AUTUMN 2019 ISSUE 71

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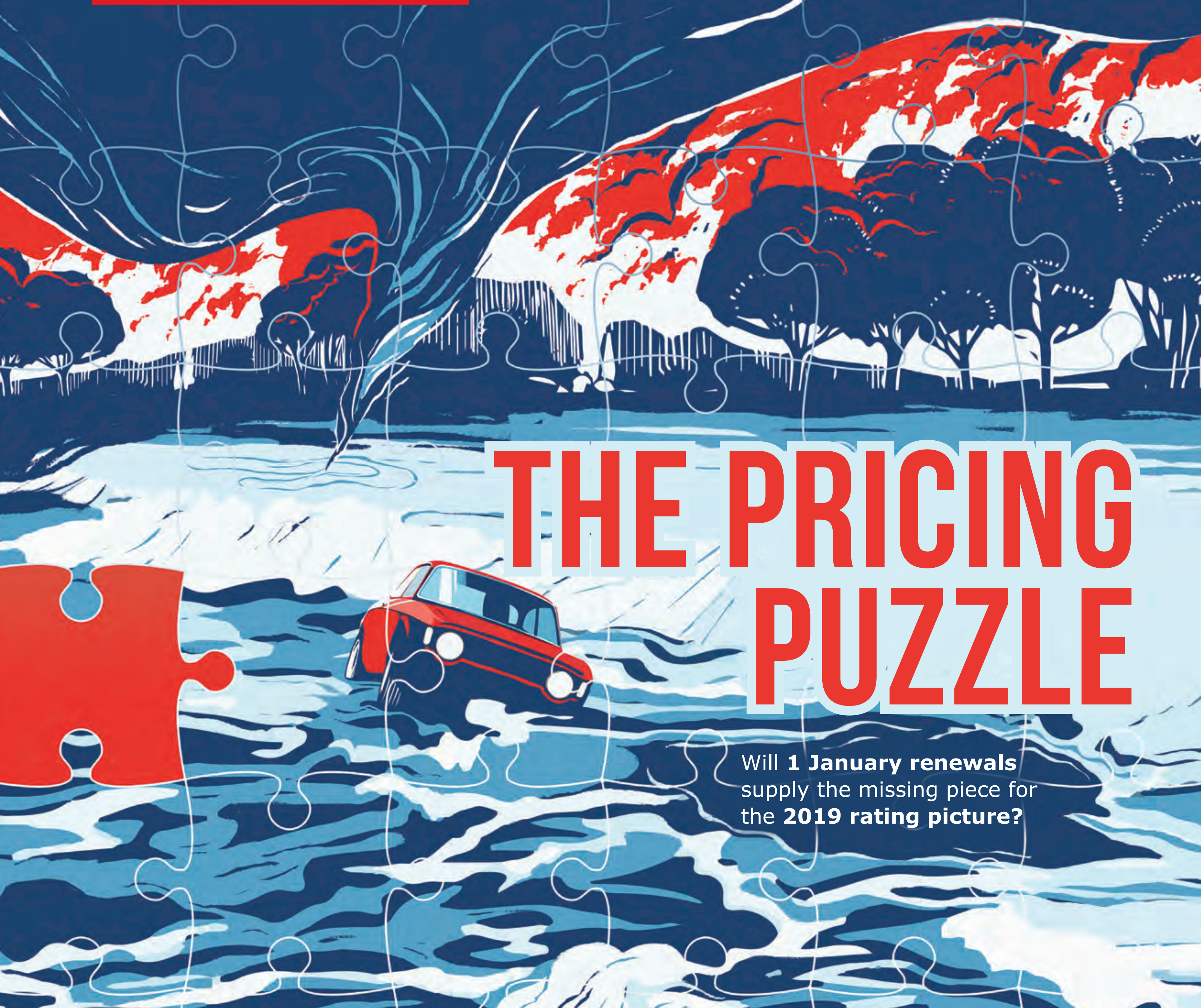

THE PRICING PUZZLE

Will **1 January renewals** supply the missing piece for the **2019 rating picture?**

The intelligent quarterly from the publishers of *The Insurance Insider*

ON THE BEACH

As an old friend of mine recalls from childhood trips to Monte Carlo with his underwriter father, September's Monte Carlo *Rendez-Vous* was an excuse for reinsurance execs to take their spouses and children on a subsidised beach holiday in one of Southern Europe's most exclusive resorts. All the more luxurious as a child, when you are cushioned from the eye-watering prices demanded by café and bar owners in this playground for the rich, famous and tax-averse.

Alternatively, taking a more cynical, adult's-eye view, it's an excuse for unaccompanied reinsurance execs to have an all-expenses-paid, boozy few days in sun-soaked Monaco, free of the encumbrance of partner and kids.

But whether the reinsurance industry is in truth here for business or pleasure, the talk on the terraces and under the parasols of Monte Carlo is bound to focus on the decidedly mixed picture at recent treaty renewals.

As *The Insurance Insider*'s Rachel Dalton details in part one of our lead feature, while there has been substantive hardening in the market, treaty rate increases have been piecemeal and "highly specific to loss experience, geography and business line".

And there is no certainty that the key 1 January renewals will lock in the recent hardening of rates to the extent that all can declare the soft market is finally and truly over.

It's a sobering thought that, the promise of a sunny few days weather-wise notwithstanding, the market may be reliant on loss creep from last year's major cat events as a backstop against any reversals on reinsurance rates.

Having characterised Monte Carlo as a treaty event, however, it would be remiss of me not to acknowledge the more minor, but not insignificant, role played by the alternative capital markets.

As *Trading Risk* managing editor Fiona Robertson notes in part two of our lead: "This year marks the point when the narrative around the ILS market started being rewritten."

Previous boasts that the ILS market has broken the reinsurance cycle and brought on an era of perma-soft rates may have proved to be unfounded, but the so-called alternative market is holding its own.

GAVIN BRADSHAW
Editor, *Insider Quarterly*

It may have turned out to be less of a sure bet for investors in ILS funds than previously thought, but despite continuing loss creep from 2018's Typhoon Jebi, "flexible capital structures are here to stay".

Which brings me on to my own hobbyhorse – facultative reinsurance.

You may not find many facultative deals being discussed at Monte Carlo, but you still find plenty of fac brokers and underwriters mingling with their treaty colleagues in the Café de Paris.

A hard market in fac rates is by no means guaranteed either, but interest in fac as a solution is undoubtedly on the up.

Submissions have increased, rates have improved in many classes of business and across many geographies and, in the experience of Everest Re at least, fac gross written premiums are at "an all-time high".

As you survey the figures reclining on nearby beaches, therefore – the bronzed children with their surprisingly relaxed parents, or the boozy, sunburnt gangs of middle-aged men – you may well be looking at treaty's poorer cousins: the fac lads and lasses.

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06


22

THE PRICING PUZZLE

Rate increases have been piecemeal across the reinsurance sector, contributing to a confused pricing picture for the year to date that may only become clear at 1 January renewals, writes **Rachel Dalton**

While reinsurers have seen rate increases steadily gaining momentum throughout the year, price improvement has been piecemeal and sources expect rises to remain highly specific to loss experience, geography and business line.

As the market looks ahead to the key 1 January renewal, all eyes will be on the behaviour of European cedants and their reinsurers – who have so far been untested by a large renewal – as the final piece of the pricing puzzle.

Despite rising hopes of a return to a fundamentally hard market with each renewal this year, as pricing at each showed improvement, sources were quick to discourage a universally sunny outlook.

“It would be a mistake to think we can compare today to any other year,” one London market broking source said.

Pricing will remain highly dependent on loss experience of a line of business, geographical area or individual client, according to the source.

“Premiums are not being fixed [according to] others’ losses,” they added.

However, creep from 2018’s losses, notably Hurricane Michael and Typhoon Jebi, along with events in this year’s storm season, could “prevent further deterioration of prices” across the board.

Fundamentally, capital is still king when it comes to reinsurance, sources said. In primary insurance, changing risk appetites at large carriers such as AIG and within Lloyd’s syndicates have driven pricing up. In retrocession, the withdrawal of a major player Markel Catco has reduced supply. In reinsurance, however, there has been no significant withdrawal of capital, and despite other factors at work, this may yet win out as the dominant one.

January – early hopes

In the run-up to 1 January this year, the feeling among reinsurance underwriters was similar to that of the year before: after a year of above-average cat losses, which reached $79bn according to Swiss Re, reinsurers must be adequately compensated.

The added incentive this year for reinsurers was the contraction in retrocession capacity, partly caused by the withdrawal of Markel Catco,

> “Creep from 2018’s losses, along with events in this year’s storm season, could prevent further deterioration of prices across the board”

leading many reinsurers to bid for higher prices from their cedants to compensate. At the same time, primary rates showed some increases, fuelling hopes of hardening.

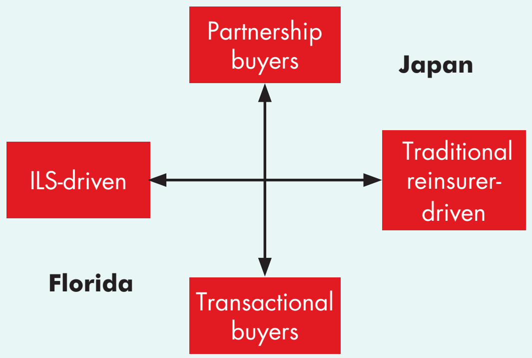
In the event, however, hopes of significant price increases in property cat treaty were dashed for the second year running. Overall, property cat rates renewed flat to slightly down, with loss-free accounts renewing flat to down 2-3 percent on a risk-adjusted basis, while loss-hit business attracted minor increases.

Japanese natural catastrophe events 2018

Events	Date	Loss estimate
Typhoon Prapiroon	28-Jun	$1.65bn (economic)
Typhoon Jongdari	23-Jul	Up to $2bn (insured)
Tropical Storm Leepi	10-Aug	Unknown
Typhoon Jebi	04-Sep	$10bn (insured)
Typhoon Trami	20-Sep	$3bn (insured)

Source: Industry estimates

Japan versus Florida buyer behaviour



Source: *The Insurance Insider*

Japan – a false flag?

As reinsurers moved towards the 1 April renewal there were hopes of more significant rewards than those seen at 1 January. This spring there was particular pressure on Japanese cedants to pay increases following a record typhoon season, with five significant storms between June and September.

Of those, Typhoon Jebi was the most destructive. Initially estimated as a circa $10bn insured event, loss creep on Jebi has been a feature of first and second quarter reports among European, US and London reinsurers, with the loss figure now anticipated to be greater than $15bn.

When the April renewal arrived, Japanese cedants lived up to their reputation as “good” buyers, paying around 25 percent more premium on loss-hit wind layers, although the overall movements on excess of loss (XoL) covers were around 8-10 percent.

Swiss Re, which writes a large proportion of the $1bn aggregate limit understood to be placed for Japanese cedants, said it achieved a 7 percent price increase across its cat exposures during the July renewal.

The most loss-hit wind and all-peril covers renewed up between 20 and 30 percent, while higher up wind and all-peril layers renewed with single-digit percentage increases and loss-free wind layers renewed flat.

Aggregate covers also attracted significant rate increases after more than $1bn in limit was wiped out by a succession of losses. However, sources said at the time that even with rates-on-line for the bottom layers of 30 percent, the covers remained under-priced.

On earthquake policies, owing to the lack of recent earthquake events, both proportional treaties and XoL protection covers renewed flat.

Continued on page 08

All in all, the April renewal was described as "rational" by Willis Re in the context of recent losses versus a worldwide surplus of capacity.

Although reinsurers before the renewal hoped that a positive April renewal would set the firm tone needed to bring the more volatile Floridian market into line, the reality was less clear cut. The price increases achieved must be seen in the context of historically low pricing on Japanese wind covers, bringing absolute rating adequacy in the class into question and, in any case, the exceptional features of the Japanese market limited the value of reading its behaviour across to other markets.

> "Floridian and Californian cedants paid large post-loss pricing gains after last year's wildfires and hurricanes"

June-July payback

With the summer renewals, however, came a reprieve for reinsurance underwriters. Sources reported market sentiment as having hit its highest level in years, with confidence growing that pricing momentum seen this summer would be more than a temporary peak.

Despite optimism, it was clear across the June and July renewals that price increases varied across geography and line of business.

Incoming Everest Re CEO Dominic Addesso characterised the price increases as "spotty" in a Q2 call to analysts and noted that some markets "have a way to go" before they reach suitable levels.

A number of factors combined at the summer renewals to push pricing up in a selection of lines and regions.

Accelerating pricing in the primary US P&C market was one such factor, as reinsurers were able to successfully make the case that they too should benefit from those improved rates.

In property cat business, Floridian and Californian cedants paid large post-loss pricing gains after last year's wildfires and hurricanes, with continuing loss creep on Hurricane Michael a persistent factor.

Even loss-free nationwide accounts paid very modest rate increases, while portfolios with large California exposures and major wildfire losses commanded rate rises between 20 and 40 percent.

For example, Farmers, which has around a 10 percent market share in California across commercial and residential property and auto, paid a roughly 25 percent increase on the annually renewing portion of its placement on some layers.

In Florida, clients were clearly stratified in terms of pricing, with favoured buyers paying increases in the high single- or low double-digit percentages, and worse clients paying increases of over 30 percent. Pricing was driven strongly by factors such as loss development on cat claims, loss-adjustment expenses and the quality of the leadership of cedants.

However, pricing improvement was driven by the weak operating performance of reinsurers rather than a serious shortage of capital, limiting increases to certain carriers in specific regions.

In Australia, for instance, there was no sign at all of across-the-board, significant rate rises, putting paid to ideas of pricing contagion.

Major Antipodean carrier Suncorp renewed its programme on essentially flat terms, despite handing almost $400mn in losses to its reinsurers.

Casualty treaty momentum

In casualty treaty this year, the story has been slightly more positive.

At the January renewal, shifting economic trends and rising loss costs combined to strengthen US casualty reinsurers' resolve to push for pricing improvements.

> "In Australia there was no sign at all of across-the-board, significant rate rises, putting paid to ideas of pricing contagion"

Property rate movements

Terrority	Pro rata commission	Risk loss free % change	Risk loss hit % change	Cat loss free % change	Cat loss hit % change
Australia	Varies	-5% to 0%	Varies	-2.5% to 0%	+5% to +15%
Caribbean	0%	0%	0% to +10%	0% to +10%	N/A
China	N/A	N/A	0%	-10% to 0%	N/A
Latin America	N/A	N/A	0% to +10%	N/A	0% to +10%
Middle East	0%	+5% to +7.5%	+15% to +35%	-7.5% to -5%	+5% to +7.5%
South Africa	0%	N/A	0%	N/A	0% to +20%
UK	N/A	N/A	N/A	-2.5% to +2.5%	N/A
US – Florida	-10% to -5%	0% to +5%	+5% to +25%	0% to +7.5%	+5% to +25%
US – Nationwide	-1% to 0%	0%	+5% to +20%	0% to +5%	+5% to +20%

Note: Movements are risk-adjusted
Source: Willis Re

Reinsurance underwriters were able to push quota share ceding commissions down by as much as 3 points, although most improvements were smaller, while in XoL business, rates increased modestly. At that point, loss cost inflation and adverse development were driving pricing increases.

Come July, the trend continued. Reinsurance casualty underwriters achieved further rate increases although sources described the market as firming rather than fully hardening. They did, however predict that the slow and steady rise

> “A number of factors suggest that pricing will continue to rise at the January renewal, including loss development and primary rate increases”

was indicative of a more significant pricing correction later this year if balance sheet problems emerged in directors’ and officers’, primary casualty and umbrella covers in particular.

Willis Re placed rate rises for loss-free general third party liability XoL at flat to up 5 percent, with rates for loss free motor XoL flat to up 7.5 percent and professional liability flat to down 5 percent.

Despite the momentum on casualty treaty pricing, however, there are fears that after years of downward pressure resulting in underpricing, the recent increases have not been enough for carriers to achieve absolute rate adequacy.

Sources have pointed to fears that casualty treaty losses will continue to deteriorate. If they do, a stronger price correction is anticipated.

Europeans taking a bet on cat

Optimism for the second half of the year and 2020 was perhaps most clearly expressed as European reinsurers reported their Q2 results, and the extent to which their bet on nat cat as a success will play out in the January renewal.

US casualty rate movements

Class of business	Pro rata commission	XL – no loss emergence	XL – with loss emergence
General third-party liability	-4% to 0%	0% to 5%	5% to 15%
Motor liability	-3% to 0%	0% to 7.5%	0% to 10%
Professional liability	0.5%	-5% to 0%	0% to 5%

Note: Movements are risk-adjusted
Source: Willis Re

Swiss Re, Munich Re, Hannover Re and Scor all reported rate increases in the US at the June and July renewals as two years of major losses began to have an impact.

In response, Swiss Re, the most bullish of the four carriers, increased the capital it deploys for North American hurricane risk to $6.5bn, up 40 percent from the year before, and doubled its exposure to California earthquake risks.

Rival Munich Re took a more cautious approach, but increased its US hurricane exposure by 5 percent.

Hannover Re upped its North American premiums by 26 percent and its top line in cat XoL business by 39 percent, while Scor, though optimistic about rates, only maintained its exposure to US cat at the summer renewal.

All four reinsurers made positive assertions about further rate rises this year, shoring up the theory that market hardening will continue.

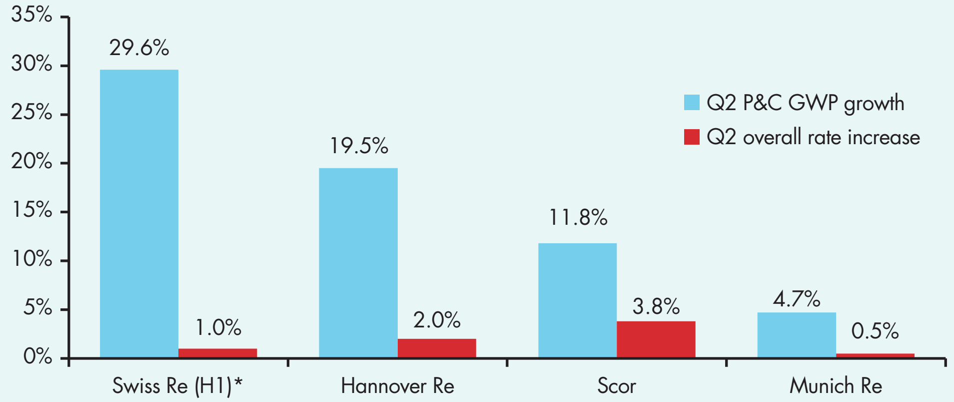
All eyes on Monte Carlo

While reinsurers will hope that rate increases achieved already this year are an indication of better pricing to come, there is still a great degree of uncertainty as the market looks ahead to 1 January 2020.

A number of factors suggest that pricing will continue to rise at the January renewal, including loss development and primary rate increases. The ferocity of the hurricane season will also have an impact on cedant behaviour.

However, market sources believe it is likely that pricing will remain highly specific, as shown in the patterns demonstrated at the 2019 renewals so far. But above all, capacity will remain an issue, sources said, with reinsurance capital still plentiful despite the run of large losses in 2017 and 2018. The Monte Carlo *Rendez-Vous* will provide greater clarity over how the battle for reinsurance rate will play out this year.

European reinsurers: Q2 2019 GWP growth and rate movement



Source: Company reports, *The Insurance Insider*
*Q2 2019 earnings for Swiss Re were not available

AN EVER-BIGGER PIECE OF THE PUZZLE

The alternative reinsurance market is driving rate change after two years of losses, affirming its role as a small but important part of the reinsurance picture, writes **Fiona Robertson**

This year marks the point when the narrative around the ILS market started to be rewritten. Rewind five years or so, and the story being told about the surging alternative reinsurance segment was that it had definitively broken the reinsurance market pricing cycle and set the scene for a new era of permanently low rates.

What followed were headlines from the Monte Carlo Reinsurance *Rendez-Vous* warning that "the reinsurance market will always be soft", following one broker's press conference.

One graphic in particular became ubiquitous in the dozens of slideshow presentations at subsequent *The Insurance Insider* conferences – a variant of the "martini glass" image purporting to show the reinsurance market as a mere cocktail olive in the vessel of pension fund capital, with trillions of dollars sloshing around on the sidelines of the market.

And perhaps if the catastrophe losses had stopped in 2017, 2018 would have looked like the proof of this thesis. At that stage, ILS managers had more than replaced their lost capital from Hurricanes Harvey, Irma and Maria, and the subsequent renewals produced a very subdued pricing reaction to Florida's first hurricane in more than a decade, in addition to one of the highest cat loss years ever.

But new losses kept unfolding, with loss creep from Typhoon Jebi continuing into this year and 2017 events, notably Irma, coming back around with a double whammy of additional claims.

This created more concern among some investors who wondered if these years represented a "new norm" for disaster activity, and made it a harder sell for ILS managers looking to draw in new funds to replace lost or trapped capital. New investments were more likely to carry very specific return hurdles in order to draw down or deploy.

Retro lockup/shallow pockets

And so 2019 became the year the market dynamic began to change.

Retro capacity locked up, the Florida market saw a real stand-off over the renewal negotiations, and one of the ILS industry's top 10 firms was put into run-off after regulators moved to investigate its post-loss reserving policies.

