Autumn 2018

THE INSURANCE Insider

MONTE CARLO ROUNDTABLE 2018

Keep calm and carry on

Despite HIM loss creep and the threat of Hurricane Florence, Monte Carlo's finest seem sanguine about the continuing soft market

Insight and Intelligence on the London and International (Re)insurance Markets
www.insuranceinsider.com

Calm before the storm?

You can't beat the Monte Carlo *Rendez-Vous*!

Look to the column on your right and you will see a roll-call of the great and the good in the global reinsurance sector.

In many ways, *The Insurance Insider* Roundtable has become the definitive event of the gathering.

In previous years, the discussions that have taken place around this table, tucked away in the depths of the Fairmont Hotel, have set the tone for the whole meeting, and even on occasion changed industry practice.

It's always a lively affair. In 2010 a certain Mr Ajit Jain gave us a rare public audience and we had an interesting debate about the validity of low-tax offshore domiciles. Of course, there was no mention of the facilitisation of the market back then.

Meanwhile, in 2011, a heated disagreement between a prominent Lloyd's CEO and a senior broker changed the way reinsurance intermediaries communicated their future price expectations.

In 2012, the room was gripped by real fear as the Eurozone crisis threatened to claim one of the PIIGS' scalps.

Optimism returned in 2013 as we saw global growth recover and we allowed ourselves to dream of a return to real interest rates for the first time in five years.

The year 2014 saw us worry about an emerging ILS challenge, while 2015 was curiously benign and surreally tranquil.

2016 was the same. Tech disruption seemed to be the only major worry because no one could bring themselves to mention the ultra-soft market any more.

There was a change last year. We'd been whacked by Harvey and a certain Floridian storm called Irma had only landed on the Gulf Coast less than 48 hours before we sat down, but it was still too soon for opinions to be formed. The room was nervy. We didn't know we still had Maria to come.

A year later and Florence was waiting to land and Michael wasn't anywhere near conception, but heads were cooler.

We had a really mature and wide-ranging discussion – in fact, one of the best for many years.

We talked market discipline, the Lloyd's crackdown, the change nature of the industry and distribution, the privatisation of risk, cyber and other emerging classes.

The tone was calm, measured and good-natured. There was a palpable sense that the market had found a way of coping with the fact that it is bumping along the bottom of a stubborn pricing cycle and prospective returns are uninviting.

There were no fractious exchanges between brokers and underwriters, nor accusations levelled against nefarious market bandits, either within the room or without.

We had found a quiet and lucid moment amid the noise and distraction of the *Rendez-Vous*.

Will we one day look back and see it as a distracting calm before a destructive storm, or will we feel the participants had their fingers on the pulse and were absolutely masters of their own destinies?

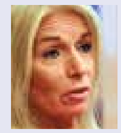
You can make up your own mind. It's all here – you won't read a truer reflection of the state of the market anywhere else.

Until next time.

Mark Geoghegan
Managing Director,
The Insurance Insider

Roundtable participants

Steve Arora
CEO, AXIS Reinsurance



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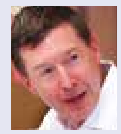
Vice Chairman, Global Strategic Advisory, Guy Carpenter & Co. Ltd



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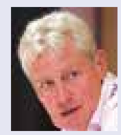
CEO, Axa XL



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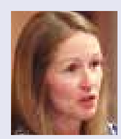
Global Chairman, Willis Re

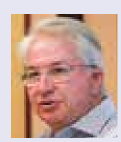
Andy Marcell
CEO, Reinsurance Solutions, Aon

Adrian Morgan
EVP and Head of AdvantageGo at NIIT Technologies



Kathleen Reardon
CEO, Hamilton Re

David Reeves
Group CEO, Barbican Insurance Group



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Monte Carlo
Roundtable 2018

Mark Geoghegan
Welcome to *The Insurance Insider* Monte Carlo Roundtable 2018. There was a Swiss Re Sigma study out on Sunday morning that said underwriting is not adequately priced globally and carriers are lucky if they earn their cost of capital. Discipline is being forcibly imposed in the Lloyd's market, but are carriers likely to impose this discipline on themselves?

