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Berkshire drops \$900mn QBE aggregate

Berkshire Hathaway has indicated it will not renew the major catastrophe aggregate cover that it wrote on a 100 percent basis for QBE after years of losses on the deal, *The Insurance Insider* can reveal.

Sources told this publication that Berkshire had informed QBE it would not support the cover for 2019, with the Sydney-headquartered insurer set to restructure its reinsurance in response.

Berkshire Hathaway has written the full limit of the cover since 2015 – most recently under a multi-year deal – and has taken significant losses during that period.

Last year the contract provided \$900mn of limit excess \$1.15bn.

In October last year, QBE said it expected to fully exhaust the 2017 aggregate

protection, and it seems likely that it will sustain losses again this year.

In 2015, when Berkshire first wrote the cover via a private placement, QBE drew down \$213mn of limit in the first half of its financial year. It also drew down \$131mn in the first half of 2016.

As well as the \$900mn aggregate cover, QBE last year placed \$1.8bn worth of catastrophe excess of loss cover above its \$600mn retention.

It also bought a “top and aggregate” cover, which provides \$372.5mn of cover on a second-event basis in excess of a \$200mn deductible, excess of \$400mn otherwise recoverable.

Berkshire’s decision to swallow the aggregate cover whole marked a phase of the firm’s surge into Asia Pacific risk, which

began more than five years ago.

Its significant reinsurance relationships in Australia also include a 20 percent quota share for IAG, which it inked in 2015 with a 10-year term, and a 15 percent quota share on QBE’s main programme.

But as Berkshire’s reinsurance arm makes its first step back from this network of deals, the group has been expanding on the primary side of the market through Berkshire Hathaway Specialty Insurance (BHSI).

The insurer initially hired former QBE head of reinsurance Blair Nicholls to spearhead its expansion in the country, although he moved on to an InsurTech start-up in 2016.

BHSI also looked to QBE to source his replacement and the firm’s current president of Australasia, Mark Lingafelter.

Workers’ comp issues put executives on defensive

Insurers have mostly managed to deliver strong third-quarter numbers so far, but one area has come up as a sticky point for some executives: workers’ compensation.

In calls with analysts, executives at The Hartford, Cincinnati Financial and WR Berkley faced pointed questions about loss ratios and pricing in that segment.

The focus on workers’ comp comes amid a tight labor market, with the US unemployment rate having remained at or just below 4 percent over the past six months. Employees are taking on more hours, adding to the risk of workplace

injury and an uptick in claims.

One analyst asked whether workers’ comp could be a “material problem” for The Hartford.

In the middle-market portion of The Hartford’s commercial book, increased workers’ comp claim frequency led the combined ratio to rise by 3.2 points to 100.2 percent.

“Although workers’ compensation 2018 frequency trends are elevated from expectation, it’s a modest change in trend that we’re addressing,” Christopher Swift, chairman and CEO, said during the call.

Workers’ comp also came up for Cincinnati Financial.

During the firm’s Q3 earnings call, CEO Steve Johnston said loss-cost trends are “being recognized”.

He also noted pressure on pricing because of the “aggressive marketplace”.

In another call, WR Berkley CEO Rob Berkley said there had been a “lot of chatter” around rating bureau actions moving rates down, referencing workers’ comp.

“At the same time, I would caution people not to overreact to this rate activity or rate action,” Berkley said.

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Does Bermuda have a future?

The payback pricing model equity-funded reinsurers have relied on is dead. What comes next?

Almost a year ago, many in the reinsurance market were confidently predicting 2018 would see the start of a broad correction in reinsurance pricing.

Though there has been some improvement, it is fair to say the market has been disappointed with the overall level of pricing response to 2017 losses.

After a year with more than \$100bn of cat losses, this brings the industry's through-the-cycle earnings power into sharp focus. It might be reasonable to ask investors to look past heavy cat years, but it's a harder sell to get them to look past lackluster peak earnings.

To understand the market's disappointment, some historical context is useful. Though the circa 10 percent price increase in 2018 was actually similar to the last "hardening" market in 2012, it is important to remember it is not just about the change in pricing but also the absolute value of pricing adequacy.

As the chart above right shows, industry pricing remains more than 25 percent below its previous peak – and substantially below prior troughs in 2005, 2008 and 2011.

There are two factors worth keeping in mind when considering the lack of pricing response in 2018. The first is the trailing loss experience in cat-exposed lines, particularly wind-exposed regions in the US.

Unlike recent large loss years this century, the 2017 events came after a long stretch of benign cat losses for coastal property in the US. Between 2004 and 2017, there were three high loss years – 2005, 2008 and 2011 – that subsequently generated increases in property cat pricing and ultimately returns that were substantially higher than in recent peak earnings years.

