianz Re: We do not foresee a major change in the reinsurance market, as there is still plenty of capacity available and consequently continuing pricing pressure. In some areas, we have seen some resistance to further price weakening over the last several months. We would expect things to remain pretty flat, absent some major effect.

James Few, global managing director of reinsurance, MS Amlin: The results being reported are reflecting a difficult combination of circumstances and we are starting to see management actions in terms of cutting back on income and, in some cases, withdrawal of products. At the same time, buyers are consolidating reinsurance relationships with larger multi-line, financially secure, long-term partners where price is only one consideration. Capital remains strong in the sector, mitigating market corrections, but it's hard to see a business case for further rate reductions.

There was a re-acceleration of property cat rate reductions in Florida at 1 June. Was this down to Florida-specific factors or could we see something similar more generally in the cat market at 1 January?

Jeworrek: Within the recent history of renewal dates, one could observe a slowing of price decreases. The current Florida renewal is seemingly not in line with this trend. The re-acceleration of property cat rate reductions in Florida is probably the result of state-specific factors, as the market's view on the history of hurricane activity and the recent model change by RMS (RiskLink) might have had some impact.

Young: Rate reductions at 1 June weren't purely in Florida as overall mid-year US renewals certainly saw more significant decreases than other regions of the world. Aggressive pricing was put into the market by nationwide US buyers along with Florida-specific companies. This re-acceleration was driven by the specific combination of aggressive brokers and ILS managers, which raised additional capital and have a desire to deploy that capacity.

Peignet: We did cut our Florida-specialist book quite significantly in 2017 in response to Florida-specific issues. Much of the decline was specific to model change, but the supply of capital continued to put pressure on rates. How much of the model change was driven by commercial considerations versus scientific considerations?

The tendency for the cheapest model to win, and for everyone to appear to be a better underwriter than average, ought to concern all investors and underwriters in our sector. When commercial concerns outweigh science, the seeds are planted for another cycle. There will be instances where the ability to invest in the resources needed to develop your own views of models and your own infrastructure to dynamically manage your portfolios will make the (big) difference.

Barry: With Citizens reducing its purchasing, there has been a change in the supply and demand situation in Florida. Together with an increase in Florida companies accessing capacity via the bond market, this has created increased impetus for rate reductions in the state. Even with this reality Florida still offers better margin that most cat exposure. What could be interesting is that Florida has been subsidising the overall catastrophe market for quite a long time. When that fat gets squeezed out of the portfolio, how will some justify pricing in some territories?

Ruoff: It was not a re-acceleration of property cat rate reductions; it was an unfulfilled expectation of rates not decreasing further. The Florida market is significant. After all, it is the biggest single cat market in the world. However, these rate reductions are not a precursor for similar happenings in the wider cat market. Different regions are looked at in different ways – as we've seen with the recent Australian renewals, which were impacted by Cyclone Debbie.

Few: The Florida renewals in June were also affected by concerns over the assignment of benefits problem that has been causing an upward trend in losses in certain parts of the state. Reinsurance capacity favoured clients that have managed to avoid the issue either through high-quality claims management or risk selection, and this resulted in slightly larger than expected rate reductions for these clients.

Kurt Karl, chief economist, Swiss Re: There have not been any major events in Florida for quite a few years, so I think this is more Florida-specific. Incidentally, all pricing for cat risk has become much more regionally specific in the last decade.

The US casualty treaty market has showed signs of uneven firming in some areas during 2017. Was this a false dawn or a sign of things to come?

Strong: Very much the sign of things to come.

Jeworrek: We would have thought that this is a clear signal (again with regional differences in emphasis) of the flattening that was to be expected.

Young: For the last 10 years, the US casualty market has shown an ability to price accounts and differentiate loss leaders versus clean programmes. This is an encouraging sign which we expect will continue. More specifically, for quota share treaties, there seems to be a sense that 35 percent is the high-water mark for ceding commissions, so there is some optimism on that front. Excess-of-loss (XoL) rates are also somewhat responsive to loss experience.

Peignet: I believe there are a few factors at play here. First, there's nowhere to hide in auto liability and workers' compensation, where the market has seen adverse prior-year development and recent accident years are performing poorly.

Second, the market has started to see hints in some liability and umbrella portfolios suggesting that recent accident years aren't performing quite as well as prior accident years at the same point in time.

Third, actuaries have had a look at historical performance in US casualty, and it has become clear that ceding commissions in the mid-30s for quota share business just aren't sustainable. While the occasional treaty placement is completed at ceding commissions approaching 40 percent, they are not the standard.

Goldie: You'd have to question the sanity

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of anyone who is broadly bullish on US casualty, based on where things stand today. Firstly, we have already seen some insurers forced to take action to address their loss reserves – even for very recent underwriting years. While there are some signs of uneven firming, there is little evidence of any broad improvement in rates, terms and conditions. The trends in the US casualty space over the past 10+ years have been surprisingly favourable – but there are concerns that this could change.

Barry: In US casualty over the last 18 months, reinsurers have started to draw a line in the sand, particularly over quota shares. This means there has been a halt to the decline overall, and small areas of firming. However, there has been a softening on the insurance side and casualty loss ratios are continuing to increase so net a worsening position for casualty quota share. There has been a general decline in the frequency of casualty claims for a number of years and the market is waiting to see if there is a turn back against this but even at current levels, margins are thin to non-existent.

Ruoff: US casualty reinsurance market proportional quota share placements have not seen further increases of commissions, so there was no false dawn. The underlying facts are that primary rates have continued to decrease and loss activity is picking up. Overall, the market is not improving. However, with reinsurance ceding commissions having stopped creeping up, there is hope that markets are coming to reason.

Few: Some areas of US casualty are responding to poor results, notably in US auto such as trucking risks and also parts of the construction market. Opportunities exist but require specialist knowledge as exposures are complex, especially when set against a low investment return environment.

Karl: The market will take some time to fully firm, but with some segments having price increases and some companies needing to increase reserves, it is clearly the beginning of the end of the soft market.

Do you think that reinsurers will continue to support new quota share reinsurance treaties that look suspiciously like attempts to arbitrage the market in 2018?

Strong: Without the necessary track record, product offering, infrastructure and origination capabilities, unfortunately there is capital that can only access risk and exposures by taking on quota share investments of portfolios, despite the obvious reason of the cedant simply managing their net through the cycle. It is a limited number of reinsurers that do this, but it is harmful to the wider marketplace.

Compare this to quota shares of cat-exposed insurance portfolios. We have noted some shift in capacity from the XoL market to provide quota share capacity. This is sensible in situations where the catastrophe component of reinsurance risk is better priced (after adjusting for attritional losses) than the brokered reinsurance XoL catastrophe market.

Peignet: The key for us is the long-term partnership across the board as opposed to "spot" arbitrage deals on given portfolios to cope with situations that may not last. We follow the same approach with loss portfolio transfers and adverse development covers, which an increasing number of insurers are using for similar reasons: to manage their balance sheet and capital utilisation and to reduce P&L volatility.

Barry: Unfortunately, yes. We have seen a number of deals that are clearly about big, top line growth with little or no margin in the business. A big cat event will not be enough to change the market but it may highlight that there is no meaningful profit in other parts of the market. Until then, the quota share market will be alive and unwell, driving top line growth for some time to come.

Albertini: Leadenhall has never invested in quota share reinsurance treaties as we do not see them as being the best structure and the best risk and return for capital markets investors. We will not be changing our approach in 2018, but others may fall into the temptation given their available capacity.

Few: Proportional reinsurance treaties can still be attractive even in this market but given the low margins available in this prolonged soft period and upwards trends in commissions in recent renewals, reinsurers are taking a harder look at each treaty. Lower performing contracts are likely to find renewals challenging with an increased emphasis on reasonable terms for both buyer and seller.