Ulrich Wallin
There has been no lack of losses, at least in the last couple of years, and it has resulted in discipline in the market because we saw a halt in rate decreases for the most part. Admittedly, we had discounted rates for almost five years in a row. It didn't make things any better and even the increases we got last year only brought us back to the level, say, of 2016. So the market is still very competitive, and it will probably continue to be so, but there is not a lot of room to discount the rate much further if you want to earn your cost of capital, or even have sufficient premium to pay the losses.

Greg Hendrick
With cat business now, theoretical prices are irrelevant. The price of cat is the price the capital will ask for and it's very low. That takes away what was, five years ago, our best class of business and is now our worst class of business – in terms of holding a net return on your capital. And it puts pressure on all the other lines to make their own way. We're seeing it on the insurance side – you're getting about 3 or 4 points on casualty. And we're seeing it on the reinsurance side and that will continue. So is that a hard market turn? No, it's not, but there's definitely recognition that there's not enough money in the system.

"Cost has become one of the major differentiators for our industry in the last few years**"**

Stephan Ruoff

Mark Geoghegan
At Willis Re's press conference earlier, Andrew Newman said that 20 years ago what we didn't have was sophisticated modelling and understanding of what our bottom-line price should be. Has that made a big difference?

Stephan Ruoff
We're living in a functional, very efficient market at this stage. It has become very transparent for the last few years. Everyone knows the RoE [return on equity] of everyone else, so you can make comparisons – and that's a game-changer. Hence, the cost of capital has become a big driver, but when it is no longer possible to make a distinction there, where then? In my view, there are two ways, through underwriting selections, portfolio management and cost. Cost has become one of the major differentiators for our industry in the last few years. When you look around this table, there's a clear distinction between cost ratios, ranging from 3 percent to 10 percent plus. With that range of costs, you can make a difference in the return metric.

Jed Rhoads
It depends upon what line of business we are talking about. There's a sort of artificial floor in the property cat side because of the models that support it. But there's still a great deal of subjectivity that goes into all other casualty and specialty lines, which make up a meaningful chunk of the market. And there is no single model that underpins a certain pricing point there. As an industry, we don't alter our behaviour until losses from the past creep up on us to the point where we can no longer ignore it. In that regard, I don't think the industry is showing much discipline yet. And the casualty reinsurance market is arguably the softest area within the industry right now.

Vicky Carter
Everybody thinks this is a very cyclical business and the focus has been on the cat losses, but one of the things that has caused a lot of concern is the creep of the attritional losses. The key to everything today is putting your capital to use as effectively as you can and being able to manipulate your funds more quickly. People have to adapt to manoeuvring around where the best opportunities for the capital to be put to use are, and taking into account what's happened on the attritional side as well.

Steve Arora
There is a belief among some in the industry that the class supply and demand price equilibrium, which creates the cycle, is what governs the industry. It's much more complex than that, and I personally believe the cycle is not dead. We'll see fluctuations in prices over time, but not in the same fashion that we saw before.

Ultimately, it comes down to the capital in the industry. There's a lot of raw capital and it isn't going to leave any time soon. Clients want enhanced capital with technical underwriting, superior claims service and relationships, but there isn't room for as many enhanced capital players as there are today.

Kathleen Reardon
Going back to the cycle: if you look at Lloyd's, they're having to force people to look at their decile classes or underperforming classes. There are some classes where not one syndicate made money and we're still talking about whether there's a floor?

You need to have a higher authority come in and force you to get some underwriting discipline, which should take some people out of the classes, and should get us back to a cycle of some sort.

Paddy Jago
Three or four years ago a lot of the traditional reinsurers were bemoaning the fact that all this alternative capital was going to eat their lunch – now some of them are feeding that capital their lunch instead, by offering them sidecars or other facilities. Going back to what Kathleen said, I have a concern that Lloyd's is taking rather a broad-brush approach on these underperforming lines of business. There are some syndicates that make money on them, and for others, they are a disaster.