The latter example – Markel Catco's downfall – is one that has drawn the most headlines on the ILS market over the past couple of years, and has been a huge contributor to the shortage and higher expense of sourcing retro capacity in 2019.

But, in many respects, its problems were a sideshow, and not necessarily illustrative of the broader takeaways from the revisions now being made to the ILS thesis.

For these more general learning points, let's return to the martini glass theory – that an endless supply of capital on the sidelines of the market was just waiting to be drained.

This proved to be an empty promise.

Such talk belied the reality that some elements of the ILS market were never that deep-pocketed. The sidecar market, in particular, was dominated by a couple of major US mutual fund managers, supported by independent advisers and high-net-worth clients – a recipe for a more reactive capital base than long-term-minded institutions.

Second, rather than being an appealing aperitif, the small size of the reinsurance market remains a hindrance to attracting some of the world's largest investment houses – if they cannot build a significant stake without crushing market returns, they won't go into it.

Of course, there is still plenty of room for the ILS market to attract investors and asset managers looking to set up a stall in the sector, perhaps best evidenced by the upcoming entry of Pimco to the market.

The bond giant will work alongside Allianz but also source risk independently, and has said it sees more opportunity in the private collateralised reinsurance market so it will not confine itself to the cat bond segment.

M&A blurs boundaries

Meanwhile, amid new players entering the ILS market, M&A has been a continuing theme for the alternative segment.

A year on from Nephila's landmark sale to Markel two further independent platforms have sold, with London weather specialist Coriolis set to join Scor later this year and White Mountains taking a minority stake in Chicago-based Elementum.

As a result of recent acquisitions and sales, the ownership profile of the industry in the past five years has undergone a significant shift, pulling it closer to the reinsurance fold, with carriers now owning a large part of the market.

This trend has only emphasised the convergence of the two sectors, with access to balance sheets and credit ratings becoming even more critical for ILS managers than previously after the experience of 2017/18, as a means of managing or avoiding problems with trapped capital and offering cedants more options.

Looking past 2019

Ultimately, although it remains a minor (albeit increasingly indispensable) part of reinsurance market capacity, it is the ILS market's response to the back-to-back loss years of 2017/18 that has driven the changes that have emerged this year.

The big question now – and a huge area of uncertainty – is how the market will respond in 2020.

Understandably, investors have been disappointed by factors such as loss creep, with some saying it was not the size of claims that was a problem, but rather the drip-feeding of claims over multiple years. The underwriters are fully controlling the risks they are taking.

Closing the chapter

Ultimately, even with 20 years of evolution behind it, the ILS market is still in the early stages of maturing and some practices will have been reshaped and refined after the past two years.

"The ILS market's response to the back-to-back loss years of 2017/18 have driven the changes that have emerged this year. The big question now is how the market will respond in 2020"

Florida market in particular, has much to prove to the industry in this regard.

There is possibly more riding on the outcome of this year's hurricane season, therefore, than there has been since the Katrina-Rita-Wilma era. A clean year will give investors income that helps to offset – or even, for some, fully earn back – their prior losses, while resulting in a smoother rollover process for 2020 deployments.

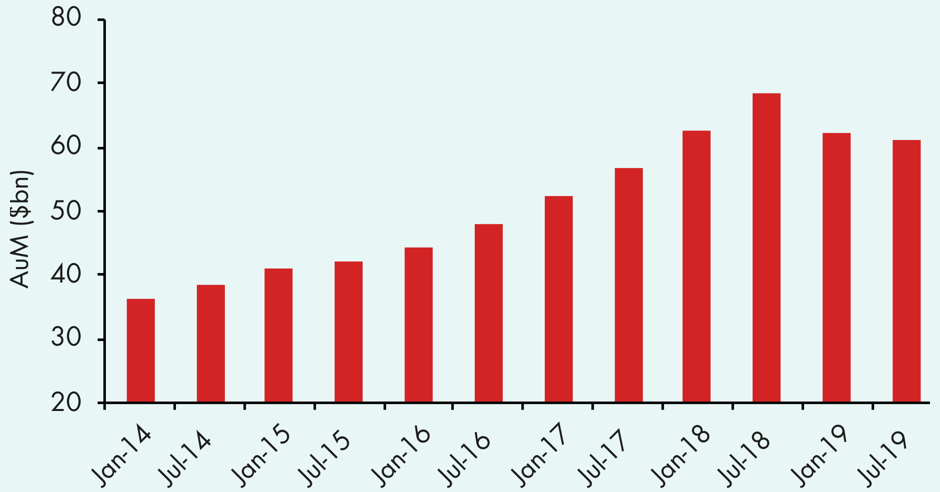
Another loss-struck year, however, may see investors questioning whether the returns from the sector remain attractive, or whether

So it isn't surprising that the broad-brush vision for the market that emerged in its heady growth phase of 2014/15 is now being defined more carefully. Any lingering view that ILS investors were naïve capacity must now have been dispelled, along with the idea that rates would flatline forever regardless of loss activity.

The new era may be more complex, as reinsurance returns face off against competing sources of diversifying income to attract capital.

But the basic premise of the story – that flexible capital structures are here to stay – prevails.

Top 10 ILS AuM 2014-2019



Source: *Trading Risk*

GEOGHEGAN GRILLS

…CONVEX'S STEPHEN CATLIN AND PAUL BRAND

Stephen Catlin and Paul Brand will tell you that Convex is a greenfield operation and not a start-up. So what are the duo's plans for their new holding? **Mark Geoghegan** takes a tour of the estate…

Mark Geoghegan: I would love to hear about the moment when you first decided to do what ended up becoming Convex.

Stephen Catlin: It must have been about two and a half years ago. Brando [Paul Brand] and I went out for a beer one night and agreed it would be fun to work together again. We've worked together now for 32 years. The catalyst that got me thinking about it really seriously was a conversation I had with Stuart Britton [senior managing director of Evercore's financial institutions group] at a Christmas dinner in 2017. Stuart, who is someone we know well and respect, had said to me: "Stephen, 2018 is your year."

He went on: "You've no idea what you could achieve; less than a handful of people in the industry could do what you could do. You've got the respect, you've got the longevity, you've got the track record, you've got the reputation, you've demonstrated you can keep a team together over a period of time."

And then the Lloyd's losses came out, which were pretty horrific, with every single product line losing money, with the exception of energy (and that was purely luck!).

So I rang up Brando and said: "Maybe we should start thinking about this seriously." He said: "I think we should." There were two decisions to make: one, if we were to start in 2019, would that be too early in terms of what's going on in the marketplace; and the second thing was, was it really achievable?

So I rang up Stuart, and said: "We'll look at it."

We then spent some more time thinking carefully about where we saw the market going. Was 2019 too early, should we wait for a year? But by that stage we were getting pretty emotionally committed to the project.

By the end of March, we had decided that actually 2019 was going to be the year because what we were doing at the outset was building the toolbox.

Paul Brand: The market's been creating more opportunity. It's that classic case of, the worse it gets, the more opportunity there will be.

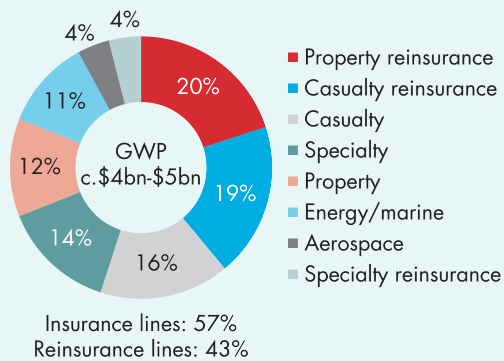
And then on top of that, there isn't enough focus on clients and understanding different client needs. You think about more complex clients, and the commoditised clients, and how they're going in different directions – one set of clients wants a more hands-on approach and a more bespoke service, and the other wants everything to be done seamlessly, automatically and absolutely transparently.

A lot of companies are dealing with both sets of clients using the same technology and the same underwriters, which is causing enormous cost challenges, and are almost over-diversified as everybody's trying to do everything and be everything to everyone.

We started to think about how we would build an operation that would be more cost-efficient. There's a huge issue for the insurance industry regarding how much of clients' premium is spent on costs and if you solve that, that's going to create a big competitive advantage.

Stephen Catlin: I should probably add to the backdrop and point out that around the end of 2018, both of us were being approached, sometimes collectively, sometimes individually, by distribution brokers and clients saying: "You should get back in the marketplace, it needs leadership."

Convex: mature state business mix



Source: *The Insurance Insider*

So we walked into this knowing that we were likely to get quite significant support.

At the time we sold Catlin to XL, we'd been the largest Lloyd's syndicate for about 12 years. We led over half our business in Lloyd's, which was more than any other syndicate in the room. And we kept our leads over time. People knew that if we became the leader, we'd most likely stay there. We'd treat the client properly, we'd treat the broker properly, we'd pay our claims efficiently, we'd be proactive in helping a client if there was a change in circumstance.

Mark Geoghegan: So is there a sense of unfinished business?

Paul Brand: We did a lot of things which I'm very proud of at our previous organisation. But I think we can do it better and I like challenges.

Stephen Catlin: I think the answer to your question is, yes. But it wasn't the main driver.

Mark Geoghegan: So now you've got the clean slate and you can do things differently, what parts of insurance are evergreen, and what should be left alone?

Paul Brand: With complex risks, clients want to know who the carriers are and they want to form personal relationships with the carriers and intermediaries. Whether that's insurance or reinsurance, I think that's a very special part of the business, and that's got tremendous value. If you're going to make bespoke products for people, it helps if you understand them and their business in depth.

There's only a relatively small sliver of insurance premiums available out there. We think the addressable market for our insurance and reinsurance business is about $130bn out of a global P&C market of around $5tn. So this is more of a rifle shot as opposed to trying to do everything for everybody.

Continued on page 14

London is a really fantastic centre for complex risks; it's got the brokers there, it's got the carriers, has the right lawyers, has the right claims professionals and that feels pretty evergreen to me as well.

Stephen Catlin: The other benefit is the fact we have no legacy – there's no legacy of liability, and no legacy of process.

This gives us the resource to really concentrate on technology in terms of the underwriting decision rather than the process.

We're thinking a lot about data, how you collect data, how you synthesize data, how you use artificial intelligence to do that, how you create algorithms to get better risk modelling – to make better decisions for yourself, and indeed for the client.

If you understand the risk better, and you can talk to clients about their risks as you see them, you can help them with their risk management and risk mitigation. If you do that, you're delivering a value-added product to the client beyond just risk transfer.

Mark Geoghegan: In an earlier interview, you said the game is up for the industry; it's got to be restructured, it's got to cut costs, and we've got to shorten distribution chains. Can you go into more detail?

Paul Brand: When you think about commoditised business, it's very unclear to me as to why you need so many loops in the chain and who's really driving maximum value for clients. The companies that might be able to solve that problem need to be good with technology; neither the insurers nor the brokers are good with technology, as far as I can make out.

There is a bit of a turf war going on with the commoditised business. As opposed to thinking about how they best serve the clients, both intermediaries and carriers are thinking about how they can eat each other's lunch.

So you're getting intermediaries that are trying to underwrite, and you're getting carriers which are going to try and distribute.

Client dissatisfaction with the industry will drive change. There's been too much concentration on who gets what share of the spoils, and that's where an awful lot of the effort has gone. How do we create facilities, as opposed to how do we build things that are a lot better for clients?

Mark Geoghegan: Is the strategy that you only want to be leading business? Would you follow anywhere?

Paul Brand: We'll absolutely follow. It's up to clients as to who they choose to lead their business, it's not something you can dictate.

Mark Geoghegan: But you'd always want to have the capabilities of leading, if a client wanted?

Paul Brand: We certainly intend to build the capability to be able to lead business and be able to lead it well.

Mark Geoghegan: Would that mean that if you didn't have that capability, you'd actually say that's not a class we want to be in, because we haven't got that capability, we're not good enough?

Paul Brand: Yes, more or less.

Mark Geoghegan: What do you think about portfolio underwriting?

Stephen Catlin: As you know, we were involved in the Aon Client Treaty. That wasn't underwritten by the broker, it was underwritten by selected leads, and we had control over those leads. It was an attempt to see whether you could do portfolio underwriting, with the appropriate underwriting leaders, so that you could save cost. Unfortunately, we didn't get the opportunity to see

“Client dissatisfaction with the industry will drive change. There's been too much concentration on who gets what share of the spoils”
Paul Brand

whether that really worked or not.

The question of portfolio underwriting is really interesting but I think both of us are fundamentally opposed to portfolio underwriting when the broker is doing the underwriting.

Mark Geoghegan: What about third-party capital then, is that forming any part of your master plan?

Stephen Catlin: We've got 10-year money, so we've got time and we've got perfectly adequate capital for the time being. There are lots of levers we can pull, and third-party capital is another lever. Over a 10-year period, undoubtedly we will make use of different kinds of capital. But that's an issue for tomorrow, not for today.

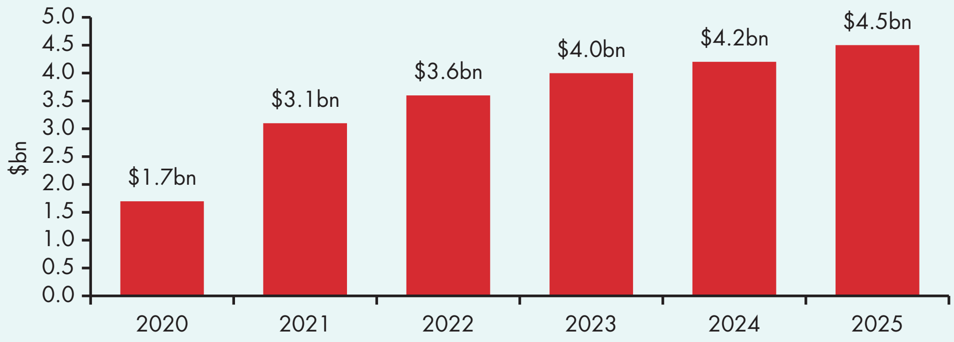
Mark Geoghegan: You've mentioned your outsourcing model leading to cost advantages. But with this horizontal, single partner, does that leave you vulnerable if they let you down?

Stephen Catlin: Well, I can remember a management meeting where I was asking the difficult questions and I said: "We need to have a plan B, and we need it in writing." I wanted it for myself in terms of my fiduciary duties and if I was the regulator it would be one of the first questions I'd ask, because we're doing something that hasn't been done before. The team came back with a very detailed piece of work about what happens, our relationship with the technology provider and our relationship with our data.

We've all asked ourselves the "what if?" question. Are you being sensible putting all your eggs in one basket? And in one sense you say "no", and in another sense the advantage of it is that you can get your outsourcers to talk between the various departments behind the scenes.

So often people do this on a piecemeal basis and therefore they're discrete, and there's no synergy. That cross-flow brings huge advantages,

Convex planned GWP – base case (early business plan)



Source: *The Insurance Insider*

reduces multiple data entry and makes certain that you've got the same version of the truth the whole time.

So yes, it has its risks but it has significant benefits and if we didn't do it, we'd have a different set of risks. We could not afford the technology that we're getting from WNS [business process outsourcing firm WNS Global Services] ourselves at this stage, so by outsourcing we're getting top-end technology in a cost-effective manner.

Mark Geoghegan: How do you view the burgeoning InsurTech space, and what sort of things you might be looking for it to unlock for you?

Paul Brand: It's going to have a huge impact across multiple dimensions. It's changing how clients are operating, whether that's with the Internet of Things or whether it's by using telematics data to know more about risk. It's changing the way products are distributed in the commoditised risk space and it's changing processing cost.

The ability to set everything up in the cloud is an awful lot easier, cheaper and faster than buying in servers. The most important change for us is the ability to predict, which will be transformed by InsurTech in the next five to 10 years.

Insurance is about predicting things and what we want is to be really good at making decisions. Typically, this is achieved through data and analytics, and using this information to build a portfolio that is resilient.

Mark Geoghegan: By plugging into clients' data?

Paul Brand: Yes, exactly.

Stephen Catlin: And we've got Mark van Zanden, our head of portfolio optimisation, who can concentrate on these issues and build a team around him to do it. This will be one of our alphas – we've got the flexibility and the resource to concentrate on this.

Mark Geoghegan: The Future at Lloyd's consultation, has it inspired you in any way? And if so, what bits of it have you found interesting?

Stephen Catlin: Well, both of us are very supportive of Jon Hancock [Lloyd's performance management director] and John Neal [Lloyd's CEO]. They've got a very difficult job because they've inherited some nasties. Jon Hancock has been unfairly castigated for his decisions, but he had little choice given where the market was. Jon's already shown he can be positive and constructive and now we need to move forward.

I've known John Neal for a long, long time and he's very capable; he knows what bad looks like too, which is a great advantage in this situation. It seems to us that in the time allotted

Continued on page 16

they've made some real progress, and their thought process appears to be logical and rational. The proof of the pudding will be in the eating.

I was actually delighted to read recently that Lloyd's is coming down heavily on silent coverage for cyber, which has been an elephant in the room for years now. It's an area where the industry needs leadership, and the arguments are so compelling. I've been talking to the Prudential Regulation Authority about this for years, saying: "Look, if you want to worry about downside risk to capital, worry about silent coverage. Because nobody can aggregate it."

Nobody knows what could happen, and anybody who thinks that silent coverage is no coverage is living in cloud cuckoo land. Go back to my time in Equitas, go back to asbestosis, go back to pollution, look at what the American courts did in terms of rewriting the intent of the policy for something that hadn't been contemplated. It will happen again for cyber.

Mark Geoghegan: So it's definitely not something that's in your business plan?

Stephen Catlin: The answer is not to say we won't do any silent coverage – as the new kid on the block we would have a problem doing any business – but rather, that behind the scenes we have to keep on asking questions, time and time again – have you thought about this? Have you thought about that? You know, you and I were talking about this, probably eight years ago.

Mark Geoghegan: Yes, it was a long time ago. And standalone cyber, is it something you're hiring for, or...?

Paul Brand: I think the cyber market's an interesting one to watch. We don't have a cyber underwriter on board yet, and it's one of those areas where the risks are growing very rapidly...

Stephen Catlin: And the understanding of the risks is growing rapidly as well.

Paul Brand: There have not been enough claims yet either – it's very difficult to price insurance where there haven't been many claims.

> "John Neal is doing what he has to do, but he is not in a position to change the culture of individual companies – the only people who can do that are the leaders of those businesses"
> *Stephen Catlin*

Mark Geoghegan: Back to Lloyd's, the Future at Lloyd's document has had a positive reaction. Is that swaying your thinking?

Stephen Catlin: I started in Lloyd's, as you know, it's given me every opportunity of my life. Brando actually started in the company market so our emotional attachments are not quite the same. We haven't said yes, and we haven't said no to Lloyd's.

When we first spoke to Lloyd's, we said: "We don't see how, in the light of what you are doing at the moment – which, by the way, we support completely – and the restrictions that have been brought upon the market, that you could approve a business plan which works for you and works for us. That's not a hostile comment – it's just reality. You don't want to do something with us that undermines what you're doing elsewhere; that won't be good for the market."

We're very supportive of the individuals and Lloyd's is still the epicentre of the wholesale market in London. If we can find a way of having a Lloyd's syndicate which makes sense to our shareholders, particularly in terms of expense, then we would consider it.

Paul Brand: Lloyd's also needs to clarify the purpose. It's going through a great process of trying to think that through and is edging its way towards an answer, but it's not really answered it yet.

Mark Geoghegan: We've had some quite major consolidation in specialty broking, so does that changed landscape worry you or excite you – how are you reacting to it?

Paul Brand: It comes back to the question of how strong is the London market. The consolidation is an affirmation that London's got some very talented people and businesses. That fact that Marsh wanted to buy a broker, which was a global broker, is an interesting affirmation of our view

that London is a great place to have an insurance/reinsurance business. And it also creates ripples, and those ripples are going to lead to changes in quite a lot of places.

Stephen Catlin: What's your view?

Mark Geoghegan: I think what goes around comes around! So, what about culture? You're starting a new business – what sort of culture do you want to create at Convex?

Paul Brand: Open, flexible, a lot of fun, but at the same time we've got to be good at what we do and it's got to be an environment where we challenge one another in order to provide the best products for our clients.

Stephen Catlin: We're not a start-up, we're a greenfield, so there's an embedded culture we bring with us which you know a lot about anyway.

When you've got almost an established base for culture, it's a lot easier than starting from scratch. It's not to say that our culture was perfect but it's a foundation; we've learnt from it, and like everything else we do, we want to do it better than we did it before.

Mark Geoghegan: We've got a huge amount of scrutiny coming from outside our industry, with even the general press writing about insurance employee behaviour. Do you think that there is a culture problem that needs fixing at all?

Stephen Catlin: Culture is a company-specific issue. I'm not convinced that the insurance industry is better or worse than any other part of financial services, but it needs changing. Comments about the failings of the industry are valuable to the extent that it's a recognition of the issue, but the change won't come from regulation per se.

John Neal is doing what he has to do, but he is not in a position to change the culture of individual companies – the only people who can do that are the leaders of those businesses. So it's the group executive, it's the CEO, the CFO, COO; how they behave, how they treat each other, how they behave to the outside world, how they behave with people that work with them in the company. These are the things that drive culture.

Culture in financial service industries has slipped. It was very, very bad when you and I first joined the market – it was horrific in those days. It then gradually improved. Some of the consequences of M&A and bringing cultures together has meant that there's less strength of culture at a company level than there used to be and it is very important that it's rebuilt.