CONTRIBUTORS


Luca Albertini, CEO of Leadenhall Capital Partners


Amer Ahmed, CEO of Allianz Re


Brendan Barry, chief underwriting officer, Greenlight Re


James Few, global managing director of reinsurance, MS Amlin


Charles Goldie, CEO of worldwide specialty, PartnerRe


Torsten Jeworrek, member of the board of management, Munich Re


Kurt Karl, chief economist, Swiss Re


Victor Peignet, P&C CEO, Scor


Stephan Ruoff, CEO of Tokio Millennium Re:


Neil Strong, partner and head of global origination, Securis Investment Partners


Stephen Young, CEO of reinsurance, Sompo International

Breaking uncharted territory

The Insurance Insider talks to Munich Re board member for reinsurance Torsten Jeworrek about finding fresh opportunities in a sluggish market

In a reinsurance market which seems to be largely stagnant, Munich Re's Torsten Jeworrek stresses the importance of looking ahead.

The agenda for the Monte Carlo *Rendez-Vous* hasn't changed much over the past five years, and this year will be little different.

"I expect the discussions about the profitability of our business will continue," says the Munich Re board member for reinsurance.

"But I feel it is much more important to discuss new business opportunities, how digitalisation will transform our industry, how we manage new risks – like cyber risks – and how to expand insurability while at the same time limiting possible accumulation risks."

There is no doubt the reinsurance industry has to innovate to remain relevant to clients and end customers, but the market also needs to ask the higher-level questions about where to go next, according to the executive.

"The question of how to close the insurance gap, for instance for nat cat risks, remains highly topical," Jeworrek says.

"What can our industry do to build resilience and foster prosperity, especially in emerging countries? What role can public-private partnerships play?"

Jeworrek is in his third decade of employment at German reinsurance giant Munich Re. He first joined the company in 1990 as an underwriter in the operational risks division.

Eleven years and several management positions later, he was made head of the Netherlands, Nordic countries, UK and Ireland, before being appointed to his current role on the management board in 2003.

The executive tells *The Insurance Insider* how he enjoys golf and sailing in his free time, that Lake Maggiore in Italy is his holiday destination of choice and how he loves the "laptop and lederhosen" culture in Munich.

"Digital disruption has the potential to change the way insurance works. Particularly in reinsurance, the use of data analytics and new data sources could have a big impact on our underwriting"

Jeworrek, of Oschersleben, Germany, has a background in academia. He studied mathematics at the University of Magdeburg, and cites obtaining his PhD as one of his proudest moments. In fact, the executive says, had he not taken up a career in reinsurance, he would have probably sought to become a professor of mathematics.

One of the hardest lessons during his academic years was learning how to write a good essay in German, he says.

But despite all of his professional achievements, he is most proud of his family, and specifically taking the opportunity to move from East Germany to West Germany following the fall of the Berlin Wall in 1989.

Throughout his reinsurance career, Jeworrek has seen numerous major losses and market cycles, and believes that in order to push forward this time round, the industry must embrace data, technology and analytics.

Asked where he would like to see the reinsurance industry by the time he retires, he says: "The industry will be agile. Digital solutions and data analytics will be part of daily business."

He continues: "Digital disruption has the potential to change the way insurance works. This will of course also have an influence on reinsurance. That's why we are looking to work with

CONTINUED ON PAGE 25

clients to navigate the changing world of risk and find opportunities to grow in this space."

This could mean introducing them to new technologies or start-ups as potential strategic partners, or it may mean co-developing new products with clients to meet an emerging need, he explains.

Munich Re's Digital Partners unit has been one of the most active investors in the InsurTech space.

It has partnered with some of the bigger names in the InsurTech market, including Bought By Many, Slice Labs and Trov, but also firms which target underserved niches of the economy, such as real-time resolution flight interruption insurance provider Blink Innovation, and Wrisk, which provides insurance direct through smartphones.

"Particularly in reinsurance, the use of data analytics and new data sources could have a big impact on our underwriting," Jeworrek claims.

The effective use of data analytics by reinsurers is becoming imperative. Clients are increasingly searching for sophisticated solutions for complex needs to boost their competitive position, Jeworrek explains.

"This is where large reinsurers that deliver value beyond pure capacity have a leading edge over their competitors. Clients expect from their reinsurers that they support them in staying ahead of the pack, be it with capital management solutions, data analytics or digital services."

One of the main complaints about today's market is that there is little opportunity for growth. The market remains saturated with capital, with limited scope to put it to good use.

It is for this reason Munich Re is looking further afield for growth opportunities. It was one of the first reinsurers to apply for a branch licence in India – its Mumbai office opened on 31 January this year – although the firm's business commitment to the country stretches back as far as the 1950s.

"The dynamically developing insurance market on the Indian subcontinent continues to present new challenges and opportunities," Jeworrek explains. "A look at the country's growing industries and expanding middle classes reveals a real need for high-quality risk solutions."

The move to open a Mumbai office has brought Munich Re closer to the market and its clients, as well as enabling it to offer more value-added and tailored services, he continues.

"In the current market environment, there is abundant capacity. The real value-add of a reinsurer in the market is its know-how and ability to develop a solution that truly meets the client's need."

Jeworrek is a strong believer in Asian emerging markets as a driver for insurance growth in the medium term.

For example, he highlights predictions that China is imminently set to become the world's second-largest primary insurance market behind the USA.

But despite continuously strong growth, the Chinese insurance market is still massively underserved.

> "Under-reserving on the casualty side could be a trigger for broader rate increases in the market. Potentially this could also have a more drastic impact on the aforementioned market turn than the impact of a single cat event"

"Its low penetration and density, coupled with increasing affluence within the population, point to enormous growth opportunities," Jeworrek says.

Moving from emerging markets to emerging risks, the executive highlights cyber risk as a big opportunity for the reinsurance market.

Munich Re has already shown it has an appetite for this risk – last year, it announced a collaboration with London market carrier and data breach pioneer Beazley that allows the insurer to put down a $100mn line for cyber insurance.

But as Jeworrek explains, great opportunities can often come hand in hand with great challenges.

"We see growth potential in cyber risk due to legislation and internal governance requirements, and to a rising awareness of claims development," he says.

"On the other hand, there is large accumulation potential, and you need a thorough understanding of the technology as well as of the industry using the technology. That's why we partner with external technology companies to bring in the know-how we do not have in-house."

Munich Re has sought to write more specialty business over the past year, as part of diversification efforts in a sluggish market.

But there is no optimal ratio of specialty to traditional P&C business, Jeworrek says.

"I do not think there is a general rule for an optimal ratio. We deploy our capacity where we have a fair chance of getting profitable business," he explains.

"This is more difficult with standard bread-and-butter business. For specialty business we have a leading edge with our in-depth know-how."

So what are Jeworrek's wider thoughts on how the reinsurance market will develop?

The executive flags some concerns about the level of reserving in the reinsurance market, particularly in casualty. He says the need to strengthen reserve buffers among casualty reinsurers could even have the potential to turn the market.

"We saw several companies strengthen their casualty reserves recently," he says. "Indeed, we agree that under-reserving on the casualty side could be a trigger for broader rate increases in the market. Potentially this could also have a more drastic impact on the aforementioned market turn than the impact of a single cat event," he says.

The executive believes consolidation will also continue to largely restrict itself to the smaller carriers. Only a few acquisitions among the smaller reinsurers have taken place in the last few years, and this did not change in the last 12 months, he notes, saying he expects this status quo to prevail.

"In the current market environment, I suppose many large reinsurers are striving to expand and are developing new capabilities internally and looking at complementary acquisition targets outside the reinsurance sector," the executive explains.

"This is also Munich Re's M&A strategy, which we are actively pursuing by investing in specialty insurance."