However, this peak earnings phenomenon appears to have broken down following loss events in 2011 and 2017, with operating returns for the group barely scraping into double digits.

A second and well-discussed factor is the growing role of alternative capital in reinsurance markets. Though alternative capital had been a factor in the market for more than a decade prior to 2011, that segment of the market grew by around 60 percent following the 2011 losses.

Essentially, with 2017 losses, we now have two data points on the market's response to large losses and weak trailing returns.

And what we have learned is that capital destruction is – on its own – not enough to create scarcity of capacity. The easy flow of new money into the alternative capital space has prevented this, unlike in prior years where a market reload involved slow-moving equity raises and new company formations.

Future of Bermuda

Considering all of the above, we see three feasible avenues regarding the future of the Bermudian (re)insurer.

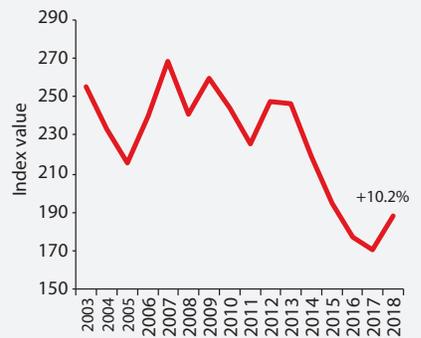
First, existing capital needs to be put to work in a smarter way, using multiple platforms and increasing access to business without needing to use extra capital.

Second, as the island has been diversifying into new lines of business it has also been reducing existing exposure to large catastrophe losses and earnings volatility. Theoretically over time this should translate into a lower cost of equity.

The third and perhaps most speculated path for Bermuda reinsurers is M&A. Over the past few years, Bermudian (re)insurers have been acquisition targets for global insurers looking to diversify. This year's flurry of deals fueled market skepticism over the independent future of the small to medium-sized Bermudian (re)insurer given the secular changes described above.

This trend is likely to continue as reinsurers struggle with high expenses

Guy Carpenter property cat RoL index

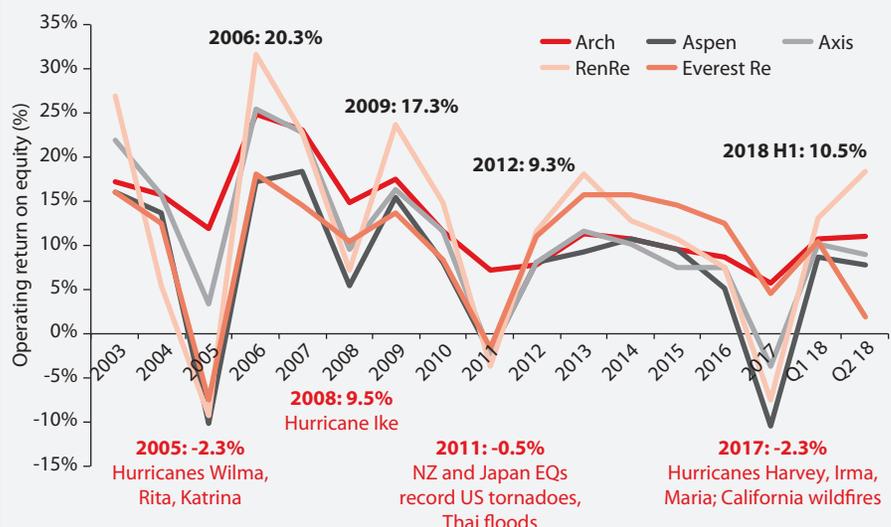


Source: Guy Carpenter, *The Insurance Insider*

versus lean competitors with low fixed costs at alternative capital asset managers. Essentially, the extra cost of underwriting and transaction expenses at traditional reinsurers is not showing enough outperformance relative to more passive strategies to justify the costs.

Moreover, earnings volatility and a trend towards a preference for diversified and stable earnings (versus lumpy but higher returns) gives global insurers a cost-of-capital advantage that allows them to add companies like Bermudians at a relatively low return on investment and as an income-diversifying play.

Bermuda: 15-year timeline of peaks and troughs



Sources: company statements, S&P Global, *The Insurance Insider*



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REINSURANCE

Big question: InsurTech

How do you see InsurTech impacting the reinsurance market in the short to medium term? Do you see AI becoming more of a factor in the reinsurance space?