As a consequence of that, some of those syndicates who have genuine expertise and consistently generate profit in what is declared as an underperforming line for Lloyd's overall, may be significantly penalised as a consequence. That's not good for the franchise.

David Reeves
I think Lloyd's strikes the right balance between iron hand and velvet glove. I've had very good meetings with them this summer and, in my opinion, they're being reasonable and pragmatic in their approach. This isn't a punitive exercise and there are no portable gallows. As a market, we probably need another year to work it all through and get back on track. We are going to be in a very strong position by the end of 2019 and good to go for 2020.

Mark Geoghegan
While we're on that subject, what are the chances of a mandate for electronic trading and what kind of benefit will the industry get out of that?

David Reeves
Lloyd's are taking a strong stance on that. Now that PPL league tables are being made public, you can see quite clearly who is taking it seriously. We are still in the early stages of modernisation and, as long as we keep the momentum going, it will put us in a very good position.

"I personally believe the cycle is not dead. We'll see fluctuations in prices over time, but not in the same fashion that we saw before"

Steve Arora

Adrian Morgan
It certainly feels as if there is more positivity and support for the market's modernisation efforts, than ever before.

David Reeves
Yes, there is consensus across the market that something must be done. Previously, with other modernisation attempts, you had a lot of naysayers who either didn't want to pay or wanted to do their own thing. Now there's greater clarity and consistency across the market in terms of our thinking around technology. There is a market-wide acceptance that this has to happen and we will get left behind if we don't modernise.

Mark Geoghegan
Stephan mentioned expenses – they are much higher up the agenda than they have been for a long time. Do you think there's a wider role for technology there?

Andy Marcell
Everyone is spending a large amount of money on technology, trying to find efficiency, whether it is in the operational part of the business or distribution or placement. It will drive down costs, it will increase efficiency, and the first thing that it's done is attract more capital to the market, in the hope that the distribution chain can become compressed and more effective. But obviously, there are challenges and the larger question for Lloyd's is what type of business and what position in the market they want to take. There's a move towards a standard business model, which is increasingly commoditised, so some degree of specialisation and flexibility is more important to them than efficiency around placement.

"The MGA model is evolving; it's not necessarily seen as giving the pen away these days. There's usually some sort of technology or some additional insights"

Kathleen Reardon

Greg Hendrick
I don't think operational expenses are the problem in reinsurance. If you're an underwriter, the two biggest costs that everyone has are their people and brokers. Lloyd's is the epitome of that because, by the time it gets to Lloyd's, there's the placing broker, there's the Lloyd's broker – there's a lot coming out of the system.

The core issue to me is still the cost of people, and maybe technology reduces the workforce over time. And the other is how do you get enough cost out of the system because if you follow a dollar premium, maybe 40 cents in the dollar goes out to stuff that doesn't pay claims. There are not many businesses that look like that.

Adrian Morgan
As a technology vendor, we've seen a big shift in investment in technology over the last five years.

Rather than investing in core system replacement and the big transformation programmes, insurers appear to be focusing on technologies that support the underwriting decision process and drive efficiencies throughout the business.

Kathleen Reardon
Despite this focus on expenses, we're spending more, investing in technology, so the expense side of things isn't coming down any time soon.

What we're hoping is that the efficiencies we're putting in place will help us underwrite and risk-select better, which should bring the loss side down.

I agree with Greg. We certainly can make some efficiencies on the operations side where we have some duplicative efforts, but we're also investing for the future, to be better at servicing our clients.

Steve Arora
As an industry, we focus on the expense aspect quite a bit but the bigger question we should be asking ourselves is how can we use technology more effectively to get sharper insights for our expected losses and to do more business?