Curriculum vitae

Education: University of Magdeburg, mathematics
Previous experience: Assistant lecturer, mathematics, University of Magdeburg
1990: Underwriter, operational division, fire/treaty, Munich Re
1997: Various management positions in the Munich Re operational division, for fire/treaty and financial reinsurance/retrocession
2003: Appointed to the board of management of Munich Re. Responsible for reinsurance development, corporate underwriting, claims, accounting, information technology, and controlling and central reserving for reinsurance

LGT

View from the top

Willis Re's CEO-in-waiting James Kent explains how the broker will further its use of analytics and consulting to its advantage as it enters its next phase of leadership

You are set to take over from John Cavanagh as CEO of Willis Re from the end of the year. How will Willis Re change under your leadership?

It's a very tough act to follow in terms of both John's track record and industry personality. John has been our CEO through a transformational time for Willis Re – not least the merger with Towers Watson – while, at the same time, overseeing good organic growth in all our business units.

John is leaving the business in healthy shape, but that doesn't mean you don't continue to evolve the business. You strive to make changes to reflect external factors – rather than any internal factors – which is a good reason for change, because you are changing to adapt to the market and your clients' needs.

The biggest factor in terms of our clients' needs is the impact of the merger with Towers Watson, and the addition of the front-end underwriting tools and services to augment our existing capabilities, therefore enhancing the consulting and advisory work we do for our clients.

The market is going through a challenging period at the moment. How do you future-proof Willis Re?

I think the fact that the reinsurance brokers have been growing though the soft market really shows there is a broader array of clients, beyond traditional P&C insurers, which see reinsurance as a way to transfer risk. So, we are growing by geography and by product.

If we only held the number of clients we have today then our business would start to go backwards, because there's natural attrition in the business due to rates, M&A, client retention etc. So we need to find new areas to grow and that can come from your existing client base, new classes of business or emerging markets.

For example, when I look at our regional and mutual client base, most of those companies are growing their market share. They are very reinsurance-dependant, and as a consequence that part of our book is providing some growth.

We are also working with our clients on a broader array of classes of business. Cyber, mortgage, life – these are growing classes of business where we are supporting our clients. And the development of opportunities in the emerging markets across insurers' entire risk management spectrum is exciting.

What will Willis Re look like five years from now?

What I would hope is that clients of Willis Re are able to benefit even more from the advisory side of our business. Where the broker-client relationship works particularly well is where, as a broker, you're almost an extension of that client's risk and financial management team.

The model that we built before the merger with Towers Watson integrated the analytics into the broking team so that it wasn't separately branded and provided clients with a seamless offering. It forced our brokers to think like actuaries and vice versa. Five years ahead I hope to see a continued evolution of that model, so right across the company people are comfortable with the analytics side of our business, and beyond that the advisory and consulting to support clients in all aspects of managing risk and capital.

I honestly see the Willis Re offering in combination with the broader Willis Towers Watson business as a real game changer and a compelling advantage for us.

How do you ensure all the units across Willis Towers Watson come together to provide that seamless client offering?

The ability to work with our colleagues across the others parts of Willis Towers Watson to enhance how we can support clients is very compelling, and actually quite an exciting prospect when you think about the broad areas we can now advise clients on.

There is a healthy engagement and willingness to work together, we talk about collaboration a lot and I do think it is a differentiator. It is an attitude which has been cultivated by the previous leadership, including John, and if there is a single most important thing that I have to protect, it is the culture of collaboration and willingness to work together, for the good of the company and the client.

When this works well, our combined capabilities bring knowledge and insight across the entire risk and capital value chain, drawing on the sector expertise of our teams in reinsurance, securities and insurance consulting, together with market-leading technology and analytics, to provide deeper insight and better outcomes for our clients.

We have seen a record Q2 of insurance-linked securities (ILS) issuance this year. Does this threaten the traditional reinsurance model?

A lot of these reinsurers are working side by side with ILS capital and many of the issuances have met increased demand for cat limit. This represents a healthy alternative for buyers. So is it threatening or is it transforming the traditional model? What shouldn't be underestimated is that while it continues to evolve and grow, the licences, rating and leverage around a traditional balance sheet the traditional (re)insurer can bring are still very powerful. I believe the (re)insurers that work with the ILS capital side-by-side are probably the ones that will emerge as the winners.

MGAs are seen by some as another disruptor – how will the rise in the number of these companies change the shape of the (re)insurance market?

I happen to believe that MGAs which are taking risk themselves – whether through a captive or other means – is a really important part of the partnership. There are a litany of failed MGAs where the fee income seemed to be the bigger driver than the underwriting, and that can't ever be forgotten. And as a broker we are pretty selective with the MGAs we choose to work with. We don't do any good by putting inferior business into the market.

But I think for traditional carriers, additional fee income will eventually be a bigger part of the business going forward. You also cannot underestimate the ability of these MGAs to attract talent. The opportunity to generate ownership in a business is a big attraction there.

James Kent
Deputy CEO, Willis Re


It takes great depth to rise high.
Total Assets:
31.03.2016: USD 12.2 billion
31.03.2017: USD 14.6 billion
Total Net Worth including Fair Value:
31.03.2016: USD 5.9 billion
31.03.2017: USD 7.4 billion
Global Ranking (2017)
12th among Top Global Reinsurers
based on Gross Written Premium
Ratings:
Financial Strength: A-(Excellent) by A.M. Best Company
Claims Paying Ability: “AAM (In)” by CARE
आपत्काले रक्षिष्यामि
GIC Re
General Insurance Corporation of India
Global Reinsurance Solutions
Website: www.gicofindia.in
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GICRE/CAPL/09-17/002
IRDAI Registration No.: 112
CIN No.: U67200MH1972GOI016133

Going for growth

How does TigerRisk keep growing despite the soft market?

We are witnessing very substantial growth in our business against the backdrop of the soft market. Frankly, the way we're doing it is by really focusing on our integrated strategy to be the leading risk, capital and strategic adviser in the industry. Our strategy is fundamentally different than that of our competitors.

So we are continuing to come up with very innovative ideas – some of which will become evident soon – that are derived from all the domain insight, market intelligence and industry knowledge that the organisation collectively possesses. This includes a big investment of time and money into new and disruptive technology.

We are leveraging all of the expertise within the firm. As a result, we are achieving a lot of growth in our capital markets and strategic advisory business, our adverse development and loss portfolio transfer business, and in our technology business. We are using the innovative ideas and strategic advice we deliver to also make sure we are picking up new recurring reinsurance brokerage business as well.

It's really hitting all the cylinders but it's not a strategy that is blindly focused on reinsurance. It's a strategy that's broadly focused on really trying to be the leading risk, capital and strategic adviser in the market and to anticipate new technology and what the insurer of the future is likely to look like.

Growing is fun and it also requires us to be in an aggressive hiring mode to find really top talent that want to do something more entrepreneurial and want to get away from larger bureaucratic organisations. We are looking for people who do not want to be a cog in the wheel but rather want to help us continue to build something great.

So you will see us continue to make some announcements on the hiring front through the rest of this year. Those hires are designed to support the growth and accelerate it going forward. It's exciting.

Do you think large brokers are using untoward leverage to demand that their clients use their reinsurance brokerage arms?

Increasingly, the market participants we speak to are looking for ways to disintermediate the traditional value chain. That's because the market conditions are so challenging and because clients are struggling to figure out how they can drive value against the backdrop of third-party capital, disruptive technology, a sustained low interest rate environment, difficult pricing, increasing volatility and the need for scale.

They are also looking for value-added, innovative and creative ideas. And they're no longer as interested in hiring a reinsurance intermediary just because that institution gives them business on the primary side – they're demanding more.

> "Growing is fun and it also requires us to be in an aggressive hiring mode to find really top talent that want to do something more entrepreneurial and want to get away from larger bureaucratic organisations"

They are demanding that their business partners be more innovative and creative in the ideas that they come up with – and that they add more value to their business.