From our point of view, our experience is our legacy, and we're well known as people to take culture really seriously and have that as part of our alpha. And we aren't going to change that.

Mark Geoghegan: Any rough idea of how many people you think you'll have in Convex colours by year-end?

Stephen Catlin: One hundred.

Mark Geoghegan: One last question. You have patient capital, but we have a hardening market, which must be welcome. Do you see the market firming accelerating at all?

Paul Brand: As always, it doesn't pay to be too generalist about it. It's varying a lot through specific classes of business, largely driven by recent trading history. There's an expectation without seeing into everybody's reserves that reserves could become an issue. The market is teetering on the brink of quite a big correction, but which way it goes is anybody's guess at the moment.

Stephen Catlin: Our gut feel is that there's a casualty story to come out which is pretty horrific – and a lot worse than a lot of people realise.

The thing that concerns most of us is if people get too euphoric about what's happened in the last six months – we're not actually at adequate pricing yet. We're on a journey together.

LONG HORIZONS

ReinsurTechs are on the rise, but the complexity of the reinsurance sector coupled with the longer term view of incumbents means the development phase for innovation may be long, finds **Anna Sagar**

Insurance has long had its foot in the door when it comes to InsurTech, with most big players now having some kind of investment arm to partner and collaborate with InsurTechs across the value chain in specialty, wholesale and even personal lines.

However, the waves of innovation that have washed over the primary insurance industry over the past few years may now be lapping at the shores of the reinsurance sector.

More and more reinsurance InsurTechs – or "ReinsurTechs" – are emerging, looking to address the pain points that have afflicted the industry in data and analytics, administration and distribution.

Reinsurers are also looking outwards to find solutions to their problems – for the next technology that will revolutionise the mainstream. Old concepts are getting a new lick of paint as electronic marketplaces look to gain traction.

However, as with any kind of change there are hurdles that must be overcome. Reinsurance is technical and complicated, and the logic previously dictating the market's direction of travel with respect to InsurTech was that it was too challenging for external agencies to come in and innovate.

Here, *Insider Quarterly* examines some trends in the market to see where the next wave of innovation may come from.

The electronic marketplace

One trend getting increasing attention is the idea of an independent electronic marketplace in which risk can be transferred and placed digitally.

An example of this is Akinova, the London-based marketplace that aims to enable the trading and transferring of risk in the rapidly growing cyber insurance market.

Akinova's commercial director Alexander Pike says: "With products like property catastrophe it is established and works in a cyclical and seasonal way, but with cyber it isn't seasonal, it can be 24/7. How then can people purchase cover or, if they have risk on their balance sheet, how can they transfer that to another capacity provider?"

The platform uses a mixture of machine learning and proprietary mathematical frameworks, acting on behalf of cedants and intermediaries to match risk to capital while providing news, data and analytics to its market participants.

The goal is to help drive growth and liquidity in the marketplace by enabling parties to access more products and share risk quickly and easily.

"It is an enabler, we are not doing the trades ourselves, the market is there to do the trade. We are trying to help grow the market so provide liquidity to products that doesn't have huge amount of liquidity," adds Pike.

This is something of which auction-based marketplace Tremor is very aware. A graduate of the Lloyd's Lab second cohort, the success of its model depends on several users placing bids to find the "true" price of a risk. It has participated in January and June renewals in Florida, and has intermediated around $2mn of closed bids to date.

"For us it isn't so much about barriers, it is really education. The traditional insurance company will typically have longstanding relationships with reinsurers and an intermediary they rely on very heavily," says Tremor founder and CEO Sean Bourgeois.

Bourgeois argues that this means intermediaries may not be offering a competitive price, as insurers do not know if it is the best price.

"We are actually a marketplace,

we are a risk syndication. If you have a single risk or portfolio of risk and connect it with actors on the other side then we figure out what an informed risk would be for everyone," he says.

Hyper-connectivity

Improving the connectivity of the reinsurance marketplace is something Riskbook, a beta-stage InsurTech, is looking to address.

Founded in 2018 by former Aon employees Jerad Leigh and Ben Rose, Riskbook describes itself as "the Rightmove of reinsurance", and looks to make actors in the reinsurance space "hyper-connected" so they can do more business.

It does this through a digital platform that connects brokers and reinsurers to align distribution and capacity. It is innovating on an existing model, which co-founder Leigh believes is key.

"Working alongside incumbents is where the biggest opportunities are and if your proposition is disputing incumbents and making them redundant you will struggle to gain traction," explains Leigh. "When you are actually working in the spaces you realise the broker plays a fundamental role. We want to empower incumbents to do more."

Partnering with incumbents is vital for many InsurTechs, but with a marketplace model success rests on independence – the more neutral a marketplace seems the more likely it is that participants will use it, Leigh says.

Akinova markets itself as an "independent marketplace created with and for the industry" and, according to Leigh, Riskbook has a similar approach whereby independence is essential for the enterprise.

However, ReinsurTech ventures need a critical mass of actors in the space to engage with their platforms because, as they are not actually originating business, gaining traction in the reinsurance market can be challenging.

According to Bourgeois, Tremor has around 95 percent of the global market on the platform, and has partnered with around 12 Lloyd's syndicates, but as a new venture it is still relatively untested.

Technology has also been a barrier to such ventures in the past, according to Bart Patrick, managing director for Europe at Duck Creek Technologies, which has created a reinsurance management platform with DataCede.

"Sadly, the robustness of the technology platforms supporting the right idea was not there at the time. However, it is now," says Patrick.

"Reinsurance is a mechanism for spreading risk, so it lends itself naturally to the concept of a tradeable commodity that could be packaged and sold in a derivative format. There is no reason – outside of good underwriting and analytics – that reinsurance could not in the future be a traded commodity with its own liquid market."

> "Reinsurance is a mechanism for spreading risk, so it lends itself to the concept of a tradeable commodity that could be packaged and sold in a derivative format"

Innovation units

Innovation units are nothing new when it comes to insurance or reinsurance. Reinsurers such as Munich Re have had digital ventures arms for years, with Munich Re Digital Partners bringing in around EUR100mn ($111mn) in premium from its portfolio of companies last year.

But just because you don't have a big balance sheet it does not mean you can't innovate.

Smaller reinsurers are using innovation arms to forge strategic partnerships and make investments in InsurTechs so they can keep up with trends.

Greenlight Re set up a tech innovation unit last year to partner with and develop start-ups that could bring new technology to reinsurance.

As Greenlight Re Ireland CEO Pat O'Brien says, "By partnering with InsurTechs we can get access to the technology that they have and we can assist with capacity and distribution. Many InsurTechs are in the MGA space and they are selling an improved product in this space, generating revenue and improving efficiency."

The unit has made 12 investments since its inception, ranging from Australian property claims platform Handii to New Zealand-based personal lines MGA Cove.

Being a smaller reinsurer in some instances could be seen as a

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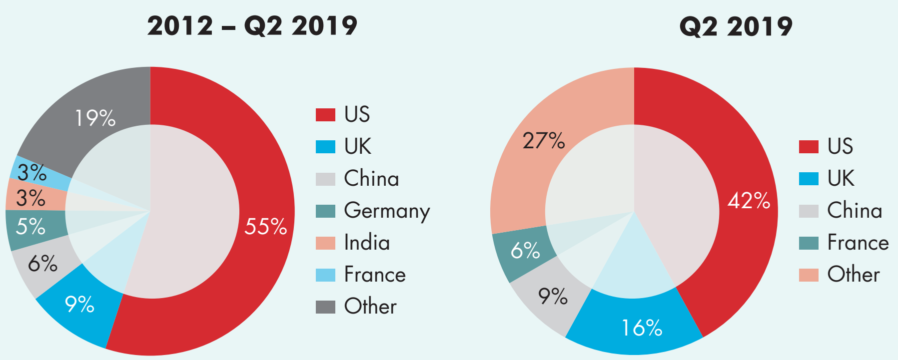
Quarterly InsurTech transactions by target country



2012 – Q2 2019 transactions: 1146

Q2 2019 transactions: 69

Source: Willis Towers Watson

downside, but the leanness of the organisation means that Greenlight can be nimble and make the most of new technology, according to O'Brien.

Another smaller scale reinsurer that has taken the next step is RenaissanceRe. It has partnered with InsurTech Gateway. Gateway was started as an incubator in 2017 by venture firm Hambro Perks to reduce the lead time and cost of getting a business idea to market.

It works across the InsurTech space, from cryptocurrency to fleet insurance and flood cover, and it is precisely this access to niche markets that makes it such an attractive reinsurance partner.

Vice president of technology ventures at RenaissanceRe Karl Stanley explains: "For us, the Gateway is about our interest in new products, new models and new markets. It helps us to look ahead, and positions us to act as each area evolves. For [Gateway], we bring the benefit of industry relationships and can offer our expertise."

This strategy is typical of reinsurers' approach to innovation, according to InsurTech Gateway director and co-founder Stephen Brittain.

"Reinsurers appear to me to be thinking much longer term and looking at the fundamentals of the business models behind risk. They are a natural home for the more opaque technologies of big data, cloud computing and blockchain that will enable a massive step-change in the complexity of calculating and trading risk," he says.

New and future tech

While many InsurTechs focused on reinsurance are looking at improving the placement process, others have their eyes on altering product propositions altogether.

Concirrus is an InsurTech focusing on both the direct and reinsurance markets to deliver insights into real-time risks via Quest, its big data and analytics platform aimed at the motor and marine markets.

Quest accesses wide-ranging data sets and combines them with historical claims to give (re)insurers and brokers a more accurate view of their risk.

> "Working alongside incumbents is where the biggest opportunities are and if your proposition is disputing incumbents and making them redundant you will struggle to gain traction"

Concirrus recently partnered with Willis Re to deliver Quest and its benefits to clients. As part of the partnership, Willis Re and Concirrus will develop products for the specialty market.

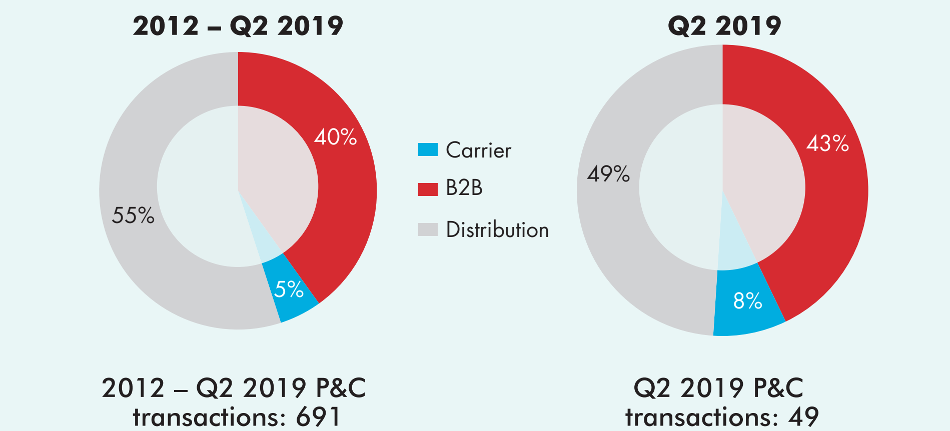
Concirrus CEO and founder Andrew Yeoman says: "We have a privileged opportunity to be able to rethink and drive significant change at scale. We understand enough about the industry for it to be relevant, but we are not constrained by historical thinking."

Looking ahead, innovation in the reinsurance space may have a long development phase, as global head of Willis Re InsurTech Andrew Johnston explains.

"It is still quite a nascent space. To a lay person it is still just so unknown: you only think about reinsurance if you understand insurance, and you have a limited ability to innovate without domain expertise and capital.

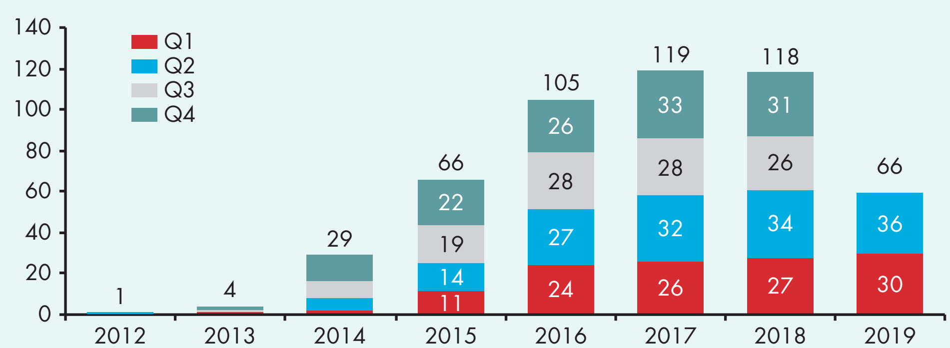
"A few companies are looking to be disruptive in the reinsurance market by digitising trade. Without controlling or originating the business, however, this is a very big ask," Johnson concludes.

P&C InsurTech transactions by subsector

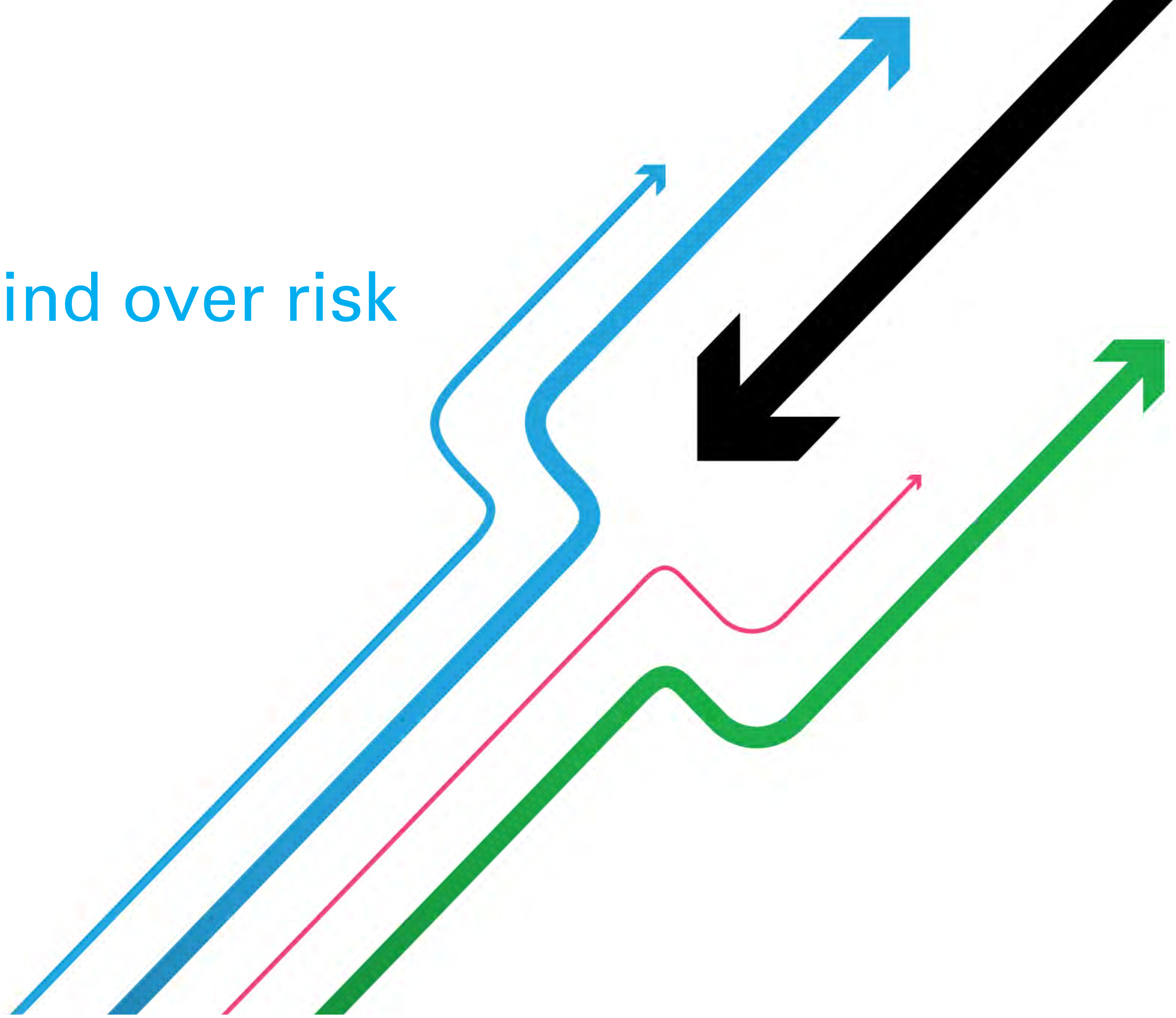


Source: Willis Towers Watson

Private technology investments by (re)insurers



Source: Willis Towers Watson



RATIONALITY AND RELEVANCE

There has been a return to rationality in the global reinsurance market and PartnerRe is prepped to take advantage, president and CEO Emmanuel Clarke tells **Christopher Munro**

There is little doubt that the non-life reinsurance industry is currently enjoying something of a moment.

After years of depressed pricing, the past 12 months or so has seen an uptick in the industry's fortunes, with reinsurers deciding, "Enough is enough" and refusing to countenance further wholesale rate reductions.

While there are improvements, it is certainly premature to say that reinsurance is basking under blue skies and glowing sunshine. Instead, a more apt description would be that the clouds are beginning to part and there are some bright spots.

But there is certainly optimism about these rays of light.

Talking to *Insider Quarterly*, PartnerRe's president and chief executive Emmanuel Clarke says he is bullish about the industry's prospects in light of the shift in pricing trends.

"On the non-life side, I'm as optimistic and encouraged as I've been in maybe the last 10 years," he says.

"There are some classes of business where we're seeing significant price improvements which we haven't seen since 2002 and 2003, and there seems to be an acceleration of that momentum," Clarke adds.

Rational and disciplined

The market is a very interesting one at present, Clarke explains, noting it "is very positive and rational".

He continues: "It is a return to rationality after a sustained period of inadequate pricing and substandard returns. What is interesting with this market is that the balance between supply versus demand is not modified especially. There's still more supply of capacity than demand, and there's been no wholesale change across the board."

Instead, Clarke says, there has been a shift in the industry's mindset.

"What we see is more disciplined behaviour to bring corrections where they need to happen. We've seen increasing pressure on commissions on proportional business and we've seen increasing rates on excess of loss. That's been driven by the underlying loss experience of the various segments and products, and the market's view of changes in frequency and severity."

These changes have not been across the board, however, with Clarke noting that in some classes of business, geographies and operating segments, there have been "some major corrections", whereas in others, there have not.

"Broadly speaking, the US is definitely moving up and so are a number of classes in specialty. The latter is more being led by the London market," Clarke says.

"In the US, we are seeing improving pricing in all segments, but not workers' comp which is still very competitive, so not a wholesale change."

One of the interesting aspects of the recent rate revival is that the corrections have been more notable in the primary space rather than on the reinsurance side. That has certainly been beneficial to those who write proportional treaty reinsurance business.

"The majority of our book is more proportional, versus non-proportional, so particularly in those areas that have seen increases, we have benefited directly from them. And that's the same for a number of specialty classes as well. [The increases are] happening in aviation, energy, marine and in energy onshore. These sorts of markets where there are double-digit rate increases will benefit both the primaries and the reinsurers," says Clarke.

> "Were we happy with the pricing and could more have been done? I think the market could have done more on the reinsurance side"

Renewals then and now

As Clarke highlights, PartnerRe has been a beneficiary of these recent rate rises, although he feels the market could, and perhaps should, have done more to bolster pricing further. However, the recent loss creep on events such as Typhoon Jebi means the next renewal will see additional increases.

"In the recent renewals, what we saw was broadly what we expected. In Japan, Jebi saw some meaningful [loss estimate] increases after the renewal and so in hindsight, you could say we should have charged more. But the market will continue to adjust next year based on what we know, and we will know at the renewal next year what the ultimate number for Jebi will be.

"Overall, what we saw in Japan, in Florida and at the 1 July renewals was pretty much what we expected."

However, Clarke also feels that reinsurers could have pushed harder to get even better terms than those ultimately agreed.

"Were we happy with the pricing and could more have been done? I think the market could have done more on the reinsurance side. The primary players are the ones seeing the loss trends first, and they're reacting in a good way. I think reinsurers will probably respond, but with a lag."

The tightening in the availability of retrocession cover for catastrophe exposures has already had an impact on reinsurance pricing for that segment, but Clarke predicts there may be more to come.

"What's interesting is anything on the cat side that's loss-affected has had a meaningful increase in price," he says.

"Anything that's not loss-affected and [where] there's no capacity increase needed, [is] basically flat or marginally flat. Any accounts that are clean or non-loss affected but require more capacity are being charged for increased pricing. Every time anyone needs more capacity there's a price tag to it because capacity has left the market."

Underwriting boost

PartnerRe posted its results for the second quarter of 2019 in late July, and in its earnings announcement the reinsurer outlined how the improved underwriting conditions have benefited the business.

In the announcement, Clarke said the company had been "encouraged by the better market conditions we are seeing in large portions of our non-life business".

That was evident in the Bermudian reinsurer's numbers for the quarter.

PartnerRe's non-life net premiums written for the quarter reached $1.45bn, up 15 percent compared with the prior-year period. Of that $1.45bn, the P&C segment accounted for $849mn, an increase of 24 percent compared with the same three months in 2018. PartnerRe's specialty reinsurance arm generated

Continued on page 24

$598mn of net premiums written in the second quarter of 2019, up 5 percent year on year.