There are a lot of companies that have explored the hype of technology and they say "How can I apply this to my business?" rather than asking the more important questions, which are, "What is my business strategy?" and "Which one of those ideas is going to contribute to either increasing the revenue, decreasing the expected loss or decreasing expenses?" Ideally, you want to find technology solutions that can contribute to all three, while at the same time helping you bring added value and enhanced insights to your customers.

Stephan Ruoff
I don't fully agree with Greg's point. The largest expenses are salary costs. Whether you have 50 or 100 employees, will not make a big difference. Only when you start automating processes, will you be able to make a true difference on the cost side.

These savings will reduce your operational costs and you can start reinvesting more funds into your company. But I don't agree that we're not able to take out costs by looking at both the transactional and operational sides. This is what you've seen at Lloyd's. When I look at my P&L, and see how many staff I have in supporting roles, I'm shocked because I've got probably 50-60 percent of them on the operational transactional side.

Greg Hendrick
But not 50-60 percent of cost though. In the end, it's probably 10-20 percent of the dollars; that's my point. The bulk of your dollars are going to the people you rightly want more of.

Stephan Ruoff
Last year I was a bit critical of the brokers because there are so many platforms – there is a Willis platform, an Aon platform, a GC platform – and as a reinsurer you have to deal with all of these platforms. This is not efficient. Same goes for the Lloyd's platform. There you transact risk on I don't know how many different platforms, each platform needs its own people, which is completely inefficient. Once our industry can automate these platforms, then cost will come down noticeably.

Adrian Morgan
And you have multiple platforms internally as well, adding to the complexity.

Ulrich Wallin
You have to look at it end to end. At Hannover Re, we have half a billion in expenses and the EBIT is about 1.5-1.6 billion. So for us, expenses are not insignificant. We are used to thinking about underwriting, accounting, risk management, compliance, and then claims and cash movement at the end.

What's important is that you understand what data you are using in your company, how you get it and how you use the data in a way that you can follow your tasks throughout the entire value chain. Only if you think like that will you be able to automate the business and take out expenses.

Vicky Carter
That's probably one of the reasons why you've seen such an explosion of the MGA model, where some of the very efficient ones are running all their processing through automation. It's the entire chain from quoting, buying and processing in a very effective cost structure.

Kathleen Reardon
I agree – and much of the time you're bringing it into a legacy environment which is outdated and inefficient. If you keep an MGA separate from an existing system, it can work. The venture capitalists that are investing in these MGAs don't want an MGA in a traditional model.

Mark Geoghegan
David, you've been a big mover in incubating some of the MGAs. Are we hitting a peak? Has there been a bit of an MGA bubble?

David Reeves
It's still going strong. When we started out, we thought Castel might have four or five underwriting cells. We currently have 15 and a very long queue of people wanting to join the club. We're trying to build a model where we have around 20 cells under our wing at any given time. I think there is still a lot of room for growth.

Paddy Jago
If you go back to the 1970s and 1980s, the halls of Lloyd's were populated with skeletons of people with delegated authorities who had picked the wrong partner – and we could inevitably have a repeat of that. With all the MGAs that are popping up, there are probably a fair few of them that are going to surprise the naïve investor, the naïve capital, by fundamentally getting it wrong.

Greg Hendrick
Does it take cost out of the system? In the end, if you're a provider of underwriting capital, does having an MGA in the chain reduce your overall cost of op-ex plus commission, which is your total expense going out the door? I don't know David's model but the generic MGA ends up adding cost. Kathleen is absolutely right; people don't want to come and sit in a boring old insurance company sometimes because they can take more money out of the system by being an MGA.

Kathleen Reardon
The MGA model is evolving; it's not necessarily seen as giving the pen away these days. There's usually some sort of technology or a unique angle with respect to underwriting, some additional insights.

Mark Geoghegan
A common thread running through this discussion seems to be the slightly leaner capital base, leading towards more ILS. Does anyone have a view on how far the ultimate capital owners will allow the industry to go? How little skin in the game can the industry have? What is the right balance?