What we're hearing more and more from clients is that trend for the big three to leverage their inward business for outward reinsurance brokerage has become less and less acceptable and those brokers are getting more pushback as a result.

In comparison, we try to leverage ideas and solutions that help people in the current environment and it's resonating. It's resonating with carriers that are getting more frustrated with the old approach and more demanding about value-added solutions, services and ideas. So we hope that we're in the right spot. We see business coming our way as a result.

What does TigerRisk expect the insurer of the future will look like?

We think the insurer of the future will have more of an "originate to distribute model" for risk. That would see carriers originate, underwrite and price risk before passing it on to the cheapest pools of capital they can find. And they will use increasingly sophisticated and advanced technology to assist with this.

Why should the insurer of the future hold 30-year legacy liabilities when they have a higher cost of capital instead of passing them on to a jurisdiction with efficient regulatory, corporate and tax structures or utilising an investment strategy that may ultimately drive a lower cost of capital? Or why shouldn't the insurer of the future generate more fee income, produce better risk-adjusted returns and increase the velocity of its capital? Eventually all risk is going to find or gravitate to the lowest cost investors and most efficient structures.

What do you see happening in the M&A environment going forward?

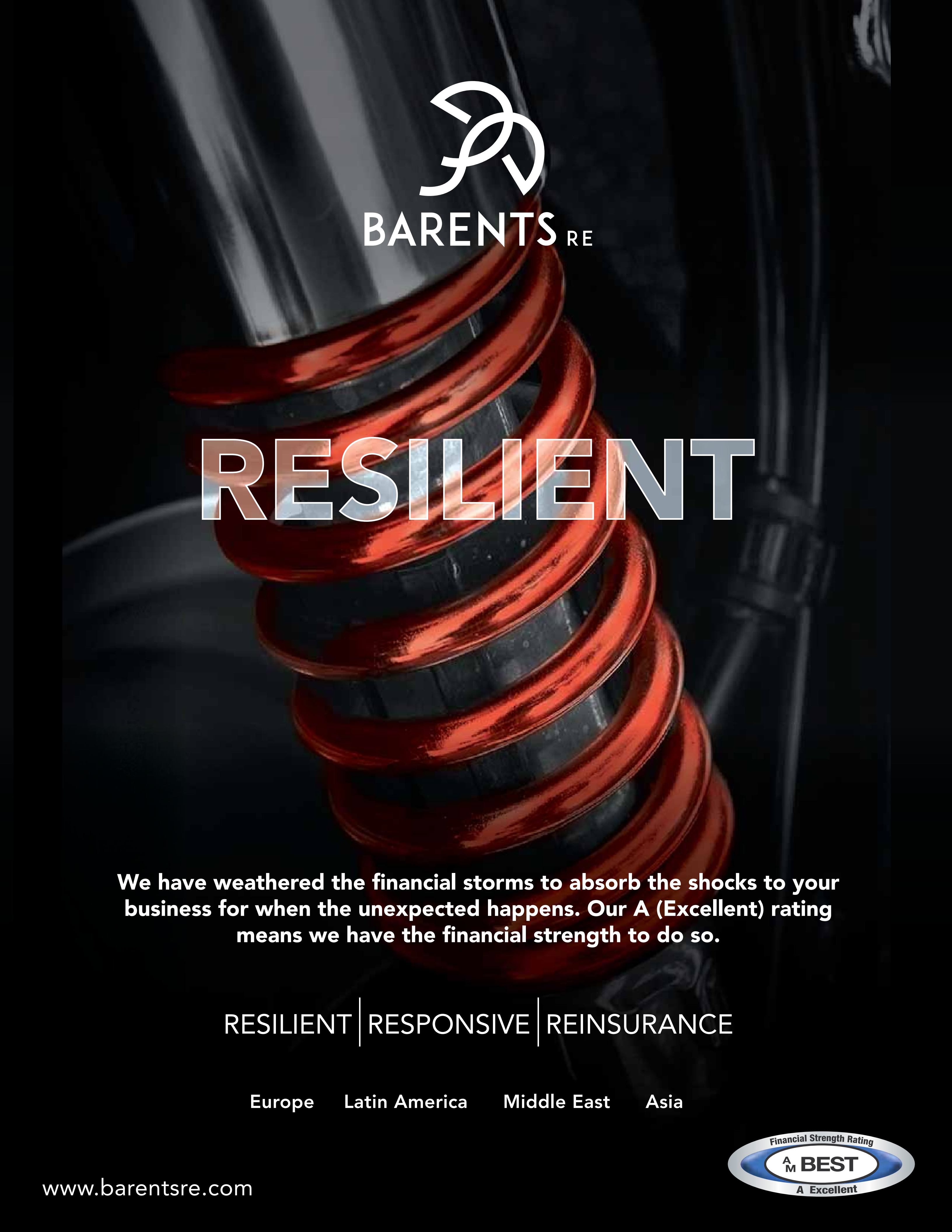
We're going to continue to see a steady flow of M&A activity. There are lots of small to mid-sized entities in the market now and I believe that we will see further large transactions occur as time goes on. It's impossible not to conclude that scale is important in this environment. And the insurance services sector will continue to be hot.

Overall, the insurance industry continues to be relatively fragmented and the disruptive forces of both new capital, new technology and difficult operating conditions will continue to drive the consolidation trend.

But these things have a long gestation period, there are plenty of obstacles to getting them complete. I have worked on a lot more deals that didn't get done than those that did.

So our view is that we will see more deals announced this year and probably an acceleration next year as transactions being thought about today make it to the announcement phase.

Tony Ursano
President, TigerRisk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Financial Strength Rating
AM BEST
A Excellent
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ILS manager LGT welcomes London move

We understand you have been able to grow your asset base over the last years – how has your client base developed?

Our investor base mainly consists of institutional investors such as pension schemes and sovereign wealth funds, but we have traditionally always maintained a smaller offering geared towards wholesale distributors and family offices. During the initial growth phase we saw strong interest from European investors: the topic of investing in insurance-linked strategies was very well received, especially in countries like Switzerland and the UK where the insurance sector is an important contributor to the economy.

Yet, over the past few years we have been able to broaden our investor base and have seen new regions opening up to the topic: this year, we have won new mandates from investors in Korea and Japan. Also, our US offering, which was launched in early 2015, continues to attract investors looking for our more conservative and diversified investment approach.

Overall, ILS has gained considerable momentum; the asset class is no longer an "esoteric" niche but has reached the status of a recognised diversifier for many institutional investors.

Rates have softened considerably over the last 24 months, which means that ILS returns have come down as well. What is the response of your investors to this trend?

First and foremost, institutional investors fully understand that today's returns in insurance-linked strategies should not be compared with historic returns, as collateral returns are significantly lower today and the novelty premium no longer applies, given that ILS has gained traction and developed into a recognised asset class.

Further, it has become increasingly difficult to find attractive investment opportunities in the traditional financial market.

Our investor base appreciates the low correlation of ILS returns with other financial market instruments, and this is taken into account when comparing ILS returns with other investment opportunities. As a result, the majority of our investor base is currently investing in ILS with a smaller allocation simply to optimise the diversification of their portfolio.

However, if there is additional demand for reinsurance protection after a large catastrophe event, there are clear indications that investors would increase their allocation immediately to benefit from potential rate increases. As such, we see that ILS investors are content with the current market environment, but prepared to move as opportunities arise.

The UK government is currently working on a framework to bring ILS business to the UK – what is your view on this?

Being based in Europe, it has always been a bit of a disappointment to see "offshore" jurisdictions such as Bermuda and Guernsey attracting captives and cat bond or special purpose insurance company (SPI) structures. From a distance, it looks as if this is owed to the favourable tax environment, which is certainly playing a role, albeit a small one.