When asked to consider the next major renewal at 1 January 2020, Clarke returned to his initial theme.

"In a rational market, people will continue to reflect upon what their true view of risk is based on what their experience has been. It's almost mechanical. It's not about whether there's still a lot of supply of capital. If the prices mathematically, actuarially and experience-wise need to increase, then I'm pretty confident that they'll continue to increase."

> "My expectation is clients and brokers will want to go out early and secure capacity on clean, non-loss affected business with some price increases just to get it. If I was a buyer, that's what I would do"

Obviously, any major losses arising from the North Atlantic hurricane season would give underwriters further fuel to push for improved pricing and terms and conditions. But even without the potential impact of any catastrophe activity, Clarke believes the current firm pricing trend will continue.

"Barring any abnormal loss experience over the next few weeks and months, I expect the market to remain firm and rational," he says.

"What I see on the primary side is that in June and July there was an acceleration in rate increases, and I expect to see further momentum in that. When it comes to reinsurance, there won't be a lot of appetite for any price erosion."

Given both the traditional and alternative market catastrophe capacity that has left the field of play, there is little left for anyone seeking to grow their programmes. As such, Clarke anticipates that there will not be room for any price erosion when it comes to cat renewals.

"My expectation is clients and brokers will want to go out early and maybe secure the capacity on the clean, non-loss affected business with some price increases just to get it," he predicts. "If I was a buyer, that's what I would do."

He adds: "Sometimes people try to be smart and go last and it pays off when people stay off capacity, but I think this time people would be better off going out early."

Streamlined approach

Clarke says the company is in a strong position to take advantage of the current trading conditions in the reinsurance market.

Back in March, the company removed a layer of management, which led to the departure of P&C CEO Charles Goldie. The wider move to streamline the business, Clarke explained at the time, made PartnerRe more agile and put it in a better position to make quicker decisions. It also brought PartnerRe closer to its clients.

The structural changes saw PartnerRe split its P&C division into three segments: Americas; Europe, Middle East and Africa; and Asia Pacific.

"The change has proved to be a good one," Clarke says, adding: "It gives us that extra bit of agility to interact with our clients."

That agility is important at a time when the reinsurance industry continues to evolve at pace, with new risks coming to the fore, various forms of capital increasingly coming into play and M&A making ever larger and, theoretically, stronger companies.

"There's a need for relevance," Clarke says. "Companies like ourselves that are well positioned throughout the whole non-life spectrum and can provide the whole range of products clearly have an advantage of benefiting from that."

PartnerRe is both global and diversified, but its existence solely as a reinsurer without the baggage of an insurance arm is also a boost for the business.

"Being a pure reinsurer carries a competitive advantage in the way that a lot of our clients want to do more business with us because we're not competing with them," Clarke says.

A good partner

In the course of our discussion, Clarke pinpoints terms such as "relevance" and "agility", both familiar buzzwords used to describe certain companies and businesses, but he is adamant that such descriptors are still key in the reinsurance industry.

"Relevance is important," he insists. "It's always difficult to decide where you draw the lines between the tiers because people tend to define them depending on where their company is, so I don't like to talk about the tiers. What matters is do companies have the ability to be a core reinsurance partner to some of the large, complex buyers? And we do have that."

Clarke says the proof of PartnerRe's speed and agility is in the trades and deals it is making.

"We aim to be a preferred reinsurance partner to our clients and we believe we have what it takes to be that. We will do this by being a global, diversified pure reinsurer with relevance and agility."

At a time when there is increasing consolidation of reinsurance panels, Clarke says PartnerRe is "there whether the clients want to pick five reinsurers, 10 reinsurers or anything between".

"We have the capabilities and have been selected as a core reinsurance partner for our clients. We have the breadth of offerings and we have the solutions to provide, we have the relationships, we have the history, we have the claims-paying ability and we have the balance sheet strength, so we have everything we need."

The PartnerRe head says the firm is growing the business "over time by being a good partner to our clients".

"And that's what will help us grow the value of the company," he concludes.

Lumen Re

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Autumn 2019

THE INSURANCE Insider

BERMUDA (RE)INSURANCE ROUNDTABLE 2019

Embrace the future

The (re)insurance industry has some catching up to do with the wider pace of technological change in the financial services sector

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phinsys

On its toes

The pace of technological change within the global (re)insurance industry has ramped up in recent years, with the advent of the InsurTech space keeping many in the market on their toes.

But technology is not only shaping how the end-customer interacts with carriers and brokers, it is also transforming the back office by streamlining functions and processing data far more quickly than before.

This was just one of the topics discussed during a roundtable in Bermuda, hosted by *The Insurance Insider* in partnership with software specialist Phinsys.

"For those who work in the (re)insurance industry, the embracing of technology has been a welcome development"

For those who work in the (re)insurance industry, the embracing of technology has been a welcome development – market professionals now have far easier access to high quality data than in the past. But the industry still has some catching up to do, especially when compared with the banking industry which has been embracing new technologies for decades.

The (re)insurance market is well aware that calculating expected losses takes time, and even then exposure estimates are notoriously fluid – initial numbers issued are rarely accurate and can shift significantly as time progresses.

That is in stark contrast to the banking community which expects as close to real-time updates as possible on its investments and risk exposure.

One interesting dynamic is in play in the areas of the market where the banking and (re)insurance industries collide, for example in the ILS space. Are investors getting the up-to-the-moment data and information they need, or is there still a time lag? If so, is that stymying the growth of the ILS space?

Aside from issues around reporting, the roundtable participants considered what the (re)insurance company of the future will look like. There has been considerable industry talk about matching the right capital with the right risk, and some roundtable participants felt that the (re)insurance carrier of the future would have a dedicated platform that can tap into the ILS market.

As the discussion took place in Bermuda, it was only fitting that the topic of the island's position in the global (re)insurance landscape was also considered. Bermuda remains the pre-eminent jurisdiction for ILS, but its hold on the crown is under threat from domiciles such as London and Singapore, to name but two.

As such, participants agreed that Bermuda could not be complacent and there was an acknowledgement that the moves being made by the island's regulator are a step in the right direction towards it retaining its position of strength in the global (re)insurance industry.

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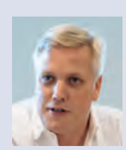

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Bermuda (re)insurance
Roundtable 2019

Christopher Munro
The reinsurance industry has seen a real increase in new forms of capital coming into the market, the most notable example being in the ILS market in the growth of catastrophe bonds and similar ILS structures. How do you think this area is evolving, starting in the catastrophe space?

Elizabeth Breeze
After two years of significant losses, the trend we are seeing is a pause and a reflection from our investors. They are looking at the asset class and some of the challenges that have materialised over the past couple of years, such as the stability of NAV valuations and how rates have shifted after significant catastrophe events.

The second thing I would say is there is a flight to quality. They are looking at the quality of the ILS manager they are investing in – how they prepare their NAV valuations, how they go about providing insight into the strategies being undertaken – and really trying to assess more rigorously where they are allocating their money in the asset class.

"At the end of last year we estimated there was about $100bn of capital in the ILS space. Now, with trapped collateral and industry losses, that's probably down to about $90bn"

Anup Seth

Christopher Munro
It's interesting that you talk about a flight to quality. David, what are your thoughts on that development?

David Brown
To a certain degree it is a natural evolution. The initial phase of ILS included a number of years without significant catastrophe activity or catastrophe losses, so now you're getting people looking at the risk more closely and you're going to get more attuned investors in the space going forward.

Looking forward from an investor perspective, we're going to see growth in products as well, but part of that is trying to look at the tail risk on other products. We've had the issue with trapped capital and to a certain degree that has driven the rate increase in the broader market.

Hinal Patel
The 2017/18 losses have changed investors' thought processes and behaviour. They are trying to understand the risk much more, and looking for differentiators.

When you think about how you access a business, the question is – are you getting access to the good business or are you just one of the following markets? Is there a differentiation within your underwriting process, especially in terms of the tools you use? Have you got the capabilities to analyse risk on a live basis? When you get a risk in, does it suit your portfolio and can you optimise that risk-return trade-off? Investors are now wanting to see a greater alignment of interests through the fee structure and through ownership.

Anup Seth
At the end of last year we estimated there was about $100bn of capital in the ILS space, out of around $650bn. Now, with the trapped collateral and the losses the industry has incurred, that's probably down to about $90bn.

Last 1 January a lot of funds reloaded, whereas that wasn't the case in 2019. I would also bifurcate the investor classes. One set sees this as purely an asset class and they're reviewing the risk-adjusted returns. If those are still attractive, they will continue to invest. The second sees it as a long-term business. They are beginning to invest in infrastructure and they're making sure they have the right underwriting, origination and distribution.

Christopher Munro
Talking about property cat and the losses in the past couple of years, there's been a lot of scepticism about whether, once the market has been tested, it's going to go away and not come back. But there seem to be a lot of investors around for

the long term. There's been a lot of talk about moving into casualty, with non-damage cyber cover and the demand for a cyber ILS product. Are you seeing demand for that kind of innovation – and a broadening out of the sector?

Anup Seth
There's certainly interest and they're looking to diversify with pure nat cat. However, when you look at nat cat itself, there's still a huge amount to be done – whether it's weather-related or non-modelled – and those are areas where we're seeing investments. We haven't seen meaningful investment in the standalone non-property cat space as yet, but the industry will develop outside the property cat cul de sac. It has to because it's such a large area of investment – they will naturally look for diversification.

Scott Watson-Brown
On the concept of a pause, I don't see a massive rush of capital going into that market. Outside traditional cat, we see a lot of activity in the run-off P&C space – that's where we're seeing endowments and private equity groups come in and make allocations. But there are still some challenges around the concentration risk and due diligence on those books; having the right teams to undertake due diligence across a variety of insureds and navigate the regulatory risks is essential. A poor acquisition can sit in the portfolio for quite some time.

There's still a lot of work to do in that area, and governance policy, procedures, independence, non-executive directors and so on are a big piece on the operational side. Once you move away from the strategy there is a focus on investors pushing that institutional expectation about how they behave on to the managers.

James Ferris
That's an interesting comment about catastrophe and [insurance-linked] securities. We are seeing interest from the market in exploring establishing vehicles and buying businesses that are doing that. As a classic consultant, I'll answer by asking a question. It was interesting to hear about the diligence that's going on in terms of new investment. So I wonder what people are seeing in terms of all the trapped capital and whether anyone is pushing to see whether more can be done to get that capital released. Or are the investors just accepting the fact that this is trapped for a number of years?

Elizabeth Breeze
Our investors understood the class they were investing in and that trapped collateral would materialise post-loss. They also understand that they are likely to get returns from that side-pocketed trapped collateral. At the moment, they are not willing to give up the value that is contained there. If you were to sell it off you would be doing so at a significant discount. We've been approached by a number of parties on the island who are interested in trying to do something in this space, but the reality is that it's an investor-led decision, and there isn't really the appetite to do that at the moment. That may change over the longer term.

Ritendra Roy
We talk to a lot of large asset managers and they want to allocate more capital to the ILS space for two reasons. First, they are over-concentrated in private credit and would like to diversify their portfolios. Second, especially in the US, they're thinking that the life cycle of any ILS investment will be less affected by recession because insurance markets are not closely tied to economic cycles.

The reason they're not allocating more capital to ILS revolves around the question of whether they are going to be fairly compensated for the risk. The issue of being properly compensated relates directly to the quality of the underwriter and whether the losses are quantifiable in a short period of time. If investors are comfortable about getting money back within a reasonable amount of time and the underwriter they are picking is differentiated, more money will be allocated to the sector.

"After two years of significant losses, the trend we are seeing is a pause and a reflection from our investors"

Elizabeth Breeze

David Silver
We're also seeing a lot of interest on the life ILS side. Apollo is reportedly raising $9bn for its various strategies, of which more than half will reportedly be directed towards ILS investments, including a portion towards life settlements. It was [recently] announced that private equity firms Reverence Capital and RedBird Capital had acquired Vida Capital, an ILS manager heavily focused on life settlements. So we're seeing a lot of PE interest as well in ILS and insurance-related assets. Private equity returns are starting to get squeezed as PEs are having to put more equity into their trades to be competitive so they are looking for niche opportunities where they can generate returns, one of which is insurance-related investments and ILS.

"If you look outside the ILS asset class, the pressure is building to raise the level and frequency of information disclosure"

Ritendra Roy

Christopher Munro
Reinsurers are increasingly using various forms of capital within their own operations as they try to match the right risk with the right capital. However, capital markets are used to up-to-the-minute mark-to-markets on positions. How are reinsurers keeping on top of the reporting criteria required of them?

Hinal Patel
Investors clearly want more up-to-date information. A lot of them want at least monthly NAVs and we try to explain to them the volatility associated with that. For example, if you look back to 2017 and the initial estimates that came out for Hurricane Maria, AIR estimated $40bn-$80bn of losses and then a couple of months later they were down to half that. Last year we had Jebi where initial estimates were $3bn-$4bn. By the end of the year they were probably nearer $7bn-$9bn, and now the market is talking about $13bn, $14bn or even $15bn. So, with more frequent NAVs and even monthly NAVs there is a risk of losing investor confidence through constant revisions in estimates.

Elizabeth Breeze
Our investors demand and expect monthly NAVs and I do not see this changing. However, I do think it is important to manage expectations and be clear on the uncertainties that exist in those valuations.

The quality of the ILS manager and the benefits of an aligned model also come into play. Because of our longstanding relationships with our cedants, the quality of claims insight you can get makes the NAV you can produce much stronger. You're shortening the information flow from the actual loss point to feeding it into that NAV, so you can respond more quickly.

Equally, history helps in terms of projecting how and where claims will develop, so you can build a cautious view of how to manage that investor's expectations.

Reeva Bakhshi
Is anyone is under pressure to give NAVs more frequently than monthly? Because when I was doing this three years ago, they were settling on monthly but frankly we saw it as a benchmark expectation, and managing that two-monthly was an exercise in itself.

Anup Seth
We haven't moved from more frequent than monthly. But what we have seen is investors demanding a more robust valuation or reserving process and an actual valuation policy. Before they invest they want to understand the valuation policy and have an independent review. The other point is having robust exposure management software and a strong technology base. When you look at how quickly you have to do these calculations, it's not really a true reserving analysis, it's more an exposure management analysis. It's really important that you've got the right technology to map your exposures.

Reeva Bakhshi
That was all very much part and parcel of most of the due diligence assessment and the education process of bringing investors in. You're competing with asset classes giving clear valuations on a daily basis and they're used to that flow of information. As an industry we've speeded up – we can do reserving quarterly or annually and roll that from month to month – but we're uncomfortable with the degree of uncertainty within those. However, there is a point at which demand will outpace [our ability] to compete

Scott Watson-Brown
That's where keeping discussions real and making an investor aware of what risks are inherent in the valuation process is important. They need to understand that uncertainty. When people get it wrong, we've had investors are on the phone getting irate – whether new side pockets have been created, or [there are] adjustments in NAVs for events some time in the past. To the point about robust policies and procedures, with the valuation process there are even requests about who sits on valuation committees now and whether they open that up a bit more. There is keen interest in how you go through your valuation process and how you're applying it.

David Brown
There will continue to be a demand for timely and accurate information. We are working with a number of the ILS players on developing automated solutions related to valuations which is not only going to improve the frequency and accuracy of information but also the corporate governance around it.

Martin Maringi
From a regulatory point of view, we see ILS as a hybrid

between asset management and insurance. When we examine the insurance vehicle, one of the questions we ask is – how credible is the information the insurance company is providing? We are interested in understanding the robustness of the valuation processes and the insurance vehicle's process for judging whether it is producing credible financial data in line with robust reserving practices and standards.

Ritendra Roy

If you look outside the ILS asset class, the pressure is building to raise the level and frequency of information disclosure. Clearly, the job of the industry is to explain, if monthly is the right standard, why that is, and then to stick to it. So long as a consistent message goes to investors, with the support of the regulator, we'll be fine. However, pressure from investors is going to increase.

Richard Tyler

We supply an ILS provider with the systems that allocate IBNR to the right level of detail, and changing the reserving process to be more frequent than quarterly is unlikely to happen. So what we're looking at is how we get IBNR more accurately assigned to the risks it's truly protecting and how you change that allocation as more information comes in to give a more accurate assignment. From there you get into the allocation to fund from within those risks. So it's more from that perspective that people are saying we're not able to do this more frequently but we want it to be better in terms of how we produce the NAV from that data at a point in time.

Elizabeth Breeze

The NAV I'm most focused on is when any investor is subscribing or redeeming from our funds and that's the most critical point. But we involve an actuary every single month in our processes because we believe in the quality of that NAV we're issuing. And we have a valuation policy and a valuation committee that meets every month.

Richard Tyler

That's different from the rest of the insurance company? It's interesting that you potentially have different practices for the ILS side than for the insurance company. Do you end up mirroring that across the insurance company ultimately?

Elizabeth Breeze

I wouldn't have thought so. There's a distinction between a property book and a casualty book, and when the rest of your business is casualty, anything more than quarterly makes no sense. I don't see the practice changing globally for an insurance company. But certainly on the property side, for the ILS investors, that's what they are demanding and it's what we provide.

Christopher Munro

We're seeing growth in alternative forms of capital coming into the industry, and few reinsurance companies don't now have some sort of capital markets offering. Does that put pressure on companies to have separate types of reporting, depending on who their capital providers are?

Anup Seth

Scott mentioned the side-pocketing. There are mechanisms available to address the accuracy and ultimately you're concerned about whether you're going to trade or not on the basis of that NAV. If you're concerned that certain policies are going to be exposed, once you've side-pocketed them you can't trade them for a certain period of time and that gives time for the claim to develop. Then you are able to develop an estimate with more accuracy that you can trade on after a certain period. So the industry is coming up with solutions for that type of challenge and more and more companies are using this hybrid approach.

On the other side, ILS investors have looked at the challenges of the fully collateralised model and they have evolved, and are setting up their own rated reinsurers to compete with the traditional model.

David Brown

It's positive for long-term growth that we're seeing a lot of reinsurance companies in the marketplace continuing to focus on ILS-type products, especially with strategic partnerships.

But related to the combination of reporting, you have to look at the different investors involved and how you report to them. Convergence is an old word but, at the same time, when we think about the industry – especially with strategic partnerships – we think about it in total because reinsurers have come to look a lot more like ILS and ILS is certainly looking a lot more like reinsurance.

Hinal Patel

On the convergence side, if you look five or 10 years down the line, with low- or medium-rate-on-line products you

"Changing the reserving process for an ILS provider to be more frequent than quarterly is unlikely to happen"

Richard Tyler

"The ILS market will develop into other areas of cat and other lines of business, and more carriers will have an ILS-dedicated or market-facing vehicle"

Hinal Patel

still need a rated balance sheet because of the tail risk. That is going to limit the size of the ILS market because, at some point, there's going to be too much tail risk going on to a rated balance sheet. When you look at how AM Best have changed their rating process, even though their BCAR model uses up to the 1-in-250, when they do their rating notching process their ERM criteria look further out on the scale – they're looking at 1-in-500. So that tail element is going to be very important. The two have to co-exist and it's not going to be the case that in five or 10 years we see ILS replacing reinsurers.

Christopher Munro
That's a nice segue onto the next point which is what will the insurance or reinsurance company of the next five to 10 years look like?

Hinal Patel
The ILS market will develop into other areas of cat and other lines of business, and more carriers will have an ILS-dedicated, market-facing vehicle or other access to third-party capital, along with their rated carrier. But as I said, the two have to co-exist.

David Brown
When you look at the evolution of the market, you see a lot of capital that still wants to come into the industry in some form or another. And then you have some pretty significant under-served markets. ILS or alternative capital is probably going to be a big part of filling that void. When you look at places in the world that are just under-insured, or areas such as flood in the US, and you look at all these other exposures from a technology perspective – and cyber is just one aspect of that – there are opportunities for growth. Matching the right risks with the right capital sources will be key.

James Ferris
We've got a number of emerging insurance markets and emerging capital markets. Singapore is becoming bigger. China hasn't yet made the moves it could. So the question is – what risks will they be covering? What will the capital markets that come into this industry look like? And, bringing it to Bermuda, what will the ILS business look like because ILS is a big player in Bermuda and we punch well above our weight, but there are people looking to take that crown. So we need to be looking to the future and where we'll be in five or 10 years' time. We need the regulators and the industry onside and the capital markets to come in to make sure that Bermuda stays ahead of its game.

Christopher Munro
Singapore has been keen to develop its own ILS market and has been pushing for regulation. London did so the year before last. There has been a lot of talk about Bermuda's role as the pre-eminent market for ILS. Martin, what are your thoughts on what Bermuda can do to make sure it is the home for this?

Martin Maringi
We have been tracking developments in other jurisdictions. We also recognise that Bermuda continues to be a leader in insurance risk securitisation, but we cannot be complacent. We are committed to continuing to be at the forefront of innovation in ILS. For example, we spent the past 12 months having in-depth discussions with the ILS industry to explore how we should shape Bermuda's regulatory regime to accommodate recent innovations that we have seen in the ILS sector. The outcome was the introduction of a dedicated ILS class called the collateralised insurer.