Amy Maconachy, executive vice president, professional lines segment leader, Willis Re: I view InsurTech as having a predominantly indirect impact on the reinsurance market in the short term via ceding partners engaging in new technology. However, we are seeing increasing interest and engagement across all facets of the insurance industry, including reinsurance, and expect that InsurTech solutions will become integrated into many parts of our daily business. Yes, we do expect that AI will become a growing factor in our business and we seek to better analyze big data.

Brian Secrett, chief underwriting officer, Tokio Millennium Re: New technologies have already changed how reinsurance business is transacted and continues to facilitate greater innovation and open up fresh opportunities for reinsurers. The industry has started to develop solutions that enable shared data platforms via cloud technology and distributed ledgers, which will continue to lead to greater efficiencies for the market. The London market electronic placement platform PPL is a good example of this. In the future, all reinsurers will need to use this kind of technology to stay relevant and operate effectively in future markets.

Axel Freiboth, managing director, North America, Hannover Re: Reinsurance is business-to-business. We don't interact with consumers directly. Our clients do. However, that's where most InsurTech activity is happening at the moment. That leads us to believe that our clients will experience a more pronounced impact on the distribution side. New technologies such as Blockchain, artificial intelligence, data mining or machine learning will undoubtedly affect our industry. We are carefully observing these developments and we are already working with InsurTechs on several of these areas.

David Priebe, vice chairman, Guy Carpenter: As new sources of information create data that didn't exist before, advanced data mining techniques yield

new claims insights, and the digitally skilled iGeneration seeks on-demand, real-time service, companies must institutionalize innovative processes, platforms and strategies to increase operational flexibility and optimize returns. Artificial intelligence certainly has a growing place in reinsurance. Take an insurer with slow claim payments and poor claim audit scores. AI can help identify bottlenecks in traditional claims audits and loss drivers in claims records, helping the client improve audit scores and payment times.

Jean-Paul Conoscente, CEO of reinsurance, Scor Global P&C: The impact is likely to be negligible in the short term, since most InsurTech carriers and MGAs are still small, and most technologies are experimental. Over the medium term, reinsurers are hoping that investments made today pay off. Regarding AI, before it can be seriously deployed in reinsurance, we must improve the data quality coming in, which goes all the way back to the source. The most obvious applications of AI are for primary insurers and MGAs, while projects like the B3i Blockchain initiative will reduce frictional costs for insurers, reinsurers and brokers in transacting business.

Jerome Halgan, CEO, Arch Re: Over the short to medium term, its impact will be much greater to insurers as opposed to reinsurers. One of the (positive) impacts for reinsurers is some of these ventures are looking for (re)insurers to be passive capital that will not end up competing against them over time and therefore at times would prefer to get capital straight from reinsurers (through fronting arrangements, for example).

John Welch, CEO, North America, Axa XL: InsurTech in general is providing limited premium growth opportunities to the reinsurance industry. As the various start-ups that are focused on the disruption on the insurance distribution chain, gain traction, I believe the reinsurance industry will be an obvious capital provider as risk moves from the traditional models to the disruptors. It is certainly an area of great interest to the reinsurance community, but will not be expected to provide a great deal of revenue or profit in the medium term.

Jon Colello, president, Axis Re North America: InsurTech is starting to create new

and productive distribution opportunities for our partners, as well as more efficient ways of bringing products to the industry's end customer. It will take time but, ultimately, this will create demand for more reinsurance and provide more value to our clients.

Will investments in InsurTech/innovation become a priority for reinsurers in the near future? Will it be necessary for a reinsurer to have a competitive tech platform?

Secrett: If a reinsurer wants to remain competitive and relevant, it needs to operate in a capital-efficient and agile way. Having a competitive tech platform is a fundamental ingredient to success – a company needs to select and invest in its systems, processes, organizational set-up and cost-structure in a holistic way. A modern operating platform must be scaleable to adapt to changing reinsurance economics and to any new political, regulatory or tax-imposed change.

Freiboth: Reinsurers are quite natural partners to the personal lines InsurTechs, providing them with capacity and know-how. For reinsurers it will be important to stay up to date on all developments that also affect our cedants. As such, having the know-how will be essential to remain a valuable business partner.

Priebe: I think InsurTech investment and innovation already are priorities for reinsurers. But with roughly 150-200 new start-ups every year, it's challenging to find the right vendors. There is execution risk associated with licensing a new product or service, and nothing is more expensive than technology that doesn't work. That's why Guy Carpenter developed GC Genesis, our insurer-centric suite of InsurTech advisory services.

Conoscente: So far, most reinsurance relationships with start-up carriers have lost money from an underwriting perspective, and there have been few exits to provide a return-on-equity investments. Many insurance start-ups want to own their technology. They prefer a flexible, customized approach to the reinsurance relationship. The first wave of start-ups was willing to be tied-in to a reinsurer's technology platform, but in the past several months, the trade-offs to this approach have become clearer.