The real driver is the open-minded and efficient regulatory body in these jurisdictions, especially in Bermuda: adopting a simplified regulatory framework for collateralised transactions was a sensible and smart move. After all, the main focus of the regulator is consumer and "system" protection. In a fully collateralised reinsurance contract, credit and default risk is mitigated to a very large degree – in fact, such transactions should be favoured by the regulator over traditional "promise to pay" reinsurance as these deals serve to mitigate the "systematic risk" to the sector.

However, setting up a SPI in the EU or Switzerland is still not possible or efficient today; insurance regulators impose significant capital and staffing requirements. The move of the UK government to adopt a simplified regulatory framework in order to allow for such collateralised structures to be set up in the UK is timely. We are a strong supporter of this development and hope that this enables further growth of the sector.

So, what is your outlook on pricing for the upcoming renewal round – and is there a "walk away" price level for you and your investors?

Clearly, pricing for the upcoming renewal round depends on event activity, and especially the assessment of Hurricane Harvey, Hurricane Irma and other events will be driving the discussions. We – on behalf of our clients – compare the expected premium returns with the expected loss levels of each transaction and then on a portfolio level.

Obviously, our clients seek positive returns in the long run. We and other ILS managers cannot manage a negative yielding portfolio, whereby the expected loss exceeds the return expectations after cost, and ILS investors demand transparency on this, unlike investors in the traditional reinsurer sector. As such, we believe that ILS managers are likely to be the most disciplined underwriters when it comes to cycle management.

Lastly, a returning topic at this year's conference is once again cyber risk – what is your stance on this peril?

When investing in insurance-linked strategies, institutional investors are looking for the low correlation of ILS returns. Payouts under cyber contracts may trigger a strong correlation to financial market movements, especially when trading systems or entire stock exchanges are exposed to an attack. While investors understand that there may also be a correlation in the aftermath of a natural catastrophe event such as a strong earthquake in California, the uncertainty around the manifestation of a cyber-attack makes the assessment and risk management for this line of business difficult, if not impossible.

Lastly, investors understand that certain elements around a cyber-attack are already part of their allocation – if, for instance, the attack is aimed at a hydroelectric plant and results in a flood, the water damage may be picked up through standard property contracts. In summary, while we clearly see the need for such protection, we believe that the collateralised market is not yet ready to transact such back-up covers in any meaningful size, while traditional markets will likely see some diversification benefits from such risks.

Michael Stahel
Partner/portfolio manager, LGT ILS Partners

The Insurance Insider's 2016 P&C executive pay league

The collective remuneration of the 50 highest paid executives in the P&C (re)insurance industry increased by 5.6 percent to $479.0mn in 2016, *The Insurance Insider's* executive pay league has shown.

Our annual survey includes more than 200 executives across 35 publicly listed P&C (re)insurance companies and ranks them in order of total compensation for the year, including base salary, cash bonuses, stock and option awards, as well as other benefits such as pensions.

The 5.6 percent growth rate follows an 11.8 percent decline to $453.4mn in 2015, and a modest uplift of 1.8 percent in 2014 for the top 50 highest paid executives, using five-year average exchange rates.

In terms of average CEO compensation, the 2016 result stood at $7.0mn, just 1.2 percent higher year-on-year.

But the range of total earnings among the top 50 was slightly lower last year, decreasing by 3.3 percent to $23.9mn from 2015, while the spread between the top 10 shrank by 4.8 percent to $16.4mn.

By means of comparison, the median CEO pay at S&P 500 companies was just under $12.2mn in 2016, a rise of 6.7 percent, according to a study performed by Institutional Shareholder Services Analytics.

The figure stems from an analysis performed on 270 companies within the index which had reported their financial results by 10 April 2017.

The big 10

The pick-up in aggregate earnings was also reflected in the remuneration of the top 10 highest paid executives in the industry, who received a total of $169.2mn – a decrease of 0.2 percent from the 2015 figure.

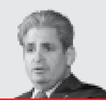
This marks the third consecutive yearly decrease in the top 10's aggregate earnings, after the 2015 top 10 received 11.2 percent less than the corresponding group the previous year.

In the past five years, the total remuneration for the 10 biggest earners has decreased by 2.6 percent from $173.8mn to $169.2mn.

Willis Towers Watson (WTW) CEO John Haley topped our executive pay league with a total remuneration of $28.9mn in 2016.

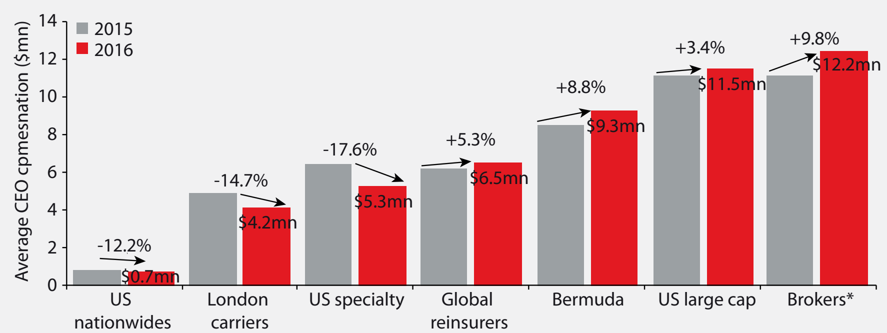
Haley received a base salary of $1.2mn,

Top 10 earners

Rank	Name	Company	Position	2016 pay
1 	John Haley	Willis Towers Watson	CEO	$28,846,121
2 	Evan G Greenberg	Chubb	Chairman, president and CEO	$24,419,486
3 	Jay S Fishman	Travelers	Former chairman & CEO	$17,781,842
4 	Daniel S Glaser	Marsh & McLennan Companies	President & CEO	$15,749,940
5 	Dominic Casserley	Willis Towers Watson	Former president & deputy CEO; former legacy Willis Group CEO	$15,430,339
6 	Greg Case	Aon	CEO	$15,234,773
7 	Thomas J Wilson	Allstate	Chairman, president and CEO	$13,813,515
8 	Stephen McGill	Aon	Former CEO, Risk Solutions	$12,843,025
9 	Michael McGavick	XL Group	CEO	$12,653,175
10 	William R Berkley	WR Berkley	Chairman of the board	$12,436,950

Source: Company reports, *The Insurance Insider*

Brokers prosper as US specialty execs take pay cut



*Excluding Aon
Source: *The Insurance Insider*, company reports

the highest among his competitors and 17.3 percent more than that paid to Dominic Casserley, the former WTW president and deputy CEO.

Nevertheless, the bulk of Haley's 2016 remuneration was in stock awards, which amounted to $24.6mn.

Meanwhile, Chubb CEO Evan Greenberg held onto the number two spot for the second consecutive year with a total pay package of $24.4mn – up 19.8 percent year-on-year.

Like Haley, the uplift was mostly fuelled by a 45.2 percent increase in stock awards to $12.9mn thanks to the Ace-Chubb merger, which finalised at the beginning of last year.

In third place stood the late Jay Fishman, previously chairman and chief executive of Travelers, who received total remuneration of $17.8mn.

Marsh & McLennan Companies CEO Daniel Glaser was the fourth highest earner with $15.7mn, which was relatively flat year-on-year.

But rival broker WTW made its way into the top 10 again via Casserley, who climbed nine places to fifth position with a total pay package of $15.4mn.

Casserley left the firm at the end of 2016, and as revealed by this publication, has since taken up a role at private equity firm Warburg Pincus.

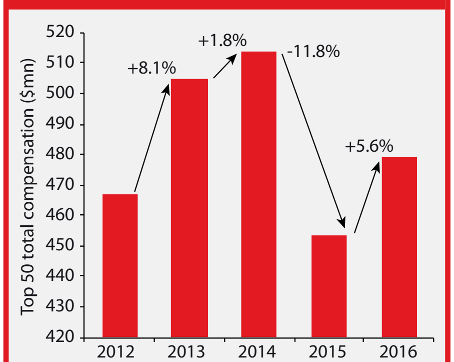
Aon was another broker to make a reappearance in the top 10, after its CEO Greg Case topped the prior-year's ranking with a total remuneration of $29.7mn.