Stephan Ruoff
The balance is given by regulation. There are hundreds of different capital ratios around the world and then you have the rating agencies. The question is how efficient can you make risk retention and are you building portfolios that remunerate the risks that you retain on the capital you are willing to deploy. We're still competing to some extent on rating and on Solvency II ratios. So, ironically, when you look at that development, people seem to say I need more capital than I can deploy and remunerate. On the other side, with everyone driving towards more efficiency, ILS is a good sign, where you see the cost of capital coming down. Therefore, I don't believe we are going for less capital in the industry.

Andy Marcell
I broadly agree with what you said but I don't know what less capital in the industry really means. Just talking about reinsurance, and narrowing it down to property cat, what is the value proposition of the counterparty as a reinsurer? At some point, those reinsurers need to be providing advice and maybe it's rated paper. To the extent that they just become MGAs, i.e. the ultimate 'capital lite', what is the value of the reinsurer? At that point they're almost bringing themselves out of the chain in a drive towards efficiency. For us, the competition when it comes to distributing risk is around advice. Most clients value their interactions with reinsurers and the advice they get.

Jed Rhoads
There is some bifurcation of the market going on right now. You have large growth companies and you have lean

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Paddy Jago

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Adrian Morgan

operators. That divide is going to continue to expand and people are going to end up in one camp or the other, but getting caught in the middle is probably not a good place to be.

There's also shorter duration capital and capital that sticks around for a very long time. Those reinsurers who are going to be more effective and the most profitable are the ones who ultimately end up using some combination of the two and delivering that in a product to customers, where the customers can realise the cost advantage on their balance sheet.

Steve Arora
As an industry, I believe we should be more bullish on the long term than we are. The market is strongly capitalised and there are going to be some scenarios where we don't need the public sector to bail out the private sector.

While there exists a tough RoE challenge for everyone in the market, we should celebrate the fact that the private sector is strong. In terms of long-term trends: the economy is growing, which is going to translate into risk; protection gaps are growing and none of us can solve that on our own; and we all know that the geopolitical environment creates massive uncertainty. So there's plenty of risk for us to try and access – and we can be an enabler to technological development.

Adrian Morgan
But will technology actually reduce the amount of ceded business? When you look at technology's ability to predict and prevent, and you're starting to mitigate risk, the amount of business that is ceded could start to reduce. Do we think that will be the case?

Vicky Carter
No, I think it will lead to more opportunity. If you look at the whole world of InsurTech and technology, it's all about data analytics and technology. What that's opening up is additional risks – so it's seeing opportunities in longevity, trends in public sector and so on. People are far too pessimistic about the future. They think that this is all doom and gloom, the rates are depressed, capital is forcing us to diversify into multiple classes. But there is so much opportunity.

Jed Rhoads
I view it like a balloon. It will shrink in some areas and grow in others; it's a very fluid industry. But technology definitely helps some people to either retain or cede more risk, and understand that risk a little bit better. We're continuing to see big growth in new areas. Ten years ago, we weren't talking about mortgage liability, flood insurance, cyber. There are lots of new risks out there.

Vicky Carter
If you look at the whole world of cyber too, that is an evolving topic. Historically, cyber has been pushed into casualty classes but, as time develops, you will see it spin out. There's a huge amount of additional risk that can be brought into the cyber space alone.

If you look at where technology is going, that's going to be the biggest challenge. And then you witness what's going on in the world of opioids in the US – that's another major threat to this industry. So we shouldn't be pessimistic about product. What we have to be better at is creating new product around those evolving risks.

Paddy Jago
If you think of any class of business, you need a willing buyer and a willing seller, and on cyber, I don't think we're there yet. If you look at nat cat, when people talk about a $150bn event, everybody understands that and says there's about $30bn-$40bn annual of premium involved.

If you look at cyber, and everyone agrees there could also be a $150bn event, but there's only about $3bn worth of premium associated with that – so there's a mismatch somewhere. Unlike hurricanes, cyber doesn't obey time and space. It can happen at any time, anywhere and yet we seem as an industry unable to demonstrate that this is a real threat.