This class has the operational flexibility to accommodate the continuing transformation of ILS products, structures and origination models. With it, Bermuda will have the licensing infrastructure to cater to the full spectrum of the differing and evolving needs of ILS capital such as structured legacy covers, life and casualty-ILS deals.

Richard Tyler
As a software provider, and from a London perspective, we're interested in some of the things that John Neal is saying about follow-only syndicates, where in effect they're not going to have to set up insurance companies. The question is how that goes in terms of the investment that comes in – is it another vehicle that ends up having alternative capital invested in it?

Suddenly, we end up with more of a managing agency piece that is processing the writing of risk, premiums and claims, and then you apportion the result out to whoever has done it and pay a managing agency fee. That's quite a change in the market, potentially separating out the insurance capital provider and the processing people.
Do you see those changes from Neal as trying to get a chunk

of that alternative capital going into Lloyd's rather than into Bermuda?

Martin Maringi
Yes, we are watching that. Our job is to listen to our stakeholders and provide prudent solutions to address the needs of the ILS sector. The Bermuda market, including the regulator, has innovation in its DNA and a record of meeting the needs of ILS-capital. One of our key success factors is a fit-for-purpose and flexible class regime that recognises sectoral differences. For example, the new collateralised insurer class offers more operational flexibility, but there is a trade-off; risk management, governance, and the operational infrastructure will need to be in place to support the higher risk profile.

Scott Watson-Brown
The listening part is key. Because the regulator is not there as a business development agency but it is up to the industry bodies to lobby hard, especially when there's product innovation coming through. They also have to educate the regulator because there is a lot of expertise out there in the marketplace and they need to draw upon that if they want to explain to the regulator why this is good for the jurisdiction and how they can help regulate the risk.

Christopher Munro
What are the material shifts and changes in the (re)insurance regulatory environment, and how are they changing the landscape?

James Ferris
The regulator has set up an insurance sandbox, which is there to support the industry to develop products. The FCA in the UK has a sandbox with a wider financial services scope and some big companies use it to try things out, and most of this isn't insurance-focused. What I would like to see from the BMA is an expansion of that sandbox to get the best use out of it and see the market using it more. The FinTech industry should be taking advantage of the sandbox and coming to Bermuda, and start working alongside insurers and reinsurers to develop products.

Reeva Bakhshi
One of the things that's made Bermuda more successful is its location and the proximity of everybody, but also its adaptability. When other jurisdictions come in and take on more available structures to respond, Bermuda responds in a different way again and a new class or a new area opens up. So over the next 5 to 10 years Bermuda is probably going to be the first place where those areas are kept in mind. While in other jurisdictions it takes a long time to do anything. Bermuda's massive advantage is that it doesn't.

Martin Maringi
In the technology space, we are spending a significant amount of time developing a number of regulatory solutions including the digital asset framework. Similar to the convergence of insurance and capital markets in the form of ILS, we envision the next frontier will be the convergence of insurance, capital markets, AI and distributed ledger technology such as blockchain, both with and without digital assets. Accordingly, the BMA has created a new category of insurance intermediary – the insurance market place – as well as an insurance regulatory sandbox to position its insurance regulatory framework to address these innovations.

Christopher Munro
Do investors tend to lead the charge for changes in reporting, which regulators then follow?

Ritendra Roy
The next generation of companies going into reinsurance are going to have both alternative capital capacity as well as traditional reinsurance. From an M&A perspective, reinsurers are acquiring alternative asset management capabilities and vice versa. Lot of consolidation has taken place already, so for the next generation of Ed Noonans setting up vehicles it is not going to be pure reinsurance or pure alternative capital, it will be a hybrid. For a hybrid vehicle, the reporting challenges will be more timely reporting, more data and having systems that communicate seamlessly with external counterparts.

Anup Seth
Another trend we're seeing is investors driving to get closer to the end risk. It started with the retro play and then moved on to reinsurance; now some investors are saying they want to be the direct writer. So we're beginning to effectively combine investors with MGAs, and a significant amount of investment has gone into Aon's MGA business. They will retain most of that risk and the challenge there is making sure there are sufficient risk-adjusted returns.

"When you look at the evolution of the market, you see a lot of capital that still wants to come into the industry in some form or another"

David L. Brown

Ritendra Roy

The other metric being used is unit cost of risk on the balance sheet. Traditionally, it's costing a lot to get closer to that unit of risk, in terms of all the processes required to bring it onto the balance sheet. Investors can go much closer through an MGA or a fronting company. Aon or a reinsurer then places it onto their balance sheet and it's the same unit of risk, but acquired at a much lower cost.

Christopher Munro

Moving on to InsurTech, the majority of InsurTech solutions have been targeted at personal lines and primary markets. What has been offered to the reinsurance industry and what do you think the industry should be looking to get from InsurTech in the future?

Anup Seth

One of the areas where we've seen a few companies develop – though none have taken off yet – is a trading platform for ILS solutions or policies. That would add to the liquidity of the marketplace and take it to another level if one of those platforms goes live and gains traction.

When you set up an account with this entity you define your risk appetite. At the front end the entity acts as a reinsurer and reinsures some risks. It then bifurcates that risk to allocate those exposures based on appetite to those tradable accounts.

The concept hasn't taken off yet but if it did it would change the way you're accessing or putting together capital and risk, and would be a great way to take the ILS industry to the next level.

Hinal Patel

From an insurance company point of view, having InsurTech to reduce expense would be great in terms of helping with the back office, but also in trying to produce data to enable underwriters to make better decisions. There are InsurTech companies who use AI to mine data available on the internet to find out more information about a particular risk. But the key thing is whether that data is reliable.

The second point is, once you have the data, how do you use it? InsurTech companies can take that data and use machine learning and AI to produce pricing models to help underwriters with making those decisions.

James Ferris

We can't get away with not talking about blockchain. In five or 10 years' time we'll see it as a big cost saving to the industry – a bit like spreadsheets in the day – and something everyone uses to make life easier. Think about the amount of money that's wasted in trying to ensure that information that comes from the insured all the way through to the reinsurer is accurate. Using blockchain technology, there will be one version available to everyone, and we see that as extracting billions out of the cost of the insurance industry.

David Silver

A lot of InsurTech has been focused on processes and driving efficiencies in the value chain. What InsurTech is also going to do is generate the opportunity and ability for new types of insurable risks – one of which will obviously be cyber. Another opportunity is the gig economy and the new types of risk that are coming and will come from this arena. We are familiar with a start-up that provides a technology platform whereby consumers can share a risk with one another directly instead of taking out an insurance policy – one example of where new reinsurance opportunities will come about.

Scott Watson-Brown

The reinsurance industry is ripe for a shake-up of technology. Consider non-standard forms and agreements, and the time wasted on that. If you look at the capital markets, once that was developed it took a lot of pain and suffering out of the admin around managing swap agreements and stuff like that overnight. But it really needs an aggregation of all the available technology into a usable form for the industry to take advantage of.

David Brown

When we talk about InsurTech a lot of it is at the front end on the primary side. But when you look at the underwriting side, at the way some of the AI can explore what's in the flood plain and the drone technology reinsurers can use to validate data they're seeing from cedants and so on, it's going to play a big part. There are also significant opportunities to improve accuracy and efficiency in processing and other back office functions.

Richard Tyler

There's still a big opportunity for (re)insurance companies to channel a lot of the risks they want to access through an exchange and share the direct risks they're trying to cede to other people without the need for a big reinsurance brokerage pass-through. There's a lot of efficiency to be gained in that market.

There is still a place for the reinsurance broker on complex risks, to manage the whole claims process and the cycle, but a ton of reinsurance could be written directly between players.

Ritendra Roy

The one thing that is under-emphasised from the innovation perspective is the reinsurers' ability to partner. Reinsurers are never going to be the best venture capital investors. The incentives are not right for companies in Silicon Valley to sell to reinsurers. On average, the investments will have average performance and you're not going to be able to spend enough money internally on technology to innovate across the value chain. The ability to partner with technology companies is going to be the key differentiator. Partnering is a somewhat alien concept to the insurance industry today – suddenly it's no longer a closed eco-system.

When AM Best talks about innovation, they tend to focus on how much you're spending on technology dollars and that's a short-sighted way of looking at reinsurers. The reinsurers of tomorrow that can partner effectively are the ones that will stand out.

Christopher Munro

I think that might be a good point to bring it to a close. Thank you very much for your time everyone.

BRIGHT SPARKS

The potential of the Lloyd's Lab for the (re)insurance market is significant, driving innovation that is set to spark real change, say Barbican's **Eleanor O'Shea** and **Neil McGeachie**

September sees the third cohort enter the Lloyd's Lab. Composed of 11 teams across technologies as diverse as microweather™ forecasting, instant-settlement flood insurance and cognitive automation, the latest tranche of start-ups and businesses will seek to move the Lloyd's innovation dial forward.

Unlike the previous two cohorts, which focused on market challenges across themes including customer experience, back-office efficiencies and next-generation insurance products, the direction of focus for the new cohort is set by The Future at Lloyd's programme.

The innovation remit for the companies is extensive, spanning the full technical scope of the new market vision. Lloyd's has charged them with "finding solutions with the potential to contribute to the ecosystem of services as part of The Future at Lloyd's vision", targeting areas such as data sharing, pricing and risk models, claims processing costs and compliance.

While this may seem a considerable task, the potential the Lloyd's Lab is creating is significant and, given what has been achieved to date, could spark real change.

33 and counting

The third cohort brings to 33 the number of businesses that have participated in the global (re)insurance market's innovation accelerator initiative. This group has been distilled from hundreds of applicants from across the globe, each undergoing a stringent selection process that culminates in a pitch day when the shortlist is whittled down to the final cohort.

While these are relatively new operations – given the nature of the technologies and solutions they offer – these organisations have already demonstrated the value of their wares, through operating systems that are tried and tested in other markets.

For example, the two most recent companies that Barbican has mentored are already integral parts of the infrastructure of a major high-street bank and one of the most prestigious car manufacturers in the world.

That the Lloyd's Lab should be attracting such companies reflects the scale of opportunity the market offers. In some respects, it has been a relatively closed shop in the past, with much of the infrastructure, systems and processes provided by a relatively small number of solution providers.

Further, it is a data-driven market that is now recognising the huge

> "This group has been distilled from hundreds of applicants from across the globe, each undergoing a stringent selection process that culminates in a pitch day when the shortlist is whittled down to the final cohort"

analytical potential created by new technologies such as artificial intelligence and machine learning.

The Lloyd's benefit

The challenge that many of these innovative companies have faced, however, is how to gain access to that market. While some have evolved within the walls of the (re)insurance market, the majority have earned their spurs in very different sectors

> "While some [companies] have evolved within the walls of the (re)insurance market, the majority have earned their spurs in very different sectors and have little insight into the workings of Lloyd's"

and have little insight into the workings of the Lloyd's market.

And that is fundamentally what the Lloyd's Lab facilitates – direct contact between these start-ups and market practitioners. It is only at that point where these two forces meet that tangible solutions to ingrained problems can begin to take shape.

However, time is at a premium, with each cohort restricted to a period of 10 weeks in which to develop a viable solution to a specific challenge or range of issues. Barbican has been part of the mentoring team since the initial cohort, and our first piece of advice is to hit the ground running and optimise the time carefully – spending the initial few weeks getting an understanding of the issues before stepping back to develop the possible solutions.

From our perspective, the level of dynamism and creativity that the initiative has helped foster has been astonishing. By walking through the doors of the Lloyd's Lab, the start-ups are instantaneously opening the doors of dozens of companies in the market that they would not previously have been able to approach.

Fast lane to success

This work with the start-ups has opened up a two-way learning

ELEANOR O'SHEA is group procurement manager at Barbican Insurance Group

NEIL MCGEACHIE is managing director, Barbican Group Operations Services

stream. Working closely with our fellow mentors, we have been able to detail the multiple challenges we face – and in so doing, become aware ourselves of just how similar our issues are to those of other market participants, irrespective of size or scale.

As practitioners, we are able to be hands-on with their technologies and capabilities, allowing us to develop a working understanding of the scope of what is possible. So intense is this learning process, that one senior figure described it as like drinking from a fire hose.

The companies we worked with had had no previous contact with the Lloyd's market. But it quickly became apparent that the problems we were describing were similar to those they had already addressed in other sectors – and while the market is a unique working environment, the adaptive capabilities of the solutions the companies already maintained meant they could be moulded relatively easily to meet the demands of our challenges.

Working with one start-up, over the 10 weeks we were able to develop a working example of how a compliance-related solution could deliver enhanced oversight, better control and more effective monitoring, while being able to quantify the cost savings based on current procedures that this delivered.

For another company, we helped develop four use cases for their in-house technology solutions, including a new submission workflow tool which supported the effective capture, categorisation and prioritisation of submission data, plus capabilities to 'red flag' any potential issues that might impact the underwriting decision.

Expanding the scope

In many ways, the Lloyd's market has reached an innovation tipping point and the Lloyd's Lab is helping place these companies at precisely the right place to help push it over.

That the Corporation has announced plans to expand the scope of the Lloyd's Lab, making it "a hub for the latest news on emerging risks and new products and services", as well as "a product development incubator", is not surprising. The platform is gaining traction.

Lloyd's recently announced plans to invest in Layr, a cloud-based commercial insurance platform for small businesses, which was part of the first cohort. Further, it stated that in December that six Lloyd's syndicates had subscribed to use Parsyl's Internet of Things solution following its successful Lloyd's Lab trial.

There is no doubt that what the Lloyd's Lab is achieving is significant. As one team member said, what we are creating in a matter of weeks in this environment would normally take months, if not years.

> "Working closely with our fellow mentors, we have been able to detail the multiple challenges we face – and in so doing, become aware ourselves of just how similar our issues are to those of other market participants"

But if we are to gain market-advancing momentum, we must all play our part. The Lloyd's Lab is bringing new capabilities to our very doorstep. We must take advantage of that, set aside our competitive interests, and move forward together for the greater good of our market and the broader (re)insurance industry.

REMEMBERING CHRISTCHURCH

The aftermath of the Christchurch attacks is a time to reflect on terrorism risks and how the New Zealand market must adapt to the unthinkable, says **Jake Carter**

There are many lessons to be learnt from the tragic terrorist attack in Christchurch, New Zealand, on Friday 15 March 2019. One of the biggest lessons is perhaps the need to understand the broader implications of this kind of terrorist attack and how insurance policies respond to the significant and widespread disruption caused by such incidents.

When a gunman live-streamed his attack at the Al Noor Mosque on Facebook, businesses across the Christchurch Central Business District (CBD) were forced into shutdown. The police erected cordons on a number of roads and areas around the sites of the attacks, and blocked access to various businesses in the CBD. Police also advised the public in central Christchurch to stay indoors after the attack and only allowed them to return to the CBD the following morning. The road cordons, however, were not fully removed until 23 March.

Following the incident, all mosques in the country were required to close for safety reasons and all Air New Zealand Link services departing Christchurch airport were cancelled as a precaution. Schools were placed in lockdown in the aftermath of the attacks, and a cricket test match and Super Rugby match, both scheduled for 16 March, were cancelled. The final day of The Polyfest Polynesian culture festival, which was scheduled to be held in Auckland on 16 March, was also cancelled with security concerns cited as the reason.

The terrorist incident impacted businesses not only within the cordoned-off areas of Christchurch, but throughout New Zealand. Businesses within the cordon were unable to trade until the cordon was lifted. Surrounding businesses, while they were able to resume trading, suffered losses due to these closures, as consumers understandably avoided the area.

In addition, sporting, cultural and musical events were cancelled and St Patrick's Day celebrations due to take place across the country were cancelled and replaced by more subdued community gatherings.

Policy response

The tragedy serves as a chilling reminder that terrorism can happen anywhere. In light of the significant damage and loss caused by the incident, insureds looked to their insurance policies to respond.

Insurance policies in general exclude acts of terrorism, which has been the case for many years globally because insurers cannot obtain reinsurance cover for such events. This particular clause allows insurers to decline any claim for damage to property caused in acts of terrorism.

The following is a standard exclusion clause in a business interruption policy: "Terrorism – we will not pay for any death, injury, illness, loss, damage, liability, cost or expense of any nature directly or indirectly caused by, resulting from, or in connection with, any action of terrorism regardless of any other contributing cause or event."

In the claims that were investigated, it was found that insurance cover was generally provided under these sections as the cover was triggered by bodily injury, or threat of bodily injury, under these dependencies. With that said, cover responded differently, depending on the location of the impacted business. For those located within the cordon, "access" was only impacted while the cordons were in place.

> "Most insurers were quick to waive the terrorism exclusion in light of the events in Christchurch and said they would accept claims for damage caused by the shootings"

Notwithstanding the above clause, most insurers were quick to waive the terrorism exclusion in light of the events in Christchurch and said they would accept claims for damage caused by the shootings. Such responses corresponded to the stance taken by many Australian insurers following the Lindt Café siege in Sydney in 2014. At least three insurance companies stated that they would not rely on terrorism exclusion clauses but rather pay out claims.

While such exclusion clauses may have been overridden, it still needed to meet the remaining provisions of the insurance policy for a loss to be covered.

BI coverage issues

Indemnification under business interruption cover generally requires the property of the insured (or property used by the insured) at the premises to be damaged, with the basis of settlement referring to cover only for losses resulting from that damage.

In the case of the Christchurch terrorist incident, with the exception of the mosques involved, any insured making a claim would not have suffered physical damage. When assessing these claims, Sedgwick's Forensic Advisory Services team turned to the contingent business interruption extensions and endorsements, such as "Prevention of Access" or "Acts of Civil Authority" provisions, to see whether they would respond to the loss.

JAKE CARTER is head of forensic advisory services at Sedgwick New Zealand

For businesses outside of the central Christchurch cordon, warnings to stay indoors were only enforced until early Saturday morning. Once the warnings were lifted, access to the businesses was no longer restricted. Trading of those businesses, however, was negatively impacted for a longer period.

Contingency policies

A large number of contingency policies included cover for losses arising from "terrorism" and "threat of terrorism". For terrorism cover to respond, the event must be "necessarily" cancelled as a sole and direct result of terrorism at the venue or in New Zealand, which must have been confirmed by local or national government authorities.

The challenge arises from the keyword "necessarily" stipulated in the above clause. Some of the events were not "necessarily" cancelled as a direct result of terrorism or threat of terrorism. They were cancelled out of respect and public mourning, which are not typically covered under most policies.

Notwithstanding the coverage issues highlighted above, most insurers in New Zealand reportedly have chosen to indemnify their insureds for losses arising out of the Christchurch terrorist incident. However, even when the terrorism exclusion is waived, there may be losses which fall outside of the coverage of the policy. This is not dissimilar to the situation encountered from wide-area damage following natural disasters, e.g. earthquakes, fire and floods.

A loss which will fall outside of the policy is a general downturn in the economy following an event. Should any future attacks occur, it could have a dramatic impact on the country's tourism and reputation. Hospitality would be the other major industry which could be heavily affected unless a specific industry was targeted.

Future of NZ terrorism cover

Insurers have generally waived terrorism exclusions within business interruption policies where the economic impacts have been modest. Whether or not this trend will continue, particularly if a terrorist event occurred over a wider area or caused greater economic loss, is still something which needs to be debated by the authorities and insurers.

The clause is also not something to be ruled out as the New Zealand government may consider any future event to not be likely enough to create a Pool Re-style scheme.

> "Prior to the attack, there was almost a feeling in the country that New Zealand was immune to any such attack. This feeling has all but disappeared"

In terms of policy wordings, we don't foresee any changes to terrorism wordings in light of the terrorist incident – for now.

Prior to the attack, there was almost a feeling in the country that New Zealand was immune to any such attack. This feeling has all but disappeared and the industry will start to see terrorism premiums being increased on contingency/event cancellation claims as terrorism becomes a more frequent event globally.

COMING OF AGE?

With only a few InsurTech initiatives having reached maturity, and many more yet to deliver value for money, slow and steady has proved the best strategy for success, says **Andrew Johnston**

InsurTech is beginning to come of age. Many companies remain toddlers, but some have come through the earliest, most difficult years to reach adolescence. A scant few have even reached maturity.

Investment patterns reveal the growing-up process. InsurTech investments were down about a one fifth (21 percent) by individual transaction number in the second quarter of 2019, but the deals that happened were larger on average, and skewed towards later-stage investments.

Risk carriers are playing less in the venture capital stages of the InsurTech lifecycle, taking fewer risks on unknown businesses. They far prefer to put their cash behind companies that have at least begun to walk, and preferably to feed themselves.

That said, it remains difficult to rationalise the value invested in InsurTechs overall, given the stunted growth and limited success of many of these ambitious potential players in this space.

Approximately $15bn has been ventured so far (depending on your definition of InsurTech), but the sector has not delivered anything near $15bn worth of value.

That might be achieved five years from now, but so far, the money lavished on the InsurTech universe has been radically inefficient.

InsurTech bandwagon

That's not to say that all the InsurTech hype has been hot air, but what may be its greatest achievement has been secondary. The volume of InsurTech activity and fanfare has acted like a defibrillator on the heart of the insurance industry.

The much-heralded InsurTech "revolution" has made people across the sector talk more positively about the use of technology. Some see it as the potential saviour of a broken system.

This positive impetus, spurred by outsiders, is now growing organically from the inside, because the industry knows its own challenges better than anyone else. InsurTech has forced insurance technology issues onto the industry's dinner plate.