In 2016, Case was the sixth best paid executive in the industry with a total of $15.2mn, as his stock awards for the year reduced to $11.1mn from $25.5mn a year before.

But his now-departed peer Stephen McGill, formerly CEO of Aon's Risk Solutions unit,

Continued on page 34

Top 50 pay rises…



Source: *The Insurance Insider*, company reports

Top 50 highest paid P&C (re)insurance executives in 2016

Rank	Name	Company	Position	2016 pay	Rank change
1	John Haley	Willis Towers Watson	CEO	$28,846,121	new entry
2	Evan G Greenberg	Chubb	Chairman, president and CEO	$24,419,486	+0
3	Jay S Fishman	Travelers	Former chairman and CEO	$17,781,842	+0
4	Daniel S Glaser	Marsh & McLennan Companies	President and CEO	$15,749,940	+1
5	Dominic Casserley	Willis Towers Watson	Former president and deputy CEO; former legacy Willis Group CEO	$15,430,339	+10
6	Greg Case	Aon	CEO	$15,234,773	-5
7	Thomas Wilson	Allstate	Chairman, president and CEO	$13,813,515	+1
8	Stephen McGill	Aon	CEO, Risk Solutions	$12,843,025	+6
9	Michael McGavick	XL Group	CEO	$12,653,175	+0
10	William R Berkley	WR Berkley	Chairman	$12,436,950	-6
11	Dinos Iordanou	Arch	Chairman and CEO	$12,211,136	+1
12	Thomas Motamed	CNA	Retiring CEO	$11,912,007	-1
13	Alan Schnitzer	Travelers	CEO	$11,558,119	+21
14	David Herzog	AIG	Former EVP and CFO	$10,738,460	+23
15	Robert Berkley, Jr	WR Berkley	President and CEO	$10,363,289	+4
16	Brian MacLean	Travelers	President and COO	$10,143,253	+1
17	Christopher Swift	The Hartford	Chairman and CEO	$10,079,121	-4
18	John Keogh	Chubb	Executive vice chairman and COO	$9,971,013	+11
19	Denis Kessler	Scor	CEO	$9,806,413	+16
20	Craig Lindner	AFG	Co-CEO and co-president	$9,752,845	+5
21	Carl Lindner III	AFG	Co-CEO and co-president	$9,736,384	+5
22	Peter Hancock	AIG	Former CEO	$9,576,535	-12
23	Peter Zaffino	Marsh & McLennan Companies	Chairman of Risk and Insurance Services and CEO of Marsh	$9,109,372	+0
24	Stephen Catlin	XL Group	Former executive deputy chairman	$9,041,432	+0
25	Dom Addesso	Everest Re	President and CEO	$8,827,677	-5
26	Christa Davies	Aon	CFO	$8,712,408	-20
27	Albert Benchimol	Axis	CEO, president and director	$8,538,281	-11
28	John J Lupica	Chubb	Vice chairman, chairman, insurance – North America	$7,792,010	+13
29	Joseph Zubretsky	The Hanover	President and CEO	$7,598,515	new entry
30	Kevin O'Donnell	RenaissanceRe	President and CEO	$7,550,208	-8
31	William Heyman	Travelers	Vice chairman and CIO	$6,869,806	+2
32	Douglas Elliot	The Hartford	President	$6,804,302	-2
33	Christian Mumenthaler	Swiss Re	Group CEO	$6,615,542	new entry
34	Jay Benet	Travelers	Vice chairman and CFO	$6,600,361	+2
35	Julio Portalatin	Marsh & McLennan Companies	President and CEO of Mercer	$6,387,427	+4
36	Philip V Bancroft	Chubb	CFO	$6,172,690	+16
37	Kevin Hogan	AIG	EVP	$6,156,713	-16
38	Marc Grandisson	Arch	President and COO	$6,051,352	+17
39	Paul Krump	Chubb	President, North America commercial and personal insurance	$6,040,645	new entry
40	Bronek Masojada*	Hiscox	CEO	$5,979,287	+10
41	J Patrick Gallagher, Jr	AJ Gallagher	CEO	$5,739,167	+4
42	Douglas Dachille	AIG	EVP and CIO	$5,695,787	new entry
43	Paul Brand	XL Group	EVP, CEO of insurance operations	$5,622,995	+13
44	Andrew Horton*	Beazley	CEO	$5,373,335	-3
45	Matthew Winter	Allstate	President, Allstate Personal Lines	$5,313,575	-3
46	Christopher O'Kane	Aspen	CEO	$5,302,873	-3
47	Jonathan D Kantor	CNA	EVP, general counsel and secretary	$5,183,019	+10
48	Nikolaus von Bomhard	Munich Re	CEO	$4,974,906	-2
49	Peter J Beshar	Marsh & McLennan Companies	EVP and general counsel	$4,937,656	+9
50	Barry D Zyskind	AmTrust	President and CEO	$4,902,193	-43
Total				**$478,951,275**	**+5.6%**

*Calculated at 5-year average exchange rate
Source: Company reports, *The Insurance Insider*

Risers and fallers

The list of risers was predominately populated by brokers, but at the top stood Markus Riess of Munich Re, who climbed 77 positions as his remuneration for the year more than doubled to EUR3.2mn ($3.9mn).

However, this was Riess's first full year of employment at the company, as he was appointed CEO of the reinsurer's primary arm Ergo in September 2015, having previously worked at Allianz.

John Greene, former legacy CEO at Willis Towers Watson, made it into the top 50 at number 47, some 65 positions higher than in the year before as his paycheck nearly doubled to $4.9mn.

And rival broker Brown & Brown had two entries among the top risers, with CEO J Powell Brown rising 50 ranks to number 67 with total earnings of $3.9mn, and executive vice president Chris Walker climbing 34 positions with earnings of $2.0mn.

Looking at fallers, Novae dominated the list as none of its executives received any cash bonuses for the year.

For the Londoner's CEO Matthew Fosh, this meant 61.0 percent less remuneration in 2016 than in the year before, after he received a £1.3mn bonus in 2015.

And former CFO Charles Fry, who left the company at the end of October, was also not given a bonus last year after receiving £990,000 in 2015. The executive's base salary also shrank by 16.7 percent year-on-year to £275,000.

But in absolute amounts, US specialty insurer AmTrust posted the largest executive pay drops.

The company's two highest-paid executives saw more than half of their earnings evaporate, as they received no bonuses or non-equity compensation.

CEO Barry Zyskind was paid only $4.9mn compared to $13.9mn in 2015, as his base salary reduced by 3.6 percent to $975,000.

AmTrust has had a troubled few months, after it delayed its 10K filing for 2016 and subsequently announced that its reports for the past three years were no longer reliable. Moreover, the revised reports that followed revealed less profits than previously stated.

Consequently, the carrier's share price had dropped by 53.8 percent in the year-to-date as of 30 August close.