Vicky Carter
Do you think anybody really understands cyber entirely?

Paddy Jago
Actually, at the back end of the chain, reinsurers have probably done more work on it and understand the risk a bit better. At the front end of the chain, the original client, if you go into see somebody and start trying to explain to them that their company could be laid bare by a hacking attack, it often just doesn't seem to resonate. Maybe that's our fault. Hopefully we don't need a $150bn cyber event to change their minds.

Ulrich Wallin
You have to explain what your cyber policy covers in detail; that's where the difficulty starts. Because cyber covers

are not easy to understand. It's not that tomorrow my computer burns and then you get me a new one. If you buy a commercial cyber policy, the buying process is not that easy because the policies are all manuscript, there are no standards, and some things are covered and some things aren't covered. And, of course, the most disappointing thing is when you have a cyber event but your policy may not cover it. So on the coverage, it's an evolving class, it's not mature.

Mark Geoghegan
Do you think we're going to hit a reinsurance capacity buffer at some point?

Ulrich Wallin
If people believe Paddy's $150bn exposure that we currently have and say that's excluding silent cyber, it's just prescribed cyber, then you cannot cover that limit. Because you can say okay, fine, let's put $100bn into the ILS market, and the ILS market is not overly expensive, but they won't do it for free. That money is just not in the system.

Greg Hendrick
As an industry, we give away cyber in endorsements to property and casualty policies and we just reference silent cyber – which is the concept where we think it's excluded and the client and the broker may not. Why would you buy a policy if your broker and/or your risk manager thinks they have it already in the property policy. We do a bad job as an industry of being specific.

You have to sell a complete product and say you're only going to get cyber coverage and be abundantly clear that it isn't covered anywhere else. We just keep kicking that can down the road because everyone is afraid to take the first step forward and say I don't write any more property without an iron-clad cyber exclusion.

Kathleen Reardon
Your point is theoretical. If the $150bn event were to happen, we may not have enough reinsurance capacity to handle that, but it just reinforces the point that permanent capital is here for the foreseeable future, because no time soon are we transforming that and handing it over in a well-understood ILS product.

Property cat is well understood, but a lot of the other classes we write keep evolving and we have disagreements on what is excluded. As our viewpoint matures, you can keep moving things to more efficient, leaner capital bases – and I see this happening with some other classes.

Jed Rhoads
Related to this, I'd just like to throw flood in here. There isn't a person or a company in this room that cannot price flood. In the United States, with its antiquated system propped up by the US government, it is a measurable, rateable, underwritable class of business that has huge growth potential for the reinsurance industry – not just the NFIP, but the private flood offerings. Five or ten years from now, we'll be sitting around this table saying we used up some of that surplus capacity that we had and deployed it into a very large market in the US.

There's probably 10-15 percent of flood that will always be at the NFIP and should be there, but, unlike cyber, it's an understandable, definable peril, just like wind and quake, and there's huge growth potential in that area.

Vicky Carter
It's not just flood. There's so much risk that could come out of the public sector, back into the private sector. There are huge opportunities around quake, for example. The quake take-up in California is around 13 percent. There are huge gaps here, let alone moving into an evolving world of different risks and cyber.

Adrian Morgan
There's probably a whole raft of new risks that we don't know about yet, that will emerge over the next five to ten years, just like cyber, to challenge the market.

Andy Marcell
Greg's completely right about cyber. The reality is that bad experiences will provide demand for the original product. And because we haven't been able to navigate the supply and demand and define what it is within original policies, it seems that the courts will decide what's covered and what's not.

As a consequence of these events, this will become a very significant line of business for the industry. When you consider that something like 50-75 percent or more of the

"There isn't a person or a company in this room that cannot price flood. In the US, it is a measurable, rateable, underwritable class of business that has huge growth potential for the reinsurance industry"

Jed Rhoads

value of the S&P is intellectual property, that is what we're going to end up moving towards – which is, in many ways, exciting.