It has gone the other way, too. Technology will be fundamental to our sector in the medium term – if not revolutionary. However, as has happened so often in the technology investment sphere, many hoped InsurTech would deliver impossible gains. They piled onto the InsurTech bandwagon when it emerged, as the latest industry-disrupting high-tech investment opportunity.

Just a few years ago some major industry players threw all but the kitchen sink at the promise InsurTech appeared to hold. Some of them have become jaded after spending millions but gaining no first-mover advantage. They are no longer giving insurance technology the attention it deserves, because "technology" remains synonymous with "InsurTech" in insurance circles, even though in practice insurance technology is nothing new. The very first commercially used IBM mainframe was deployed by an insurer.

DR ANDREW JOHNSTON is global head of Willis Re InsurTech

Strategic investment

In contrast, many companies avoided this pitfall by adopting a slow and steady approach. Some are now reaping the benefits, perhaps by buying in proven insurance technology firms as a strategic vertical investment. They risked missing out on a revolution, but ultimately avoided wasted millions and a dose of InsurTech fatigue. Some will come out winners, in the sense that they have or will acquire technologies that truly improve their business processes.

We now possess, in our industry and the world, a record number of technologists. Meanwhile, technology has become infinitely duplicable. Fickle, price-sensitive personal lines customers may be here today, attracted to a flash technology, but are just as likely to be gone tomorrow. That makes early-stage InsurTech investment a real risk.

Launching something that doesn't work is a costly error, since opportunities now abound to partner

with, buy, adopt, or embrace one or more of the thousands of InsurTechs after they have been proven.

Slow and steady has proved the winning strategy – and the industry has learned this lesson.

Defining InsurTech

The industry should redraw the dividing line between InsurTech and insurance technology. At its broadest, InsurTech includes any technology which can be levered into the insurance sector. However, a more nuanced definition provides greater delineation of the sector: an InsurTech company is one that has been intended and designed from its inception to yield efficiencies and savings within existing business models.

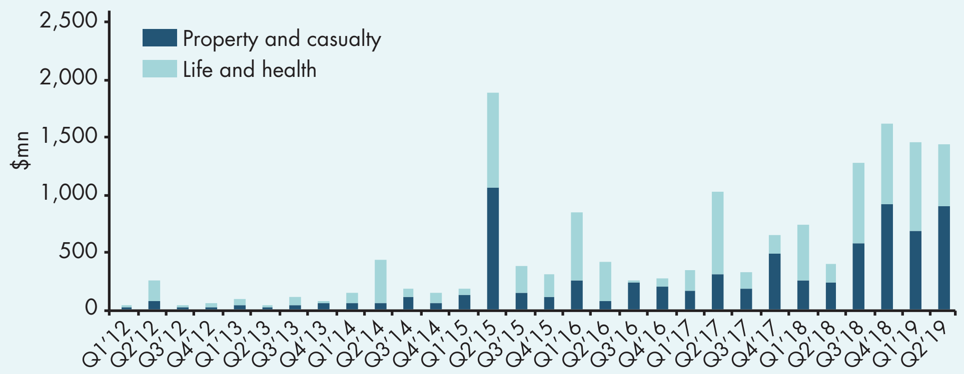
The definition does not rule out the revolutionaries created to disrupt the industry. Under it, the first-ever InsurTech dates back to 1985, with the launch of Direct Line in the UK. Its impact certainly reshaped the UK personal lines market by cutting out the retailer and encouraging consumers to go direct via a web-based platform, a model now widely utilised.

Nor are peer-to-peer platforms excluded. They are simply mutual or affinity groups repackaged as technology-enabled cooperatives. Unlike B2C platforms, however, their impact so far has, at best, been muted.

In line with this damp squib, industry talk has shifted from a fear of out-and-out disruption to the creation of partnerships intended to enhance and enable existing players. Looking ahead, that will be the most likely way to win in the InsurTech arms race. A company can raise $600mn relatively easily, spend it on Google ads and industry events, but provide nothing more than a solution to a non-existent problem.

Instead, InsurTechs must create solutions to problems that insurance and reinsurance companies face today. The business proposition has to come first and must comprise a clearly defined business technology that supports an existing process. Carriers should re-evaluate and reflect on all of their processes before making any

Quarterly InsurTech funding volume – all stages



Source: Willis Towers Watson

> "Launching something that doesn't work is a costly error, since opportunities now abound to partner with, buy, adopt, or embrace one or more of the thousands of InsurTechs after they have been proven"

InsurTech investment. Those that do not know the problem they hope to solve will soon find that no one else has the answer, either.

Negative disruption

InsurTech's real disruption has been achieved through the use of new technologies in ways that are more effective than competitors' efforts, thereby altering the sector's dynamics in the way Direct Line did.

Those InsurTech systems which add a layer of process or solve no real problems will not be winners. They must be designed from inception not just to digitise existing models and the processes behind them, but to reinvent the model.

Success begins with the same ingredients, and ultimately delivers the same product, but adopts a different, much more efficient, methodology between them to create competitive advantage.

On the downside, the InsurTech craze has also brought negative disruption, through its consumption of $15bn which could have been otherwise deployed, in addition to a diluted view of the true value of appropriately used technology.

Meanwhile, the goal of creating a panacea platform that delivers risk transfer end-to-end has failed to materialise in any meaningful way.

Instead, success has typically been achieved by companies that have chosen to play a part somewhere in the existing insurance value chain by improving incumbent processes.

Insurers have not lost their customers to InsurTechs, although a few entrants such as Lemonade have attracted modest numbers of primarily first-time buyers.

InsurTech success

When is an InsurTech successful? That must be measured by benefits delivered, which boil down to top-line growth or margin improvement. Both are possible, given the insurance sector's many expensive, cumbersome processes.

Technology has a huge future role to play in the industry, but the players within it must recognise their own value, and grasp InsurTech as a tool to enhance it.

They should not be diverted from technology's potential despite hype-driven fear. Nor do they need to jump on bandwagons. Smart risk carriers will wait for the technology they actually need to be proven through use and acquire it more cheaply as a result. Those that genuinely understand their customers' needs will only gain.

SHORTENING THE CHAIN

Removing players who don't add value from the distribution chain will dramatically reduce the cost of transferring risk from insureds to the ultimate bearers of the risk, says **Jason Howard**

Fewer, stronger participants will carry the future of commercial specialty and wholesale insurance.

The market is currently awash with brokers, MGAs and risk carriers, each taking a slice of the original insureds' premiums.

We commonly leave investors in the ultimate risk-carrying entities with as little as 60 percent of the initial spend – and sometimes a paltry 50 percent.

Every category of market participant has an important role to play, but the common practice of passing a diminishing premium through the hands of as many as eight participants sited between retail clients and risk carriers must come to an end.

JASON HOWARD is chief executive of Beach & Associates

Evolving market

Fuelled by technology, we have begun to see various players leap over nodes in the distribution network. In all cases, the goal is to reduce the whittling down of premium by engaging only with those middle players that add value.

Retail brokers possess the all-important customer relationship. However, their space is changing, largely through a wave of consolidation, which allows smaller organisations to deliver value – ranging from risk management consulting to data delivery – to clients and markets.

To be strong and hold their place, MGAs must offer a niche distribution advantage, whether by product, geography or other speciality, which makes them invaluable.

Risk carriers are beginning to question the role and cost of these agents if they deliver no such value. Wholesale brokers that trade with other wholesale brokers – including binder brokers – add a glaring additional cost to the distribution chain.

Insurers and other risk carriers obviously have a key role to play, but they too are evolving. Insurers with significant financial wherewithal are increasing their retentions, choosing to cede only the most volatile risk to reinsurers.

The latter, in turn, are forced to operate with smaller, more volatile risk portfolios. They may wish to gain more direct access to retail producing brokers, using technology to leapfrog the entire centre of the value chain, and levering their lower costs of capital.

Meanwhile, many commercial insurers are adopting the business-to-consumer model long ago devised by consumer insurers to sell low-complexity cover direct to insureds without the involvement of intermediaries.

Ultimately, we will see simple business from retail brokers delivered direct to end carriers. A (re)insurance broker may intervene to build these risks into portfolio bundles, to be served by efficient facilities and consortia.

Specialisation will be key to this distribution-chain shortening, since larger players with interests at every point in the chain are unlikely to wish to eliminate one or more of their own participation nodes.

Such an overhaul, one that breaks up the chain and removes redundant links, could eliminate double-digit points or more of distribution and underwriting cost. That will reserve a far greater share of original premiums for carriers, who will be able to offer more competitive rates as a result.

> "The increasingly widespread use of effective technology will disintermediate those chain members that do not add value in today's world of electronic trading"

Shortening the chain

For an industry under desperate cost pressure, one which has already reduced its prices to at – or in some cases below – the minimum feasible to achieve profitability in normal loss years, such steps are essential to avoid disruption from third parties.

The prospect of dramatic rate increases in the manner of an old-style hard market seems extremely limited. Capital remains abundant, irrespective of losses, and drives global markets.

The 'Decile 10' reform at Lloyd's illustrates this. It removed some underwriters from certain classes, allowing the remaining players to raise prices, but few believe 'healthy' ratings have been achieved. Changes in the affected lines have not spilled over to a general rise.

In reinsurance, seriously loss-hit portfolios like Florida wind have sometimes endured dramatic rate increases, but 2017-18 hurricane losses did not drive a market-wide increase during any of the 2019 renewals, and will not do so.

In the absence of a truly monumental loss event, a global financial crisis or possibly an abrupt end to quantitative easing and a rapid rise in interest rates, capacity is almost certain to remain abundant. That's good for insurance buyers, of course – it delivers stability of pricing and claims completion – but only if prices settle at levels where ultimate risk carriers receive sufficient premium to yield profits over the flattened cycle. To ensure that comes to pass, we must take players out of the distribution chain.

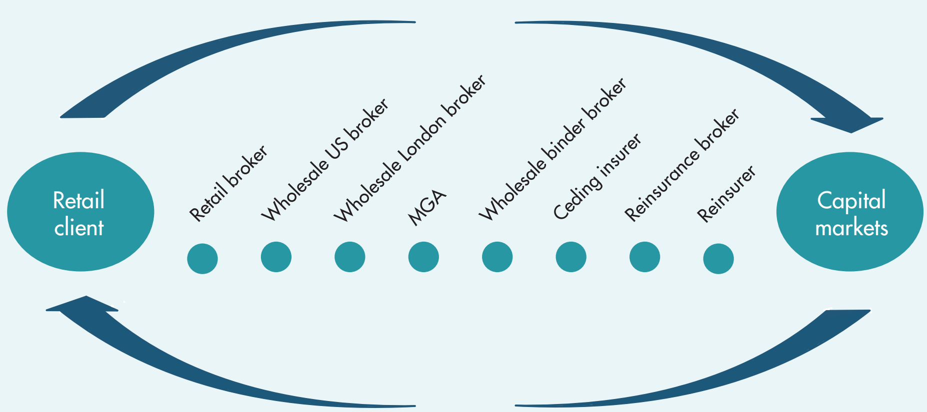
The increasingly widespread use of effective technology will disintermediate those chain members that do not add value in today's world of electronic trading. Some will be marginalised, their share of the cake reduced.

For example, Lloyd's has the beginnings of a plan to bring simple business directly into the market from retail, non-Lloyd's brokers, and delivering it straight to syndicates. That route would cut out one or more wholesalers, and possibly binder-brokers and MGAs.

Such firms – fewer in number, better resourced and utterly focussed – would no longer profit from business where they add little or no value beyond the transmission of risk and premium from A to B.

These moves will lead to a bifurcated model like the one Lloyd's has proposed.

Pressures driving inter-industry value chain hopping



Source: Beach & Associates

Simple, low-volatility risk will leap through the chain to reach the ultimate carrier much more directly. As has occurred with personal lines, much commercial business will move to the internet, where a growing range of products is offered directly by an expanding array of carriers. Retail brokers will use similar, more sophisticated on-line offerings.

> "Wholesale brokers that trade with other wholesale brokers – including binder brokers – add a glaring additional cost to the distribution chain"

The need for specialists

At the other end of the risk spectrum, complex risks – those that reach the inflexion point where algorithms cannot drive the solution – will continue to require the value and expertise in market selection and structuring that can be provided only by niche specialists in product development, geography, and markets.

Insurance buyers wishing to transfer such risks will continue to seek expert advice, but perhaps choose to bypass the wholesale link and go directly to specialist facilities or highly focussed MGAs.

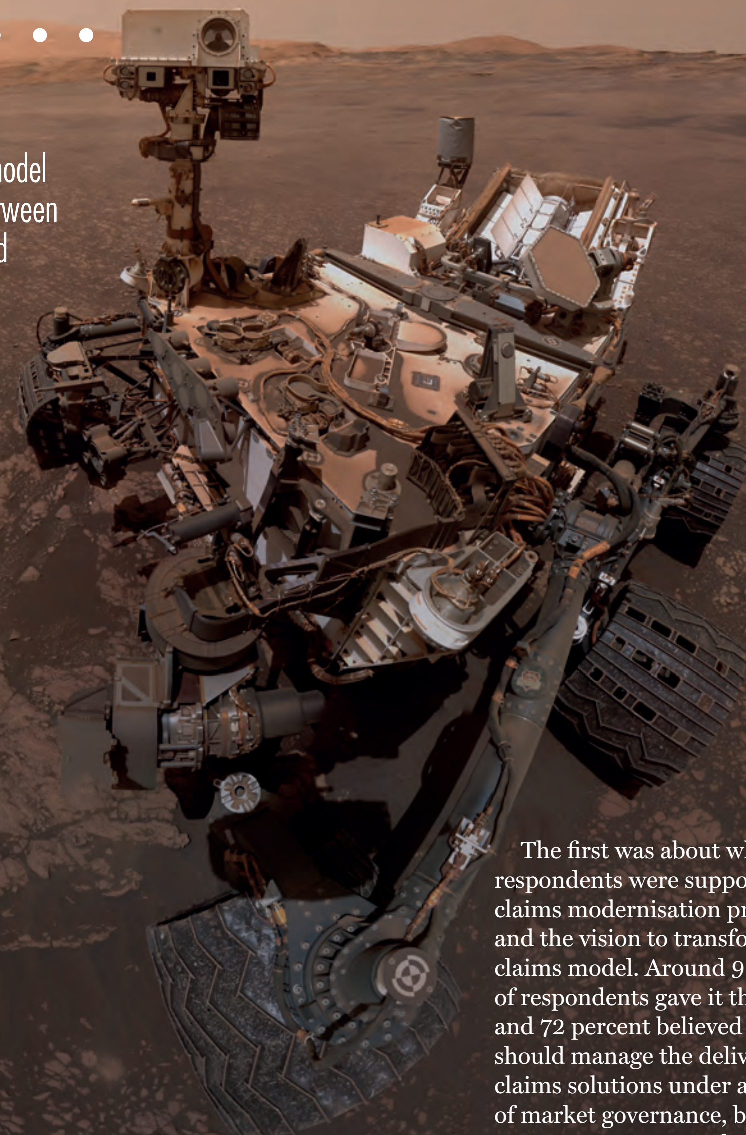
At the extremely complex end, wholesale and London market brokers – among others – will continue to battle over each piece of business, leaving those that provide the best products and services to thrive.

These developments are under way, but we're not there yet.

A great many players are looking at ways to shorten the chain and doing so will dramatically reduce the cost of risk transmission from end-insureds to ultimate bearers of the risk.

This will restore our global market to health by delivering tangibly better value to our ultimate customers.

MANAGING AGENTS ARE FROM MARS…



The biggest barrier to a transformational claims model is an operational and technological disconnect between the London market and its customers, brokers and delegated agents, writes **Aidan O'Neill**

When Write-Back, the ground-breaking, message-based technology that allows the IT systems of London market insurers to interact fully with the market's central claims systems, ECF2, went live on Saturday 17 October 2015, it was seen as a seminal moment in London market claims transformation.

The high level of co-operation during the development phase, sponsored and overseen by the Associations' Administration Committee, followed by fifteen weeks of intensive testing, led to a successful delivery.

Nearly four years on, the technology powering Write-Back continues to play a leading role, in partnership with the market, in the London market modernisation agenda.

Write-Back was the result of intensive and successful market collaboration over a period of 18 months between multiple software providers, including DOCOsoft and eight Lloyd's and London market carriers.

There is no doubt that the project has been a huge success. DOCOsoft alone accounts for more than 50 per cent of Lloyd's claims messages that flow through its own claims management system version of Write Back, across 15 managing agents.

The question now is 'what next?'

Future claims model

First of all, let's start with what we know about potential London market claims transformation in the future.

We know that delivering the future claims model is overwhelmingly supported by London market carriers, brokers and 50 market representatives.

In a 2018 survey, 42 out of 55 managing agents were asked a number of questions polling their views on market modernisation.

The first was about whether respondents were supportive of the claims modernisation programme and the vision to transform the claims model. Around 98 percent of respondents gave it their backing and 72 percent believed the market should manage the delivery of claims solutions under a new model of market governance, but 66 percent were unsure that the Target Operating Model would deliver for claims.

The Claims Modernisation Update, October 2018, states that the future "middle office" vision for claims focusses on enhancing the claims service, the customer experience and delivering a transformational claims model.

It will achieve this by delivering shared technology and services that are more accessible to customers, broker, suppliers and third parties.

"To paraphrase a bestselling pop psychology book from the early 1990s, if managing agents are from Mars then policyholders are from Venus when it comes to talking to each other!"

The market consensus is that we need to introduce new technology and services with capabilities that are not part of the current claims model. This will allow customers, brokers and delegated agents to transact with London easily and get a high-quality, fast, transparent claims service.

Lastly, there must be a renewed focus on removing the reliance on legacy systems, technology and infrastructure.

There are a number of metrics in this report that quantify the benefits and service improvements that can be delivered to the agreement, settlement and lifecycle of claims, from the delivery of a claims modernisation programme.

I don't propose to go into those in detail here; suffice to say that the market agrees it needs to see improvements in claims lifecycles and settlements right now.

Managing agents from Mars

The key risks of not delivering a transformational claims model is a potential operational and technological disconnect between the London market, its customers, brokers and delegated agents.

We have to tackle potential developments that negatively impact the competitiveness of our market and claims service when measured against international peers and domestic markets/carriers.

It is sometimes easy to get lost in the minutiae of London's claims and underwriting jargon and the plethora of acronyms that infest the market. Indeed, it is striking when referencing the report mentioned above that the London market's acronyms are rarely, if ever, spelt out in full.

One sentence which particularly stood out for me states that we need to: "deliver an integrated model (in support of STP) with; policy data via PPL/SDC, and delegated data via DA SATs".

A policyholder doing its due diligence on market processes could be forgiven for wondering what an alien, impenetrable language this is. Language is important because it cements relationships and trust, which are key to the insurance value proposition.

To paraphrase a bestselling pop psychology book from the early 1990s on common relationship problems between men and women, it would seem that if managing agents are from Mars then policyholders are from Venus when it comes to talking to each other!

The premise for the book 'Men are from Mars, Women are from Venus' (so I am told!) is that each gender is, metaphorically speaking, from a different planet and acclimated to the society and customs of their own 'planet', but not to those of the other.

Could there be a better metaphor for the language disconnect that prohibits transparent dialogue between all the parties involved in the insurance value and language chain?

Global language

I highlight this issue because London, while undoubtedly being a major specialty lines market that provides an invaluable service to its customers, needs to talk in a language that global policyholders understand.

The same holds true for London's relationships with its global peers and counterparts, brokers and TPAs and other inputs into the insurance and reinsurance value chain.

There is frustration within the global carriers and brokers that London seems to think it rules the roost.

London specialty class big-ticket business only accounts for a tiny fraction of global insurers' portfolios. The reality is that global carriers want London to talk like the rest of the world, not for London to think that the rest of the world should talk more like London.

But London doesn't just need to think outside of its claims messaging bubble – it needs to do more than expand beyond the boundaries of its own terminology and explore new routes to market and that can be done using existing technologies. No blockchain required!

For example, claims departments harvest a rich crop of data that can be used to provide intelligence and analysis to assist actuaries, underwriters and senior management.

So much attention is being paid to bringing down claims' lifecycle times but we are in danger of losing sight of the even greater potential prize of more informed risk selection, models and pricing.

If data can play more of a role when informing exposure management and spotting claims trends, it can also help to mitigate future payouts and even open up new insurance distribution channels.

AIDAN O'NEILL is CEO of DOCOsoft

Leveraging data insights

Do you need to be a member of the latest Lloyd's lab cohort to help London's carriers leverage their data? Not really.

The reality is that existing Write Back technology is already doing just that for 15 market carriers worth a combined £9bn in gross written premium on the DOCOsoft claims management system.

Meanwhile, to take advantage of the data insights in an organisation requires new ways of automatically organising, classifying and labelling documents.

Using advanced machine-learning techniques – for example, DOCOsoft's new claims reserving tool – does just this, leading to actionable insights such as improving compliance, cost structures and competitiveness. This machine-learning technology crunches petabytes of data more efficiently and makes sense of a complicated claims world.

HARNESSING THE POWER OF REAL-TIME DATA HUBS

Tim Rayner considers how a real-time data exchange can improve the speed, cost and quality of business for carriers, brokers and coverholders

Strides are being made to improve operational efficiency in the London market, yet significant inefficiencies still exist in the delegated authority distribution chain. Digitalisation marks a key step forward in improving the speed and efficiency of business in the London market, but it is no silver bullet.