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Halgan: Some reinsurers are already investing heavily in this sector. However, this is with the focus of developing insurance products or revenues. For the pure-play reinsurer, the need of investing in InsurTech is not present today as it is not a necessity (yet) to transact or be successful in the marketplace. This said, things could change very quickly.

Welch: Without the type of service differentiation that flows out of the use of analytics and technology to benefit our clients, reinsurers will be unable to differentiate their offerings and will be relegated to following market status. Client companies value a reinsurer that can provide consultation on the rapidly changing technology landscape.

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

We believe investment in innovation and InsurTech is a high priority now so we can be prepared for the emerging risks associated with the digital era. It is critical for re/insurers to be leaders in the new transformations with data and analytics (i.e., remote sensing AI, predictive analytics, etc.) for risk assessment and mitigation. Re/insurers not only need to understand these new tools but also be the experts in functionality and applicability to best help and guide clients. InsurTech is not just about improving customer interaction but also the enhancement of risk assessment from these new data sources.

Is the traditional reinsurer becoming more adaptable to technological change? Is resistance to change still a major hurdle to overcome in the industry?

Maconachy: It seems that the desire to change and offer innovative solutions exists at most firms, the issue is more identification of the right products and then implementation of those products.

Secrett: Our industry must adapt to stay relevant to society. Any inefficient sector quickly becomes a target. Therefore the sector must be constantly working to ensure that we are always providing a valuable and comprehensive product to the real risks faced by society. Though there are clear signs our industry intends to meet the challenge and is already delivering innovative products to the market, developments need to increase.

Freiboth: Automation will increasingly play a role in our industry too and reinsurers have the same urgency to adapt to technological change and digitalization as primary insurers. Who would want to rule out that InsurTechs at some point would develop disrupting business models for reinsurance as well? Furthermore, we will have to maintain an efficient and effective organization in order to offer cutting-edge solutions to our cedants. As such, there is no way around adapting technological change.

Priebe: I wouldn't say (re)insurers are resisting change, but they're certainly at differing stages in their journey to incorporate it into operations and strategies. Depending on resources, some companies may simply be looking for an actionable roadmap to accelerate their existing innovation research. Others may be seeking the technical expertise to vet and implement practical platforms to drive growth. And some are looking for both, along with a greater ability to set the direction of future research.

Soria: I think reinsurers would adapt to any technological change rather quickly if it's demonstrably profitable in a meaningful and sustainable way. There haven't been any new major adoptions like the use of cat modeling or use of actuarial science that is now rooted in our business. The next technological improvement needs to be implementable and impactful to get buy-in from the market.

Conoscente: Many incumbents were founded by bold entrepreneurs who have since been there, done that, and paid losses on it. The biggest hurdle to change is not incumbents but the reality of a highly competitive market. That said, there is a long history of successful innovative incumbents winning in insurance and displacing those whose resistance to change is irrational, or who poorly execute change.

Welch: Generally, reinsurers have a light management structure, which allows them to be more nimble in the face of change. In addition, there is not a management team in the reinsurance industry that does not understand that driving costs out of the insurance value chain is essential to maintain profit margins in an extremely competitive environment. I view the slower pace of adoption as driven more by uncertainty in the value of technological investments as well as the timelines necessary to implement rather than simply a resistance to change.

Collelo: I believe that the industry has fully socialized that technological change is part of our future. Emerging technologies are changing the industry, and we have an opportunity to shape that change. The opportunity is to work with brokers and ultimately, clients, to make the reinsurance product experience more seamless from the front-end exchange of information, to the transaction itself, to claims payment.

Levy: Traditional reinsurers can no longer ignore the rapid evolution in this digital era. Resistance still exists but, it is largely driven by the legacy system and regulatory hurdles.

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Brian Secrett, chief underwriting officer, Tokio Millennium Re



John Welch, CEO, North America, Axa XL



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Closing the gap

Aon's Joe Monaghan reveals the growth potential of public-private partnerships

Aon has consistently highlighted the magnitude of the global protection gap. Have recent initiatives helped to increase the amount of (re)insurance protection being purchased by governments?

We are certainly trying to make further inroads in this area, as we see it as a significant growth opportunity for (re)insurers, as well as a great opportunity for governments to utilize high-quality capital to de-risk their own balance sheets and protect the taxpayer. To provide a platform to focus our ideas, Aon just hosted a government de-risking conference in Washington, where we had presentations from a number of different government agencies that are utilizing reinsurance capacity.