2016 risers and fallers by ranking

2016 ranking	Name	Company	Position	Total 2016 pay	Change in ranking
Top 5 risers					
68	Markus Riess	Munich Re	CEO and Chairman of ERGO	$3,892,476	+77
47	John Greene	Willis Towers Watson	Former Legacy Willis Group CEO	$4,898,097	+65
67	J Powell Brown	Brown & Brown	CEO & President	$3,917,651	+50
73	Mario Vitale	Aspen	CEO	$3,825,759	+35
124	Chris Walker	Brown & Brown	EVP & President – Programs Division	$2,044,634	+34
Top 5 fallers					
128	Matthew Fosh	Novae	CEO	$1,866,572	-75
88	Clive Washbourn	Beazley	Head of Marine	$3,171,582	-51
83	Jeffrey Kelly	RenaissanceRe	Former EVP, COO and CFO	$3,377,088	-35
142	Charles Fry	Novae	CFO	$1,232,091	-33
107	Timothy Wright	Willis Towers Watson	Former WTW Head of Corporate Risk & Broking; Former Legacy Willis Group CEO of International	$2,514,545	-32

Source: Company reports, *The Insurance Insider*

2016 risers and fallers by change in earnings

Name	Company	Position	Total 2016 pay	Change in pay	Change in company RoE	Change in company book value per share
Top 5 risers						
John Greene	Willis Towers Watson	Former legacy Willis Group CFO	$4,898,097	79.1%	-0.2pts*	N/A
Dominic Casserley	Willis Towers Watson	Former WTW president & deputy CEO; former legacy Willis Group CEO	$15,430,339	71.2%	-0.2pts*	N/A
Alan Schnitzer	Travelers	Vice chairman – financial, professional & international insurance and field management; chief legal officer	$11,558,119	66.4%	-1.7pts	+4.0%
David Herzog	AIG	Former EVP and CFO	$10,738,460	60.7%	-3.2pts	-9.8%
J Powell Brown	Brown & Brown	CEO and president	$3,917,651	56.4%	-0.5pts*	N/A
Top 5 fallers						
Ronald E Pipoly, Jr	AmTrust	EVP and CFO	$709,390	-77.9%	-6.3pts	+17.4%
Barry D Zyskind	AmTrust	President and CEO	$4,902,193	-64.8%	-6.3pts	+17.4%
Matthew Fosh	Novae	CEO	£1,215,000	-61.0%	-8.1pts	-4.2%
Max Caviet	AmTrust	CEO of AIL	$1,444,072	-56.8%	-6.3pts	+17.4%
Charles Fry	Novae	CFO	£802,000	-55.4%	-8.1pts	-4.2%

*Change in adjusted Ebitda margin
Source: Company reports, *The Insurance Insider*

Continued from page 33

received a pay boost of 38.5 percent to $12.8mn in 2016, propelling him six ranks higher to eighth position.

Allstate CEO Thomas Wilson moved up just one rank to seventh place, as his remuneration increased marginally year-on-year.

Meanwhile, XL Catlin's chief executive Mike McGavick held onto ninth position as his pay fell marginally to $12.7mn for the year.

WR Berkley chairman Bill Berkley fell six places to 10th position as his total earnings decreased by 22.9 percent to $12.4mn in 2016.

Berkley retired from the CEO position last year and earned less from stock awards and his non-equity incentive plan compensation.

The chief executive title was passed on to his son, Robert Berkley Jr, whose remuneration increased by 25.5 percent to $10.4mn, making him the 15th highest earner last year.

Bermudian CEO remuneration decreases in 2016

Aggregate total earnings for chief executives of Bermudian carriers fell by 0.8 percent last year to $50.6mn.

And only one CEO in the Bermuda composite was paid more than in the previous year.

Arch chief executive Dinos Iordanou received a 15.1 percent pay boost, taking his earnings to $12.2mn for 2016, thanks to a United Guaranty Corporation (UGC) acquisition-related bonus of $1.5mn.

In August last year, Arch announced plans to acquire AIG's mortgage insurance business UGC for a total consideration of $3.4bn.

But in a subsequent analyst call discussing the takeover, Iordanou revealed that he would step down in March 2018 and chief operating officer Marc Grandisson would take over as CEO.

Meanwhile, at the other end of the spectrum stood Ed Noonan, CEO of Validus, whose 2016 remuneration decreased by 17.5 percent year-on-year to $4.4mn, missing out on a place in the top 50. This was mainly due to a 43.2 reduction in non-equity incentive compensation to $1.1mn.

Base salaries stayed constant in Bermuda with the exception of Aspen CEO Chris O'Kane, whose annual salary declined by 11.7 percent year-on-year to $832,727.

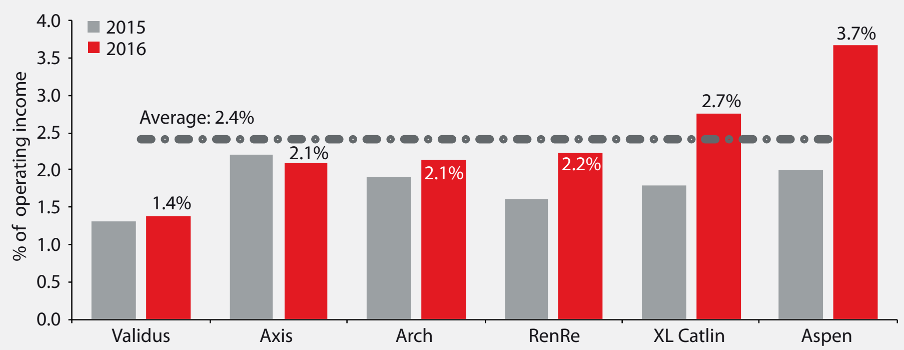
Consequently, the executive's total earnings went down by 5.3 percent to $5.3mn.

Nevertheless, this was equivalent to 3.7 percent of the company's operating income, which halved year-on-year to $144mn for 2016.

XL Catlin also paid a higher proportion of its operating income to its chief executive compared to its peers, with 2.7 percent of its profits, or $12.7mn, going to CEO Mike McGavick.

McGavick and Iordanou were the only two Bermudian entries in the top 10 earners.

2016 Bermuda CEO compensation



Source: *The Insurance Insider*, company reports

Global reinsurers up their CEO pay

Total remuneration increased year-on-year for executives in the global reinsurer cohort, with aggregate pay growing by 5.3 percent to $32.6mn, adjusted for foreign exchange movements.

The best-paid CEO in the group was Denis Kessler of French carrier Scor, who earned EUR8.0mn or $9.8mn using a five-year average exchange rate.

Kessler's pay rise was mostly fuelled by a boost in performance share unit awards from EUR3.1mn to EUR5.2mn, which enabled him to climb seven ranks year-on-year to 17th place in our list of the best-paid executives in the industry.

He also received the largest share of net income among his peers, with his total remuneration equivalent to 1.3 percent of Scor's net income for the year.

Five ranks below Kessler stood Dom Addesso, CEO of Everest Re, with total pay of $8.8mn for the year – up 8.2 percent from 2015.

Addesso ranked 23rd in our top 50 league table, four positons behind his prior-year performance.

Newly appointed Swiss Re CEO Christian Mumenthaler earned CHF6.2mn ($6.6mn) in his first six months at the company, 10.9 percent less than his predecessor Michel Liès received in 2015.

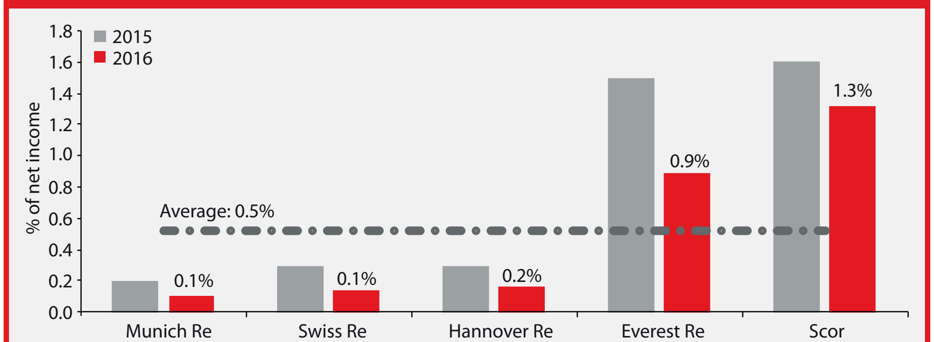
Consequently, Mumenthaler was a new entry in the top 50 as the 30th best-paid CEO.