Despite the introduction of initiatives like DA SATS and PPL, carriers, brokers and coverholders must still negotiate a confusing web of systems and logins in order to transact business.

Insurers have created their portals, brokers have created a multitude of platforms, and coverholders might have multiple logins to manage for any one class of business.

This is not only time consuming, but also presents serious challenges around visibility and capital flow efficiency for all participants in the chain. DA SATS itself relies on monthly bordereaux and not real-time declarations.

> “Carriers, brokers and coverholders must still negotiate a confusing web of systems and logins in order to transact business”

Data hubs

That looks set to change, however, as the market is now moving towards cloud-based technology which consolidates these disparate portals into centralised hub exchanges.

Harnessing application programming interface (API) technology, it is now possible for participants in the chain to connect to one central platform and share data with each other in real time, removing the need for multiple logins, speeding up straight-through processing and generating significant cost savings.

Sequel Rulebook Hub, for example, whilst protecting a carrier's intellectual property, allows them to share their rating logic, underwriting rules and documentation with the brokers and coverholders that distribute their products, giving brokers immediate access to markets on behalf of customers.

The brokers and coverholders then input quote data into the hub, which automatically generates approvals, terms, pricing and documentation within the agreed terms of authority, with underwriters able to view it all in real time.

Real-time sharing significantly speeds up the quote and bind process, facilitates more efficient use of capital and reduces the cost of doing business. Using traditional methods, coverholder bordereaux can take up to 10 weeks to be processed – even with London's digitalisation efforts.

The market has made it clear that quote and bind speeds must improve, along with overall operational efficiency at all stages of the chain.

The in-built rules engine of a centralised hub should also contribute to the quest for better pricing and rating discipline – though Lloyd's delegated authorities can of course still assert discretion on pricing within the underwriting guidelines set by the carrier. This API-based approach may also improve ease of business across borders.

Information is power

One challenge wholesale brokers must contend with is dealing with various layers of delegated business, from coverholder binders up to lineslip and facultative placements, each with their own rules and levels of authority.

> "Declaration data can be shared automatically in real time and integrated into carriers' back-office systems, giving the underwriters improved visibility and control"

The hub approach consolidates all of these layers into an omni-channel workflow, encouraging the more efficient use of aggregate capacity.

Not only does a central hub give a more holistic view of the portfolio, it also allows carriers and brokers to be more fluid when deploying capacity.

Traditionally, if a wholesale broker today had a fixed aggregate of £2bn of Gulf Coast property catastrophe capacity to deploy among 20 coverholder facilities, for example, any adjustments within the portfolio would require capacity to be manually removed from one facility and added into another. This aggregate capacity can now be managed in one bucket, greatly improving flexibility and efficiency.

Underwriters have historically struggled to access quality data and maintain an accurate, up-to-date view of aggregation in their portfolios.

As the market is still reliant on bordereaux, which usually lag by several weeks, this makes it virtually impossible for underwriters to get an accurate view of their position in any given line of business.

Today, if a carrier wants to assess its aggregate position or its gross premium income, for example, it needs to do so through separate aggregate, risk or premium bordereaux, which can be up to 75 days out of date.

In peak storm season, this could mean the underwriter is unaware of large swathes of bound business.

TIM RAYNER is business development director of Sequel Business Solutions

Beyond bordereaux

This cumbersome approach will soon no longer be necessary, however, as declaration data can be shared automatically in real time and integrated into carriers' back-office systems, giving the underwriters improved visibility and control.

Moreover, this data is validated at source – another huge step up from bordereaux, which are still transported in spreadsheets and are therefore vulnerable to inconsistency, incompatibility and manipulation.

This kind of exponential improvement in data quality aligns neatly with Lloyd's vision of standardised risk exchange.

Traditionally, brokers and underwriters have also been blind to how many quotes are being issued against binders and what the take-up rate is.

By capturing granular data at the question level, participants can now get real-time insights into hit rates and referrals, helping them understand what is being referred, what is being declined and why particular rules are being triggered.

This may uncover, for example, that tranches of business are being declined because properties in an area are falling foul of a particular underwriting restriction. Tools will soon be able to simulate how adjusting certain restrictions, from building age to occupancy types, for example, would affect quote and approval rates in a portfolio, helping underwriters and brokers tweak product design and again manage portfolios more efficiently.

Demand for this vastly improved technology is already strong among brokers, who recognise both the value real-time data sharing can bring to the distribution chain and also the importance to their value proposition of taking ownership of the process.

Perhaps most importantly, the efficiencies gained should also help all stakeholders get the most out of their workforces, freeing up expertise to write and place profitable business rather than chasing paper trails.

CONVERTING FALLEN ANGELS TO SAINTS

The pending BBB crisis which will allegedly inundate the high-yield market should be viewed less as a threat than an attractive opportunity for canny investors, says **David Newman**

There has been much discussion in recent months about the explosion in BBB-rated debt, and the amount that could be downgraded to high yield in the next downturn. Our credit team proactively analysed $3.5tn of non-financial BBB debt (~35 percent of the global corporate index) to test the conventional wisdom. Our finding was that around $450bn of outstanding debt was at risk. This equates to a migration rate of ~20 percent from BBB– and ~10 percent from investment grade overall to high yield, which is in line with historical averages as the chart on the right shows.

DAVID NEWMAN is head of global high yield at Allianz Global Investors

To put this into context, assuming all downgrades happen on a pro forma basis, 22.5 percent of the high-yield market coming from fallen angels as a percentage is not unusual although the quantum is higher. Thus, one can be hopeful that this dynamic should be a positive addition to the high-yield market.

But what was more interesting is that, unlike previous downgrade cycles which were more sector-specific, in this case there is a diverse split of industries at risk of downgrade: consumer non-cyclicals 35 percent, capital goods 27 percent, consumer cyclicals 21 percent and technology 16 percent. With a broad range of issuers

> “When a bond exits investment grade, high-yield investors have a minimum of a month to decide to buy it. Only those tied to indices would be obliged to buy and, even then, many might take active positions and decide not to get involved”

Performance of fallen angels vs global high yield and investment grade

	Overall			Pre-crisis (1998-2006)			Crisis (2007-Mar 2009)			Post-crisis (Apr 2009 onwards)		
	Global fallen angels	Global high yield	Global inv grade	Global fallen angels	Global high yield	Global inv grade	Global fallen angels	Global high yield	Global inv grade	Global fallen angels	Global high yield	Global inv grade
returns	623.5%	299.9%	206.5%	136.2%	67.2%	71.6%	-22.2%	-21.9%	-3%	293.8%	206.1%	84.10%
Annualised	9.8%	6.7%	5.4%	10%	5.9%	6.2%	-10.6%	-10.4%	-1.3%	14.7%	11.8%	6.30%
Volatility	9.8%	8.9%	3.8%	8.2%	7.5%	3.2%	17.3%	15.8%	5.8%	11.2%	10.2%	4.40%
Return/Vol	1	0.8	1.4	1.2	0.8	1.9	-0.6	-0.7	-0.2	1.3	1.2	1.4
Worst Month	-11.5%	-16.1%	-5.5%	-10.9%	-7.6%	-2.6%	-11.5%	-16.1%	-5.5%	-4.8%	-4.4%	-2.40%
Best Month	12.2%	11.2%	3.4%	8.5%	6.4%	2.5%	12.2%	6.6%	3.1%	11.4%	11.2%	3.4%

Source: Bloomberg, ICE BofAML

potentially entering the high-yield universe, investors would more likely be able to absorb the new entrants.

When a bond exits investment grade, many index-focused funds and ETFs will need to sell within a month. Let's say, for example, an issuer is 1 percent of the global corporates index; as of April 2019 this would be $103bn. That would equate to 5.1 percent of the global high-yield index. Most index-following high-yield investors follow a constrained index which limits each issuer to 2 percent. So in this example, 3 percent of the bonds would need to be absorbed elsewhere.

When a bond exits investment grade, high-yield investors have a minimum of a month to decide to buy it. Only those tied to indices would be obliged to buy and, even then, many might take active positions and decide not to get involved.

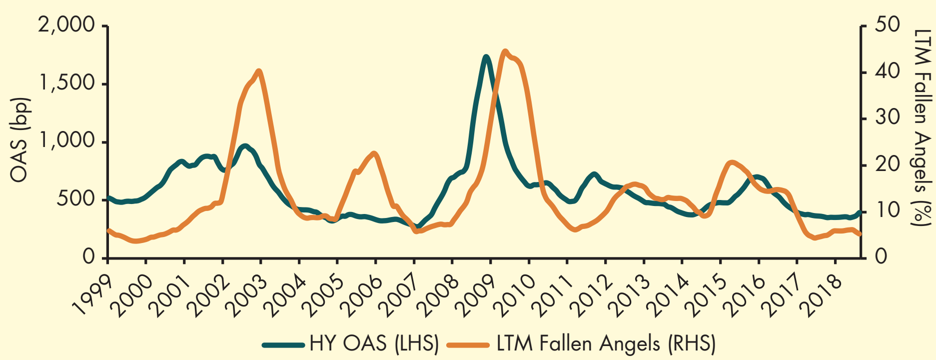
In this period, bonds that look stressed would be treated as "falling knives". In this eventuality, the distressed community is likely to be the first buyer. Distressed buyers do not have to buy these bonds at all and would typically begin to purchase bonds where they believe downside risk is minimised – the "zero-risk" entry point (or at least a low-risk entry point).

This is based on a "fire sale" valuation of the business and an assessment of where the bond you are looking at sits in the capital structure. The fire-sale valuation would typically involve a "haircut" of around 40 percent of the enterprise value of the business. Unless the valuation of the business is close to zero – a real fallen knife – typically involving fraud, this is the lowest price a bond should reach during the transition period to high yield.

As bids return to the market, the bond price will often recover as more traditional high-yield investors take comfort that "smart money" has already invested and start to move towards their desired index positions. Therefore, to really take advantage of a fallen-angel strategy, one needs to invest at the point of greatest fear.

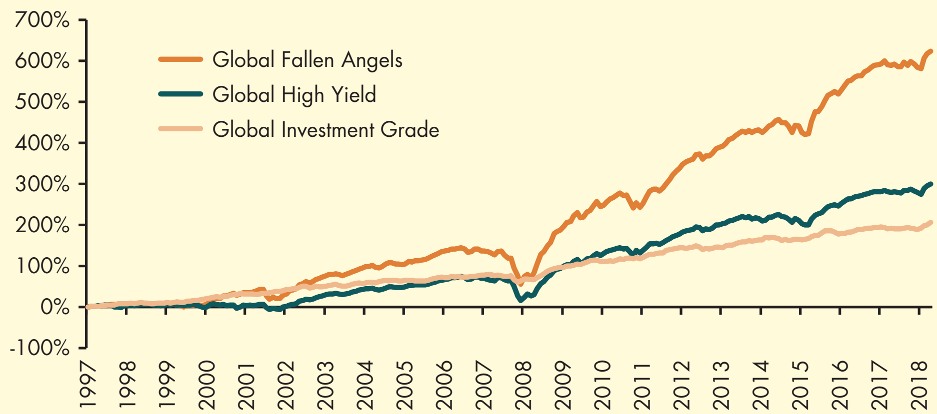
Indeed, in the FTSE Time-Weighted US Fallen Angel Bond Index, the index's constituent weights are determined based on the time from inclusion in the index. Higher weights are assigned to bonds that have more recently become "fallen angels". This time-based weighting approach aims to capture the price rebound effect that fallen angels tend to experience soon after their initial downgrade to high yield.

Last 12 months fallen angels in US high yield vs US high yield option-adjusted spread: six-month moving average



Source: Allianz Global Investors

Performance of fallen angels vs global high yield and investment grade

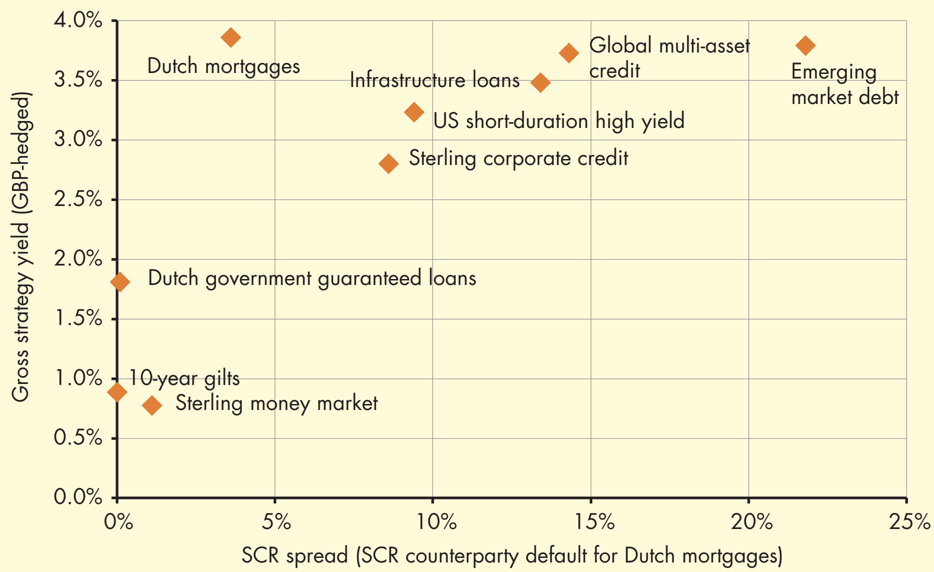


Source: Bloomberg, ICE BofAML
Note: Total returns in USD hedged terms

WORKING YOUR FIXED INCOME ASSETS HARDER

Russell Baird explains why working with an insurance-literate asset manager can help improve the yield and solvency-efficiency of your fixed income assets

Gross yield vs. SCR for fixed income assets



Source: Source: Aegon Asset Management and Kames Capital

Bonds are the core holdings for most UK insurers, with an average fixed income allocation of around 65 percent*. In a long-term, low interest rate environment, there is relentless pressure on insurers to achieve a better yield without damaging their capital position.

The chart on this page plots the gross yield against the Solvency Capital Requirement (SCR) spread for a range of fixed income assets, as represented by relevant indices. This illustrates the variation in yield and solvency efficiency that can be achieved within this diverse asset class.

The chart also shows why investing in Dutch mortgages has become attractive for insurers, not just in the Netherlands but across Europe. Market risk typically contributes heavily to insurers' overall required capital; however, residential mortgages are covered under the 'Counterparty Default Risk' module, a treatment which results in a relatively low Solvency II capital charge.

The attractiveness of Dutch mortgages isn't just about solvency efficiency; there is also a strong investment case. They have been a relatively safe asset and offer an attractive yield relative to government bonds and corporate debt.

RUSSELL BAIRD is a member of Aegon Asset Management's Investment Solutions Team

For institutional investors, residential mortgages offer exposure to consumers rather than corporates and governments, and so can help diversify risk.

Finally, most Dutch residential mortgages have long fixed-rate terms, so they reflect the liabilities of insurance companies.

Another interesting sub-asset-class is short-duration high-yield bonds. The chart shows the relative yield enhancement that can be achieved from going down the credit curve at the short end without a material increase in SCR.

Of course, each insurer is different, and we have not considered factors such as whether assets are being used to back liabilities, optimise free reserves or how they might blend with existing holdings.

Achieving the right blend of fixed income assets is just the start. Within each fixed income sub-asset class there is great disparity at sector- and stock-level. There is significant potential for active sector and stock selection to add further value through the manager being able to identify strong relative value, the possibility of upgrades and, importantly, to avoid defaults.

Each insurer's mandate and risk appetite differs. Working with a manager that can navigate the breadth of the fixed income market and has a deep understanding of the nuance of the insurance market and regulation will help in extracting maximum value.

*Source: Eiopa investment split at FY18. Fixed income allocation proxy = government bonds + corporate bonds + mortgages and loans

SCORING WITH TECHNOLOGY

Innovation and technology are set to transform the insurance industry, but insurers need to clearly define their objectives to avoid unnecessary failures and expense, say **Damian Cleary** and **Andrew Dunkley**

The insurance industry has finally moved from talking about innovation to actively embracing new technologies like artificial intelligence (AI) and advanced data analytics. Over $10bn has been invested in insurance technology companies globally since 2015, of which $4.1bn was invested in 2018 alone, according to a presentation at CB Insights' Future of Insurance event in June this year.

Much of this investment has been spent on data-related initiatives and AI, used for risk assessment and underwriting, product development or to automate insurance processes.

Of the 11 firms taking part in the recent Lloyd's Lab cohort, almost all were based on either data analytics or AI.

Earlier this year, we launched BLM Innovations, a suite of online analytics and case management tools that use AI and data analytics to create better outcomes for insurers.

There is little doubt that innovation and technology will bring huge benefits for the insurance industry, but they will also bring new challenges and uncertainties.

If insurers want to avoid the potential pitfalls of technology investment they will need to start thinking about how these innovations will translate to their businesses and the cultural and operating challenges that lie ahead.

AI

AI has been around since the 1950s, but the number of real-world applications has increased rapidly in recent years, from driverless cars to medical scans. For insurers, AI is likely to be a powerful tool in the future, helping to drive advanced data analytics and automation. However, the technology is easily misunderstood and has its limitations.

Intelligence in the context of AI is not the same as human intelligence. AI today uses historical data and experience to make predictions or spots trends, working within rules and parameters set by people. However, the technology lacks valuable human skills like judgement and adaptability, and may not perform well in adverse situations or where there is a shift in context, such as a significant legal or societal change.

As the industry comes to rely more and more on AI, there will be a temptation to reduce the numbers of underwriters and claims handlers. De-skilling on the assumption that AI can be left to automate certain business processes, however, presents a risk for insurers that will need careful consideration.

If a context shift causes an AI process to perform poorly, insurers may need to call upon the skills of underwriters and claims handlers. This will be hard if an insurer has totally moved those skills out of the business as a result of its AI implementation.

Insurers will have to find the right balance between humans and automation. Commercial and specialty insurance is a relationship business, where intuition, judgement and relationships play an important role.

DAMIAN CLEARY is head of London Market & Reinsurance at BLM

ANDREW DUNKLEY is head of Analytics at BLM

Human decision-making is less constrained by strict parameters and allows for concepts such as trust or good faith. Consumers are also typically more forgiving of people than machines when a product does not perform as expected.

As automation and AI become more ingrained in insurers' business models, it is important that the industry retains the human strengths of adaptability and flexibility, using technology to partner with human judgement, in particular for complex and speciality risk.

Smart contracts

Smart contracts are another promising innovation that could help bring about faster and more efficient insurance processes. For example, the technology could be used to execute insurance contracts, going as far as the automatic verification and payment of claims.

Smart contracts have an obvious potential role in catastrophe bonds and parametric insurance products, where claims could be paid instantly when triggered by a relevant index, such as volume of rainfall or wind speed.

They could also speed up insurance processes in other ways, such as automatically authorising third parties to carry out repairs or triggering the transfer of funds.

Self-executing contracts are also likely to feature alongside other technologies, including AI, blockchain and the Internet of Things, which could combine to create a secure ecosystem for the real-time exchange of data linked to automated processes.

A number of platforms are currently being developed that use some or all of these technologies, including blockchain initiatives for marine and trade credit insurance and reinsurance.

Smart contract technology, while promising, is still very much in its infancy. At present there is no legal framework specifically designed for smart contracts (whether based on blockchain or not) and technical challenges remain.

Much like AI, smart contracts are not intelligent, and can only make decisions based on rules and parameters set by human developers. Such automated technologies will require a lot of thought and judgement in design and testing before they can operate successfully in the real world.

Data and analytics

Big data and the Internet of Things will offer insurers almost unimaginable volumes of data and information, but what will they do with seemingly limitless amounts of data?

A steady stream of InsurTech firms are coming to market providing data on a wide range of risks – including weather, supply chains, political risks, health, product liability and cyber – while insurers will increasingly have access to data from connected sensors, such as those used to monitor cargo containers or the black boxes in cars.

Over time this could radically change the "claims information lifecycle", whereby an event happens and then the insured and the insurer must gather information to understand what happened and why.

Connected data means that third parties such as car manufacturers might have a full picture of the incident before either the insured or the insurer. If these third parties turn out to have a legal interest in the dispute, it could create new risks and opportunities around claim handling and dispute resolution.

The industry is also sitting on a potentially rich vein of its own data, based on decades of claims history. However, legacy data is often inaccessible or unusable, residing on legacy systems or beyond the organisation's resources or expertise to use.

As a core competency, it is no surprise that much of the industry's investment in data analytics to date has been for pricing and underwriting. Data, both internal and external, is being weaponised by insurers looking to gain a competitive edge or insights on risks or clients. But data can be used across the lifecycle of insurance, from product development through to claims and reserving.

> "As automation and AI become more ingrained in insurers' business models, it is important that the industry retains the human strengths of adaptability and flexibility, using technology to partner with human judgement"

BLM Innovation's suite of tools, for example, includes Foresight, a pioneering explainable AI system that predicts fault in a liability claim, enabling earlier settlements. Our Pathfinder tool forecasts possible outcomes at trial, while Realtime gives insurers access to live data relating to claims spend, reserves, accident cause, location and injury analyses.

We have also worked with clients on bespoke analytics, such as building a predictive model to analyse latent defect claims for medical devices, forecasting likely future claims trends and helping set reserves.

Tools like these will help sharpen insurers' underwriting, claims management and risk management. However, a business model that increasingly relies on data and analytics will bring new challenges for the industry. More accurate pricing of risk and more informed risk selection could challenge age-old principles of insurance – such as the sharing and pooling of risk – reducing the potential customer base as some customers are priced out of the market.