As an example, the Federal Emergency Management Agency (Fema) was quite bullish about the role of reinsurance and the private market in helping to create more stability in its long-term financing of risk. It just so happened that in 2017, which was the first year Fema bought reinsurance, Hurricane Harvey caused significant damage in the US and the agency made a full recovery on its policy. Hopefully recoveries aren't necessary every year, and Fema as well as other government agency buyers understand that.

But in the long term, Fema values private capital to reduce the impact of infrequent but severe loss years. The agency and reinsurers want to grow the partnership, and this is the kind of momentum and understanding that we want to take to other governmental and quasi-governmental organizations around the world.

The wildfires in California represent another very significant set of events where we could provide even greater protection in the future. The insurance considerations are complex, ranging from the impact on homeowners and businesses to utilities that are affected – especially if the source of the fire comes from limbs or trees coming into contact with transmission or distribution lines. But the industry can develop solutions.

Recently, utility providers in California have bought a lot of insurance that's backed up by reinsurance, but there's a lot more that can be done to help all of the constituents involved.

What is Aon doing specifically to target this protection gap?

In the UK, we have established a dedicated public-private enterprise practice led by my colleague Emma Karhan working alongside Jon Wood. This practice is partnering with teams such as the practice I lead in the US, and Aon Securities – Aon's investment banking division – to create a global and coordinated approach to de-risking government entities without jeopardizing their mission.

Government agencies across the world have similar challenges, but the particulars are important. It's necessary to have a local presence that really understands the environment, the specific constraints on what governments can do, and really focus on them as a client to find innovative solutions that bring private capital to help them further their mission.

If we can close the protection gap, it's great for (re)insurers, but more importantly it will be great for the individuals and businesses that are affected by these natural disasters.

Is the current plentiful capacity helping to achieve these goals?

I think there is a common view now that alternative capital has been largely integrated into our industry. It stands at around \$100bn, which is actually a significant portion of the total available reinsurance capital globally – and is even more significant in terms of the amount of capital allocated to writing property risk, which is principally where this new capital has been focused. This dynamic has caused a certain amount of pricing pressure for (re)insurers, and we don't see that situation changing to any great extent as we approach the January renewals. Florence, and more recently Michael, are significant events for the people affected, and certainly insurance has played an important role there, but the losses ceded to the reinsurance market were not very significant.

Florence and Harvey highlighted that we continue to have significant gaps in terms of insured versus economic losses. That's really an area of opportunity for the industry to find innovative ways to insure these un- or under-insured risks, not just flood but also earthquake and other perils.

Closing this gap will help reduce the cost of insuring all natural catastrophe risk by broadening and diversifying the pool of insureds.

And how about the Florida renewals, given the impact of recent hurricanes?

Following on from Irma, by the time 2018's Florida renewals came around in June and July there was a very orderly market.

The fact we've had a couple years with named storms in Florida doesn't mean that (re)insurer confidence to deploy capital in the state should be diminished. If anything, these kinds of events highlight the resiliency of the marketplace, and I don't anticipate Michael having any significant impact in terms of reinsurance capacity available for Florida risk. It certainly will not impact other areas, perils or lines of business.

But it is always important to understand the individual circumstances each client faces at their renewal. We often get caught up in generalizations of where industry pricing will go, but brokers in particular need to provide clients tailored advice given the circumstances surrounding their portfolio, exposure changes and current pricing. We don't focus on whether the market is down 10 percent or up 5 percent. Those are just averages of outcomes. We focus on bringing the scale of our global platform to benefit our clients locally through market perspective and analytics that give our brokers the tools to differentiate each client to achieve their best possible outcome in any market.



Joe Monaghan
Executive Managing Director, Aon

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New InsurTech offers parametric coverage for California earthquakes

A new Oakland, California-based InsurTech firm aims to protect Golden State residents from the looming threat of earthquakes.

Jumpstart provides parametric insurance to California homeowners and renters for instances of seismic activity.

Coverage costs in the range of \$20 to \$30 per month based on where the policyholder lives in California.

Jumpstart's algorithm determines when policyholders in certain areas are affected by earthquakes. The company sends a text to homeowners and renters to verify whether their property was impacted.

Once a policyholder replies to the text, Jumpstart can deposit \$10,000 into their bank account.

"It's meant to address disruption to life, not necessarily breakage of property," said Kate Stillwell, Jumpstart's founder and CEO. "It's those unanticipated expenses from an earthquake – that is what Jumpstart is meant to cover."