At Munich Re, Nikolaus von Bomhard maintained his ranking at number 45, despite his earnings reducing by 10.5 percent to EUR4.0mn.

Executive remuneration decreased across the board at the reinsurance giant, with the company's top three earners posting double-digit percent yearly drops.

Meanwhile, Hannover Re's CEO Ulrich Wallin recorded a 13.5 percent increase in remuneration to EUR1.9mn, which was a significant turnaround compared to a 1.2 percent reduction in earnings the year before.

2016 global reinsurer CEO compensation



Source: *The Insurance Insider*, company reports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The interview: Wasef Jabsheh

You started in insurance 50 years ago at the first Gulf insurer, Kuwait Insurance Co. What was it like back then?

I've been in this business longer than digital calculators – we used to divide, add and subtract by hand. Coming from an American university, I got given all the tough jobs and after a year I was handed the energy business – it was rare to be to be from the Middle East and a specialist in the area. I remember in the late 1960s I insured a refinery in Kuwait which was worth about $400mn – there wasn't enough capacity to cover 100 percent of it in the world!

More generally, actuaries were only used in the life business, modelling didn't exist and regulation was very primitive. In the 1970s you could start an insurance business in the UK with £2.5mn ($3.2mn) of capital and that was an accepted security.

You then helped establish Abu Dhabi National Insurance Company (ADNIC). Tell us about it.

ADNIC started from scratch with $1.35mn in capital and the company developed tremendously as a multi-line business with a concentration on energy. It was tough though – at the time nobody in the Middle East knew anything about onshore oil business, all the expertise was in London. However, we expanded quickly and eventually started to write business in the whole of the Gulf and the Middle East, and even in Europe and the US.

I like challenges and this experience, as well as other skills I gained over the years, worked well in the establishment and growth of IGI.

What else does the sector need to do to mature?

Consolidate. I've had a front seat view at the birth and evolution of the reinsurance industry in the Middle East and at the moment there are too many companies in the region and it's a waste of capital. Consolidation forms big companies that can stand on their own and compete worldwide. Our region is scattered with many insurance companies of small scale competing for a piece of the same pie. In my opinion, maturity in the Middle East can only be achieved through the joining of forces and resources. Also, further growth in the region depends on the development of expertise – I was hoping to see a much bigger improvement over the years.

IGI H1 2017 stats

Gross written premium: $138.1mn
Shareholders' equity: $322.9mn
Assets: $824.2mn
Rating: A- stable outlook by S&P Global
Rating: A- positive outlook by AM Best

What are your premium rate expectations?

I have seen this cycle many times in my lifetime and I know from experience that soft market conditions do not last forever. The desire of many players during these challenging times to abandon underwriting discipline in favour of top line growth will invariably exert pressure on their profit margins. The market will eventually bottom and companies with prudent planning and risk selection and disciplined underwriting will ultimately prevail.

Moreover, a rise in interest rates will help the market, and if there are big cat losses in the world, there will be change.

What about the energy market?

I think we are certainly coming to an end of the soft market in this sector in particular. Energy is a promising market and insurance spending in this sector is expected to upsurge in the coming few years. Of course, there is always someone willing to slash [rates], but generally, we are not seeing a deterioration of terms.

You recently diversified into legal expenses. Where else will you expand?

We are always on the lookout for new opportunities. The renewable energy sector is expected to grow considerably over the coming few years. Britain is to ban diesel and gasoline cars by 2040. The Paris Conference has many implications for the energy sector. The Middle East will follow in the footsteps of what is happening elsewhere. We already write business in renewable energy and are well prepared for future business in this area.

Where are you expanding regionally?

It is only in the last 10 to 20 years that Africa has opened up and investment has started to flow into the continent. Africa is not an easy market, but is promising – for example, East Africa has seen recent oil and gas discoveries. Our office in Casablanca writes African business and the IGI office in the DIFC in Dubai also writes all lines of business in north and west Africa.

We are also doing business with Singapore. Japan and Malaysia are potential areas for growth, as well as prospective expansion in the Pacific region. We always work with the local insurance market where we aim to bolster ties and forge partnerships.

How easy is it for foreign insurers to crack the Middle Eastern market?

There is a misconception that the Middle East is one homogenous area and that exposures across it are homogenous too. However, the region is very diverse geographically, politically and economically. For example, we get snow in Jordan and flash floods in Oman. Even within the same country, there can be differences and variations. IGI prevails over its competition because of our focus on addressing and understanding country and region-specific conditions, and drawing on the knowledge and skills of local expertise. Local knowledge is a fundamental factor in the success of the business process.

You had to leave your home in Jerusalem abruptly with the Israeli invasion at the start of the six-day war in 1967 and moved to Kuwait, without seeing your parents for two years. How did that feel?

On 4 June 1967, I submitted my last final exam for graduating from university, and on the very next day; 5 June, war broke out. Overnight I had no home to go back to because of the Israeli occupation. Insurance was the first job offered to me in exile and I took it immediately as I was in dire need for income at that time.

Just imagine not having the option of going home! It is a horrible experience and it may have been the reason behind my determination and perseverance in life, as I felt that "I am all on my own and I have no option but to make it".

Wasef Jabsheh
Founder, CEO and vice chairman, International General Insurance

MANAGING DIRECTOR
Mark Geoghegan
mark@insuranceinsider.com

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

EDITOR
Laura Board
laura.board@insuranceinsider.com

US EDITORIAL DIRECTOR
David Bull
david@insuranceinsider.com

US EDITOR
Ted Bunker
ted.bunker@insuranceinsider.com

MANAGING EDITOR
Charlie Thomas
charlie.thomas@insuranceinsider.com

NEWS EDITOR
Catrin Shi
catrin.shi@insuranceinsider.com

FEATURES EDITOR
Gavin Bradshaw
gavin.bradshaw@insuranceinsider.com

SENIOR REPORTERS
Fiona Robertson
fiona@insuranceinsider.com
Dan Ascher
dan.ascher@insuranceinsider.com
Lucy Jones
lucy.jones@insuranceinsider.com

REPORTER
Bernard Goyder
bernard.goyder@insuranceinsider.com

RESEARCH ANALYST
Iulia Ciutina
iulia.ciutina@insuranceinsider.com

COMMERCIAL DIRECTOR
Spencer Halladey
spencer@insuranceinsider.com

SALES DIRECTOR
Rob Hughes
rob@insuranceinsider.com

BUSINESS DEVELOPMENT MANAGER
Benjamin Bracken
ben.bracken@insuranceinsider.com

SALES EXECUTIVES
Annie Lightholder
annie@insuranceinsider.com
Georgia Macnamara
georgia.macnamara@insuranceinsider.com
Abby Baker
abby.baker@insuranceinsider.com

MARKETING MANAGER
Aimee Fuller
aimee@insuranceinsider.com

HEAD OF EVENTS & MARKETING
Jennifer Lord
jennifer@insuranceinsider.com

SENIOR MARKETING EXECUTIVE
Sophie Jansen
sophie@insuranceinsider.com

MARKETING ASSISTANT
Beatrice Boico
beatrice.boico@insuranceinsider.com

EVENTS PRODUCER
Matthew Sime
matthew.sime@insuranceinsider.com

EVENTS COORDINATOR
Holly Dudden
holly.dudden@insuranceinsider.com

PRODUCT MANAGER
Carlos Pallordet
carlos.pallordet@insuranceinsider.com

PRODUCTION EDITOR
Peter Williams
peterw@insuranceinsider.com

SUB-EDITOR
Ewan Harwood
ewan@insuranceinsider.com

ART DIRECTOR
Paul Sargent
paul@insuranceinsider.com

3rd Floor, 41 Eastcheap, London, EC3M 1DT, UK, Tel Main: +44 (0)20 7397 0615, Editorial: +44 (0)20 7397 0618, Subscriptions: +44 (0)20 7397 0619, Fax: +44 (0)20 7397 0616