Greg Hendrick
We're not very good at insuring the intangible though. We're good at insuring the walls and the building and everything else.

Andy Marcell
We're very efficient at dealing with the tangibles, to the point where everyone is complaining about the rates in the tangible!

Adrian Morgan
It's difficult to price though, because history doesn't necessarily dictate what's going to happen in the future.

Greg Hendrick
No, but there are enough firms that are coming on line. They can bridge Kathleen's challenge, which is can you ultimately granularise it and pass it on. We're going down that path, the same way we went down the path that took us 20-odd years to get cat models that were usable tools. But if you just use autonomous vehicles as an example, with the reduction and elimination of private passenger liability, does your liability get matched by an equal systemic product liability risk for the car manufacturers? I don't think so. So you'd better get good at this intangible stuff fast – and it's hard.

Mark Geoghegan
Lastly, there would probably be a consensus now that the ILS world has come through the test. What could be out there that could still derail ILS?

Ulrich Wallin
The structures are there to place risk into the capital markets. So there will always be a possibility at any time to place cat risk into the capital markets, it's just a question of at what price. Of course if it's very expensive, it might not be terribly competitive but the price is the only thing that will change.

Stephan Ruoff
The interesting thing about the ILS market is what will be its future state. You have a company like Nephila that has just been bought, you have a few independents, but you also have people who start their own balance sheet, who start their own Lloyd's syndicates and who start to look more like a traditional reinsurance company.

So the question is how far does it converge. You have the two biggest ILS fronting companies at this table: Hannover and TMR. Will that model continue, will it disappear, or will they become traditional players? In five years from now, do we have ILS funds, or do we have just another class of reinsurers who work a little bit differently but eventually do the same thing that we do?

Ulrich Wallin
You will have both because you have different movements and actions there. Run-off has to be managed as ILS funds, which basically you can see as MGAs because they need to have funds under management, that's how they make money. Some people will get involved like that, mainly driven by the managers that run those funds.

But there will always be room for funds that are purely investing and are not interested in becoming a traditional reinsurer. But if you are involved in something for a long time, you might decide that it's a limited market if you are penetrating it as an investor, so maybe you should have you own carrier. Then you eventually evolve to a promise-to-pay carrier.

Jed Rhoads
If we were to go back into a 15 percent interest rate environment, you might see some diminution in the ILS market. But it will always be relative to the returns they can get externally versus the non-correlated cat returns or other returns they can get in the insurance market. So if that spread gets too wide, they will obviously seek other opportunities. But it's hard to imagine that happening any time in the near future.

Greg Hendrick
I hope our broker friends have prepared their clients for the reality that a lack of cat activity may lead to a rate increase because credit spreads blow out, and then your sources of capital that you need to cover all this cat risk are now asking for an extra 5-10 percent when there's been complete inactivity.

Paddy Jago
At WTW, we are asset managers for about $2tn worth of pension funds – not much of which has thought about really entering the insurance/reinsurance space. But coming back to what someone mentioned about looking at the ILS funds as reinsurance, I think that's what we do now. They may warrant occupying a different place in the insurance/reinsurance edifice in terms of their appetite, but I don't separate the two.

Vicky Carter
And if you look at it, a lot of the pension funds have a very long-term view anyway of non-correlating risk. And their requirements on RoE are substantially lower than, say, PE firms. So are they going to bail out and move into a different sector if interest rates suddenly move? I doubt it.

Jed Rhoads
I think five or 10 years from now we won't be talking about ILS versus traditional. It will be an embedded, permanent part of our industry. It's here to stay and there's a place for both and they will ebb and flow as returns tick tick. But we're going to probably end up changing our nomenclature about how we talk about this.

Andy Marcell
I agree. There will be a very strong convergence. At the beginning, they were all set up in faraway places and mysterious. Now it's just another office at the end of the corridor.

Mark Geoghegan
If there is no other business that you'd like to discuss, I'd like to thank you all for being excellent as usual.