Experts warn that California's next "big one" could come at any moment. The California Earthquake Authority (CEA) projects that a quake measuring magnitude 6.7 or above will almost certainly rattle the state within the next 30 years.

But as of 31 August 2018, the CEA insured just over 1 million California households –

roughly 7 percent of homes statewide.

The CEA and its participating insurers comprise almost 80 percent of the residential earthquake insurance market.

Stillwell, a structural engineer by trade, said the idea for Jumpstart began brewing after she saw the devastation from Hurricane Katrina in 2005.

"Structural engineering is only one leg of the stool, and if the other legs are missing we aren't doing our job," Stillwell said.

She began working on the product full-time in May 2015 and was set to unveil Jumpstart at the InsureTech Connect (ITC) 2017 conference in Las Vegas.

The debut was intended as a major event. Stillwell had purchased a trailer outfitted with hydraulic actuators for the occasion. The inside was decorated like a living room, and conference attendees could enter the "room" and experience a simulated earthquake.

But just days before the event, Jumpstart lost its capital provider.

"That was a very tough period for the employees of the company," said Bill Keogh, an adviser to Jumpstart. "We got to a point where it just didn't seem to make sense."

"The tenacity and passion that I saw in Kate to make sure that this will come to fruition – where other people might have been discouraged or given up, she didn't. She

persevered," Keogh said.

Even though she had lost her backing, Stillwell and the Jumpstart team hitched the trailer to a pickup truck and traveled to ITC anyway.

It was there she connected with Will Thorne, the innovation leader for The Channel Syndicate 2015 at Lloyd's, who tweeted that the trailer was the "best thing happening at ITC that year", Stillwell recalled.

After several meetings, Stillwell secured backing from the Lloyd's syndicate. She also formed a partnership with wholesale broker AmWins.

Jumpstart officially launched on 2 October, at ITC 2018.

Within 48 hours of Jumpstart's release, the website received 350 unique visitors who went online to get a quote, Stillwell said. A double-digit percentage converted to policy buyers, and the number continues to rise, she said.

Jumpstart's first goal is to get a "critical mass of people in California covered" so that when the next big one strikes, people will have the funds to get back on their feet, she said.

"There is this virtuous cycle that economic stimulus can create. If there's enough money in the local economy, people will make the choice to stay, to tough it out and participate in rebuilding their community," she added.

Fintech research group names top 100 InsurTechs

Research group FinTech Global has compiled a list of the top 100 InsurTechs around the world, including 39 US-based companies and 20 from the UK.

The InsurTech 100, selected by a panel of experts, highlights leaders in shaping the nebulous space at the nexus of the insurance industry and new technologies.

"These are the companies every leader in the insurance industry needs to know about as they consider and develop their digital transformation strategies," the research group said in its inaugural report.

Companies were judged on criteria such as leadership within their industry niche, capital and growth, technological innovation, and capacity to streamline or fundamentally disrupt their market.

While the panel examined companies worldwide, the highest concentration of top InsurTechs came from the US.

Leading innovators such as on-demand insurers Root and Trov, and insurance sales platform Slice all made the list.

Several newcomers were also included. For example, Bamboo, the US-based home, property and casualty underwriting tool, made the cut even though it was launched just this year.

"Founded by insurance industry veterans, Bamboo is disrupting the industry across multiple areas of the value chain," the report said. "Their advocacy model provides transparency, and an easy, intuitive user experience for agents and policyholders."

Notably absent from the list was Lemonade, a company which has become

near-synonymous with InsurTech. The tech-powered insurer has experienced an onslaught of losses over the past year.

InsurTech nonetheless continues to attract more capital.

More than \$2.56bn was invested in insurance technology globally during the first three quarters of 2018 alone, according to a report from CB Insights' Matthew Wong.

FinTech Global said the list will help provide clarity in a rapidly growing InsurTech landscape.

"There's plenty of interest and hype about InsurTech in the marketplace, but much of it is superficial, incoherent or self-serving and fails the needs of decision-makers in incumbent insurance and reinsurance firms who require independent facts, figures and analysis," FinTech Global said.



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Thinking more broadly

The abundance of capital is not limited to reinsurance

Here at PCI and other industry conferences, there seems to be a consistent topic of discussion – the abundance of third-party and reinsurance industry capital and its impact on reinsurance pricing.

In less than a decade, third-party capital has mushroomed from \$15bn in 2008 to \$100bn in 2017 and now represents ~16 percent of reinsurance industry capital.

This continually growing supply of capital, coupled with flat demand, has put downward pressure on both pricing and reinsurer returns. Not only has the influx of capital lowered reinsurance rates and returns, it has to some degree driven the sale of reinsurers themselves, evidenced by the recent sales of Validus to AIG and XL Catlin to Axa and the announced sales of Aspen to Apollo and Chaucer to China Re.

TigerRisk Capital Markets & Advisory has one of the most experienced insurance-focused investment banking teams in the industry and recognizes that the surfeit of capital is not limited to reinsurance but exists in many broader arenas within the (re)insurance and global financial industries. Partially driving this abundance of capital are the global central banks, which have injected an unprecedented amount of liquidity into the financial markets. Global liquidity, as measured by the total assets of the major central banks, has steadily risen to ~\$16.5tn, which is nearly double the level 10 years ago.

The same supply/demand imbalance in (re)insurance pricing can be seen across the insurance industry as a whole and is increasing valuations and/or reducing pricing and expected investor returns broadly.

M&A/(re)insurance carrier landscape

Capital in the US P&C industry achieved an all-time high of \$765bn last year – a figure which represents 0.73x 2017 net premiums. US P&C insurer capital has grown 65 percent over the past 10 years while net premiums written grew only 27 percent in the same period. This creation of excess capital has left (re)insurance carriers looking for opportunities to profitably deploy it and many have turned to M&A.

All told, there were 52 US P&C carrier deals recorded in 2017 with a total deal

value of \$4.8bn. The frenzied activity has continued in 2018 with several high-profile transactions announced recently by insurance carriers, including AIG's September 2018 announced acquisition of Glatfelter Insurance Group, a specialty broker and program manager, The Hartford's announced acquisition of specialty insurer The Navigators Group and Markel's industry-shaking announced acquisition of Nephila Holdings, an ILS management company.

Our database of P&C underwriter transactions shows the average price to tangible book value multiple paid in 2017 is the highest since at least 2006. It remains to be seen whether these higher valuation transactions will lead to decreased returns for buyers, but the landscape remains highly competitive.

M&A/private equity landscape

Private equity firms have been focused on the insurance space, particularly insurance distribution and services companies, for decades and recent trends show continued inflows of private equity capital, which are partly driving continued increases in purchase price multiples.

With over 8,000 active private equity firms, private equity reached a record high of \$3.06tn in assets under management in 2017, up 20 percent from 2016. Meanwhile, dry powder reached a record \$1.7tn. According to a recent report by Bain Capital, private equity funds have attracted more capital since 2013 than during any other five-year period in history.

Given the abundance of dry powder available to private equity investors, it is not surprising to see an increase in corresponding purchase price multiples. Across all industries, buyout purchase price multiples rose to a new 12-year+ high in 2017 with the average Ebitda purchase price multiple for US leveraged buyout transactions increasing to 11.2x versus 10.7x in 2016 and 9.8x in 2015.

InsurTech/venture-capital landscape

InsurTech is a relatively new area of the insurance industry but is exhibiting similar dynamics of increased investors and abundant capital driving higher valuations.

The number of venture capital investors in InsurTech increased to over 200 in 2017,

which is more than four times the number of investors than in 2012. The number of InsurTech deals in 2017 rose 39 percent from the year before and InsurTech deals reached a new high in the first quarter of 2018 with 66 deals completed with an aggregate value of \$724mn. That represents a 155 percent increase over the same period in 2017.

Not surprisingly, as the amount of capital and number of investors in the industry has increased, we have seen robust valuations of these early-stage InsurTech companies, with several being valued at over 15x annual premiums. The jury is still out on who the winners and losers of this activity will be.

How to navigate this environment?

This continued cash-rich environment has introduced fresh energy into the insurance space and disrupted traditional thinking. What should you be doing today to ensure your firm keeps up? First, stay ahead of the curve, understand the short-, medium- and long-range implications of the current abundance of industry capital.

Buyers and investors should be prudent to avoid the temptation of deploying capital if return thresholds will not be met and focus on remaining disciplined. For sellers and issuers, now may be a good time. Insurance companies should raise capital when they can, not when they need to. But before you do anything, obtain some objective advice. TigerRisk is the leading risk, capital and strategic adviser to the global insurance and reinsurance industries.



Jarad Madea
Partner, TigerRisk



BUILT TO LAST

FUNDAMENTALS AT WORK

Being responsive to clients' needs, providing exceptional service, having a well-defined risk appetite and maintaining a disciplined underwriting strategy are a few of our guiding principles. These help define who we are and what we offer. They also explain why we are a dependable business partner. It's why you can count on us to be here year after year. **OdysseyRe. Built to Last.**

Driving the market forward

The Insurance Insider caught up with Odyssey Group president and CEO Brian Young for his perspective on what we can expect in the coming months and the factors that will shape the sector

With the lack of price increases post-Harvey, Irma and Maria (HIM) and the 2018 hurricane season upon us, what is your take on the cat market?

The pricing environment for cat business showed little sign of meaningful recovery despite more than \$100bn in losses in 2017 and significant rate cuts in recent years. While the lack of movement is disappointing, it's frankly not surprising given the abundance of capital in the market and the expanding risk appetites of many (re)insurers. We've seen the most corrective action in the Caribbean as more than 20 years of regional industry profits were wiped out from the combined effects of Irma and Maria. In the US, while the cumulative impact of HIM and the California wildfires was substantial, rate increases were more modest than they otherwise could have been for two reasons: most reinsurers are still holding sizeable profit balances since Katrina, Rita and Wilma in 2005, and the rolling multi-year structures of many US cat placements had a dampening effect on rate increases. Elsewhere around the world, pricing was largely flat. While this was frustrating following five years of heavy rate reductions, at least prices didn't fall further as they were expected to in the absence of any losses in 2017.

Beyond property cat, what was the impact on other lines?

The hull and cargo market has been hit hard and prices are rising in this sector. Rates are increasing in the health sector due to poor results and rising medical inflation. Select motor markets are experiencing price corrections as a result of increased loss activity. In other lines, pricing and commission terms have improved modestly, but not enough to move the needle all that much.

Casualty business remains very challenging after more than a decade of intense competition. Prices more than halved over that period, while coverages expanded and commission levels rose by 5 percent to 7.5 percent. Casualty is the sector in greatest need of a correction; without it, we are heading towards another debacle similar to what the market experienced at the turn of the century.

Are there any bright spots in the market?

In a globally diverse market there are pockets of opportunity in many parts of the world – you just need the network and the capability to take advantage of them. Odyssey Group fortunately has both of these. Last year we grew our top line by 18 percent, and through the first six months of 2018 our gross premiums written rose by 25 percent. We have seen profitable growth in crop, health, credit, property quota share, cyber and niche segments of the casualty market, but perhaps the largest area of expansion for us has come from our motor business. There has been considerable dislocation in the commercial and non-standard motor sectors in the US and in other motor markets around the world. This has created opportunity for us on the direct side, through our US insurance division Hudson, as well as on the reinsurance side for OdysseyRe in the US, UK and Europe, Middle East and Africa.

“The largest area of expansion for us has come from our motor business”

What are your expectations at the next 1 January renewal?

I expect incremental improvement in insurance pricing globally. We have seen an uplift in pricing in many markets in 2018 and there is too much pressure on underwriters' bottom line for it not to continue. The degree of improvement will vary by class, territory and results, but there is no doubt in my mind that we are in a rising insurance market. The notable exception is workers' compensation in the US.

The last few months have been noisy from a property catastrophe perspective. Hurricane Florence is not likely to impact reinsurers materially, but Typhoon Jebi and Hurricane Michael, among others, almost certainly will. Is it enough to elevate global cat pricing? Probably not, but I wouldn't expect rates to fall either. Moreover, where we have seen losses, I would expect to see increases and that includes the multi-year elements of US placements renewing in 2019 that were affected by 2017 events.

Casualty placements have met increasing resistance from reinsurers in 2018, and this will likely continue as the tail starts to wag on the more recent accident years. Consequently, I would expect to see improvement in rates, as well as another point or two reduction in commission terms in 2019.

Why, after more than 20 years, have you rebranded from OdysseyRe to the Odyssey Group?

When Fairfax Financial Holdings Limited formed OdysseyRe more than two decades ago, we were exclusively a reinsurance business. Today, the Odyssey Group writes more than \$1.5bn of insurance business through our Hudson and Newline platforms. By rebranding, we are clarifying that we are more than just a reinsurance company. We chose Odyssey Group as our new corporate identity so we can more easily demonstrate the diversity and power of our three franchises: OdysseyRe, Hudson and Newline. OdysseyRe is our global reinsurance business, Hudson Insurance Group is our US insurance division and Newline Group is our international casualty insurance arm and Lloyd's vehicle. While we will continue to convey the unique qualities and capabilities of each of our three businesses separately, we think it is important for our clients and business partners to appreciate that the value of Odyssey Group is greater than the sum of its parts.



Brian Young
President and CEO, Odyssey Group



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Strengthening tomorrow

Recent events have confirmed, now more than ever, the need for resilience. Resilience in our balance sheet. Resilience in our relationships and commitments. Resilience in the models that help us construct a clearer picture of the future. Resilience for today and the many tomorrows to come.

How do you spell tomorrow? **TMR.**