Another challenge is that more accurate reserving based on predictive analytics would not be without uncertainty and would mean fewer reserve releases.

Limitless data

Few question the need for innovation in the insurance industry. To their credit, many insurers are embracing technology-led disruption. The Future at Lloyd's projects and Lloyd's Lab are good examples of this, and we continue to encourage and assist insurers to use a thoroughly thought-through and strategic approach to innovation.

Don't be afraid to fail – and know when to move on when an idea isn't working. Our experience has shown the biggest obstacle to successful innovation is often culture. Putting a good idea into practice is challenging in a market that is as conservative as insurance. Technology will only make a difference when it is embraced by the business and when it gets people thinking and working in new ways.

We would encourage insurers to consider what they would do differently in a world of limitless data. Part of the answer will depend on the extent of other technology developments, such as AI and smart contracts. But insurers will need to think carefully about what they want to achieve from their investments in technology, and define the problem that they want to solve.

Our advice for the insurance market is to identify the goal you want to achieve, and focus on that when applying innovative data-driven technology.

If you don't have a specific goal, it opens up the risk of unnecessary expense, broken promises, and solutions looking for a problem that isn't there.

CAPACITY DRAIN

With market conditions for professional indemnity set to get tougher as more capacity withdraws, the issue many underwriters and brokers of the class face is a lack of hard market experience, writes **Charles Manchester**

As each month of the year ticks by, the professional indemnity (PI) market hardens a little bit more. It was only a couple of months ago that rumours started to surface of certain PI markets running low on capacity. Now, in July, a number of markets have started to tell brokers that they have stopped writing new business.

Market conditions are going to get tougher as the rest of the year rolls by, especially for those risks insured with markets where premium capacity has already been used.

It has been a long soft market and, after 15 years or so, the trading environment has finally changed. A lot of habits have formed during this time that don't fit well into a harder market.

The PI market is having to adjust more than most classes – not just to the harder market trading conditions, but also the steep learning curve for those underwriters and brokers who have never experienced such an environment. There are people with 15 years' experience that have rarely seen an underwriter say no!

In a hard market, suddenly, higher-risk insureds become almost uninsurable because an underwriter is wary of writing something that they shouldn't and, besides, there is plenty of premium income.

The reality is that the risks themselves are still insurable, although underwriters are uncertain of what they can write or charge for a risk. Underwriting in a hard market is a skill.

There is also the challenge of managing premium income capacity and not using it all up in the first part of the year. This is easier said than done as renewal books have big increases.

Equally, there is a skill to broking in this market. It has been easy to place the more challenging risks with a single insurer and a high limit of indemnity for so many years. But now line sizes are reducing and the subscription market is returning.

For many brokers, it's a long time since they've had to think too hard about the quality of a risk or the quality of the presentation; about structuring a programme for a client that makes sense and allows underwriters to take a share of a risk at the right price.

CHARLES MANCHESTER is CEO of Manchester Underwriting Management

Brokers are also faced with finding markets that have capacity left and still have an appetite to write a class such as PI.

At Manchester Underwriting Management, we are now seeing risks where the market has dried up. Some are at the heavier end that we'd not have written in softer conditions or are new layers caused by reducing line sizes, but the risks are hardly uninsurable.

It helps to have lived through a hard market. In fact, it's quite invigorating being able to look at risks and prices again after so many years of taking or leaving what's offered.

It is a time to write business and build on relationships with brokers.

> "The PI market is having to adjust more than most classes, not just to the harder market trading conditions, but also the steep learning curve for those underwriters and brokers who have never experienced such an environment"

DON'T RAIN ON MY PARADE

Caspar Prestidge explains why event organisers need to consider the impact of bad weather

Oscar Wilde once remarked that "conversation about the weather is the last refuge of the unimaginative" yet, according to a recent study in The Independent, the average British person spends the equivalent of four and a half months of their life talking about the elements.

In recent weeks, UK event organisers and contingency insurance professionals alike could have been forgiven for their immersion in an all-consuming meteorological obsession.

For the discerning event professional, turbulent and wildly fluctuating forecasts presented logistical problems which were as unexpected as they were challenging.

On 8 July in Sutherland, temperatures hit an all-time low of -0.4°C.

Four days later, 80.4mm of rain (20 percent more than the monthly average) fell in a single day in Fettercairn, and by the 25 July, Cambridge was sweltering at a record temperature of 38.7°C. In a climatic finale, 29 July whipped up winds of nearly 60mph to batter the coasts of Devon and the 31 July saw North Yorkshire pelted with abnormally large hailstones!

With the safety and security of the spectators, volunteers and participants in mind, many directors felt that they could no longer safely deliver their events – resulting in the cancellation of Boardmasters in Cornwall, Houghton Festival in Norfolk and the Castle to Coast sportive triathlon.

Stages were curtailed in the Women's Tour of Scotland cycling event, and both the Blackpool Air Show and Bristol's International Balloon Fiesta fell foul of the conditions.

Cowes Week suffered a blow when it started a day late due to strong winds, while at Ascot the show most certainly did not go on for Jessie J and Tinie Tempah after gales damaged the racecourse stage in early August.

A gloomy outlook indeed, but the prudent event organiser can at least take solace in their contingency insurance policy which protects revenue or expenses should their event be "cancelled, abandoned, postponed, interrupted, curtailed or relocated" following "adverse weather" which "prevents the organiser of the insured event from undertaking the necessary set up to enable the insured event to proceed due to concern for the safety of those responsible for the necessary set up and/or reason of physical impossibility".

For the loss adjustors at least, every cloud has a silver lining!

CASPAR PRESTIDGE is an underwriter in Tokio Marine HCC's specialty group

But spare a thought for the events which weathered the storms to stay open and suffered major downturns in revenue as walk-up sales plummeted or for concession stands reliant on the expected footfall, for whom adverse weather conditions rendered business forecasts a damp squib.

In such circumstances, traditional contingency insurance policies are of no consolation, and where no physical damage is sustained to property, then business interruption coverage is unfortunately equally as redundant.

So, how does one plug the gap? Using weather data, predictive analytics can be used to create bespoke weather insurance policies that are tailored to each client. Buyers can construct their own coverage, focussed on a specific location at a particular time of year, based on their budgets and their tolerance to abnormal weather conditions.

Tokio Marine HCC, in partnership with Athenium Analytics – a leading provider of global weather data for brokers and clients – can tailor insurance policies to the individual needs of their clients.

While it must be said that insurance will never compensate event organisers nor festival goers for the disappointment of a wash-out, it may go some way to financially mitigating against Britain's increasingly unpredictable weather.

POSITIVE REINFORCEMENT

IRLA's Head of Academy **Leslie-Ann Giovnilli** details the work done by the association and the steps the wider legacy sector is taking towards greater diversity and inclusion

Current IRLA board (2019) L-R: Darren Truman, Enstar (EU) Emma Lawton BAI Claims, James Bolton Quest Consulting, Mark Everiss Cooley (UK) Mark Hallam Swiss Re, Paul Corver R&Q, Jenny Fair Fidelis Consultants, Stephen Roberts RSML, Simon Barnes, Zurich

We often talk about the cyclical nature of our (London market reinsurance) work and eight years ago The Association of Run-off Companies was wondering why, with the plethora of discontinued books of business, the specialist and yet diverse market was no longer working as a cohesive legacy profession, but seemingly forming 'specialist' boutique operations.

So, some bright spark came up with a name change for the trade body, which became the Insurance & Reinsurance Legacy Association (IRLA), and it gave everyone a focus once again.

Every (re)insurance company has discontinued books of business and whatever they choose to do with them – retain in house or outsource/sell – a concentrated review of potential exit strategies has developed into the most sensible and cost-effective option.

On every board's agenda are capital management and the best use of funds and investment strategies, but in this cycle of renewal/non-renewal, discontinued exit strategies are not being considered from the get go.

Imagine if you had a large motor portfolio that was tying up human and financial resources – resources you wanted to use right now as a real money-making opportunity had arisen. If an exit strategy had already been agreed for discontinued portfolios then it would be a seamless transaction for you to get on and make money.

In the old marketplace, companies would retain this business for years, slowly paying claims, reserving for IBNR and losing investment funds,

IRLA Services to Legacy Award 2019

Geraldine Quirk, Partner, Bryan Cave Leighton Paisner LLP (London office)

Geraldine was elected by a group of her peers with her reputation as one of the go-to lawyers in the legacy regulatory area.

This annual award is not about contribution to the profits or prestige of a particular employer, but rather about a contribution to the sector as a whole, for example through innovation, improving professionalism or acting as an ambassador to the wider business community.

Quirk was the thirteenth recipient of the award and the first female winner – in a year of two female winners.

Her impressive knowledge of portfolio transfers, regulation and cross border issues including EU Directives and passporting flagged her as one of the leading experts on portfolio transfer schemes, particularly in the legacy area.

Geraldine is also a regulatory expert, advising on Solvency II, perimeter guidance, governance and conduct.

She is known to provide strong clarity of thought and sensibly expressed advice, along with a knack for considering complex problems and explaining potential solutions in a comprehensible non-jargon rational fashion. She is praised as refreshing to work with, lacking the need to over-complicate or over-intellectualise, instead just getting to the nub of the matter.

In a major transfer case, Geraldine was considered to be a really safe pair of hands and there was confidence that an excellent lawyer had been appointed. This client expected their lawyers to be experts, but they also have to be great to work with (as these deals/transfers do go on for extended periods of time).

Geraldine certainly passed this test and was well respected by the commercial teams from both sides.

She is often referred to as the Royalty of Part VIIs. She is pragmatic in approach, forthright in her dealings with the regulators and commercial in her opinions as to what is reasonable for achieving the client's goal.

She has been a long-standing supporter of IRLA and has often spoken at briefings.

because the reputation issues were holding the sales/transfers back.

But with new on-line companies being set up regularly, the competition is getting faster and leaner, and with a skilled and professional legacy market is retention really a choice?

The legacy marketplace is reliant on experts, fairness, transparency and, overall, a professional approach to every deal.

The UK association encourages open discussions and takes education from all parties and excludes no-one. It is a diverse area and many skilled providers are needed if we are to offer the right services to all those who wish to free up their capital and take on new profit-making books.

In 2019 the IRLA board are discouraging guesses about what a company will or should do with its portfolios at renewal, but encouraging early discussion about potential exit strategies to widen the range of possibilities.

With the huge range of options that IRLA members can provide, why not invite a discussion with the experts rather than a new capital provider with no experience or knowledge in the legacy market?

We support our own and, with global leaders leading the way on buy/sell transactions within IRLA, we believe this is where you will come if you want the best.

Future predictions

It has been more than 42 years since I first walked through the door of Stewart Smith on Camomile Street in the City of London.

Not once during these 42 years did I seriously consider another career; I love the London market and even more so the legacy sector, where I have worked for the majority of my career.

There have been times when dinosaurs lumbered out of the undergrowth, causing mayhem and misery, but leaving was never an option. I felt I was part of the growing, new, forward-facing market and they were a dying breed to be left behind and pitied.

Sadly, in 2019 we are still watching the bodies twitch, but for IRLA 2019 was a year in which its first female member was given the Services to Legacy Award by her peers – not an achievement to be taken lightly in view of the ratio of female to male workers, even in IRLA membership.

This was also the year in which a hat trick was achieved and a second woman (a lawyer) won the Young Professional of the Year (see above). In our young professionals case she was the fourth woman in six years.

So perhaps an underlying change is being made and the legacy market is where the freedom can be found to be yourself, and where the glass ceiling is just something that you admire at The Garden at 120 in EC3.

Young Professional of the Year 2019

Jennifer Connolly, Solicitor, Weightmans LLP (Liverpool office)

Jennifer was nominated as someone who often goes above and beyond what is expected of her to produce good outcomes, both for her clients and for her firm.

One client mentioned that they have been hugely impressed by Jennifer's customer focus, and her ability to quickly grasp the massive behemoth that is their historical operating entities.

Jennifer has consistently demonstrated her diligence, pragmatism and attention to detail, and this has led to numerous positive outcomes for the client.

She carries out important supervision of her junior colleagues on a daily basis, which in turn provides for good career progression for the future leaders in the firm.

One team member said she is always happy to offer support and advice on cases whether it's to cover work or providing technical or tactical suggestions.

Jennifer is very active in IRLA, having been appointed to the IRLA Young Professionals Group (YPG) Committee and she also acts as an IRLA ambassador. As part of her own engagement with IRLA, she has become actively involved with the IRLA mentoring programme, in order to build and develop her understanding and knowledge of the insurance market.

Jennifer says: "I am delighted to have been chosen as IRLA's Young Professional of the Year. Being a YPG member has provided me with many opportunities and guidance as I progress in my career and I have greatly enjoyed being involved in all of the opportunities they make available to members, including the mentoring scheme and being on the YPG Committee.

"I am grateful to my employer Weightmans for encouraging my participation and look forward to the next year of personal development, networking and learning opportunities."

IRLA 'next decade' board to 2029 L-R: Johanna Ramirez, Hannover Re, Yana Efimova, Compre, Thomas Spring Langleys, Louise Squire Rio Tinto, Annabel Gray, Swiss Re, James Strudwick NatWest, Hershil Amin, PwC, Giorgi Kachkachishvili,Hannover Re, Amy Berry, PwC (AIMS) Minhaz Pradhan, Enstar (EU)

Photos: ianmacaulay.com

THE RSG VALUE CHAIN

Kieran Dempsey tells *IQ* that, with 23 MGUs in its stable plus a new reinsurance vehicle, RSG Underwriting Managers is breaking new ground

Recent years have seen the evolution of managing general agents/underwriters (MGAs/MGUs) as both vehicles and partners for InsurTech, as a major link in the chain between brokers and capital providers and as serious rivals to the traditional insurer model.

Kieran Dempsey, Ryan Specialty Group (RSG)'s chief underwriting officer, is responsible for supporting the underwriting for RSG's 23 MGUs, binders and delegated authorities, and is administering a development phase that is blurring the lines between the "traditional" role of binders and the evolving role of the MGU.

RSG is betting a stake of its own in its MGUs, demonstrating its commitment to delivering profitable growth, alongside its capital providers. Dempsey acknowledges that the rise of the MGU has contributed to that blurring of the lines in the insurance industry.

"MGUs typically provide some of the services of an insurer but without the capital, and they are generally viewed as being closer to distribution than to the risk," he says.

RSG's major alignment step has been the creation of Bermuda-based Geneva Re. Announced in May 2019 as a joint venture with US insurer Nationwide (S&P A+, AM Best A+ XV), RSG and its investing capital providers provide 50 percent of the company's capital, functioning as a reinsurance vehicle for its MGUs.

The credit ratings strength afforded by this "strategic partnership" provides a reinsurance foundation that underpins RSG Underwriting Managers' (RSGUM) many businesses.

"It's a vital mechanism for us to be able to participate in the risks the businesses are underwriting," says Dempsey.

The RSG CUO underlines the long-term strategy of the company's founder, Pat Ryan, to ensure the group remains closely aligned with the goals and interests of capital providers. In an era of greater crossover between the new coverholders and traditional capacity providers, he underlines the importance of that commitment.

"In the last few years, we've been thinking about how to align ourselves with the capital but without replacing it. That has been Pat Ryan's goal all along, to show alignment but not to displace anyone," he says.

"It's important to emphasise that this is only with the express approval of our capital-providing partners. It's also important to stress that it's within certain limits, because we simply don't have the capital to take the leading role, even if we wanted to – which we don't," Dempsey adds.

"RSG is now an investor, putting our own skin in the game, and so far it's working well.

"Most capital providers have already welcomed the new alignment it brings. Alongside our other investors, we've deployed capital in the 5 to 20 percent range, depending on the desires of the current capital support."

"MGUs typically provide some of the services of an insurer but without the capital, and they are generally viewed as being closer to distribution than to the risk"

RSGUM plans to increase the volume of capital invested, not through raising percentages but by taking a stake across an increasing number of its programmes, provided the other investors approve.

"So far it's going well. Naturally it's easiest on syndicated programmes, for which leaders will request a specific percentage, because we're not trying to lead, but to be just one of several other investors towards the bottom of the slip," Dempsey explains.

Niches

RSGUM's businesses are focused on niches designed to appeal to capital providers.

"Our list of capital providers is an extremely broad one. There are some big carriers providing capital, and Lloyd's has a large chunk of our business. We do business with all those that support an MGU strategy and are interested in our unique value proposition," says Dempsey.

"Capital providers aren't going to pay us to do something that they can do themselves. They're looking for profitable niches. Generally speaking, they value our differentiated underwriting access to a geography they can't get into themselves, and deployment of technology they don't want to have to develop themselves."

He emphasises that it does not attempt to be all things to all people.

"We're not everywhere, and we don't provide all excess and surplus specialties. We don't have an aviation or an environmental risk practice, for example," he says.

Dempsey adds that the group's approach to acquisitions has not been opportunistic, but rather about finding businesses that deliver profit and fit the right culture.

However, through some 12 acquisitions and 11 de novo formations, RSGUM's spread of classes is significant, ranging from a slew of US commercial lines-focused businesses to a Latin American unit based in Miami and European business via London, Barcelona, Copenhagen and Stockholm.

For 2019, one major technology investment across the business has been to innovate a digital platform and marketplace for small businesses.

"The vision is for retail agents and brokers to go online and not only receive multiple quotes for multiple products but then bind and issue on one single platform. We're developing that in-house, on our own platform," Dempsey says.

Saving costs for small insureds and retail brokers is at the heart of this vision, he explains. Instead of multiple portals and platforms to compare quotes, technology can make the quoting and placing process easier, he suggests.

"Pat Ryan said years ago that he was going to find a way of removing costs in the chain for small businesses buying insurance, and the first step is to make the buying process more efficient. We're committed to the retail producer and all of our products are designed to enhance the capabilities of the retail broker."

Firm response

MGUs' attractiveness to capital providers depends on their ability to provide relatively quick entry and exit from specialty classes of business. Dempsey says that MGUs can bring programmes and innovation to market faster and more cheaply.

Those with syndicated support can provide greater stability in hardening markets, because a portion of the subscribing capital can enter or exit without disrupting the core programme, he suggests.

"RSGUM is at the forefront of MGU innovation and distribution and well positioned to adapt to all market conditions," he says.

"With the variable cost model, capital providers can access business quickly without the significant fixed costs associated with investing in people and technology. This is especially beneficial in a hardening market."

The market is not hardening across the board, Dempsey explains, but firming up in response to investor pressure for better returns and because of claims within some lines more than others.

"Firming pricing is due to claims pressure and demand for better returns rather than a shortage of market capital. We're in a hardening market, in that we're seeing rate increases on the lines that need it most," he says.

Professional and general liability, directors' and officers' (D&O) liability and medical malpractice have been hard-hit, he notes, while initial public offerings by US firms have also been battered by D&O claims activity.

"New markets will eventually come in to take advantage of the rising rates. MGUs provide the quickest access to this business," he concludes.

> "With the variable cost model, capital providers can access business quickly without the significant fixed costs associated with investing in people and technology. This is especially beneficial in a hardening market"

Kieran Dempsey is CUO of Ryan Specialty Group

MINING FOR GOLD

Risk Theory's **Gary Marshall** tells *Insider Quarterly* about the MGA's rejuvenated approach to underwriting, mining big data and using advanced analytics to differentiate its offering

***Insider Quarterly*: Tell me about the tools and technology that underwriters now have at their disposal.**

Gary Marshall: It feels like people are branding technology as artificial intelligence (AI), and it really is not. It is just mathematical decision-making rather than truly learning intelligence. And that is something that I watch for when somebody claims they have AI, because in reality, that is very difficult to do.

If you claim to have AI, what you probably have is some sort of binary decision-making – yes/no questions that toggle down to a final decision that says a risk should be this price, or have this deductible or something like that.

We have used a binary decision-making process a lot in our business and, in my opinion, it does not have to be some sophisticated macro technical tool to help an underwriting unit develop guidance. Part of the problem is that management has to give its support to a mechanism that makes the underwriters, frankly, less error-prone. That is what the system does.

But if you are going to do that someone really has to know their customer well. It is not uncommon for underwriters to have a lot of breadth in the risk classes that they are evaluating and so to get that kind of detail, to be able to drill down and make binary decisions, you have to be a technical or customer expert to get that done.

For instance, we have a very large auto dealer book and each customer has slightly different characteristics. So the auto dealer may have 500 cars, some of those cars are held in inventory, some are demonstrators and some are customer loaners. Some are new, some are used, some are trade-ins. So there are various levels and types of vehicles, with exposures compounded by geography.

The system takes all of these underwriting parameters, which are business characteristics – they are not really rating elements – and then we put a mathematical formula around that to guide the underwriter.

***Insider Quarterly*: How else do you look to extract value from data?**

> “I would caution anyone from spending on a huge legacy system that is hard to get into and therefore hard to get out of if you outgrow it or become unhappy with it”

Gary Marshall: We are an MGA with our eye on how we can improve efficiency, both from an operational and knowledge perspective. In order to achieve this we do a lot of data mining. Even things that are seemingly unrelated can make a difference.

For example, if you learn that a business with green doors has a better loss experience than a business with red doors then we identify those unique characteristics.

You have to really specialise these days because if not, you will have a specialist competitor that is doing this better than you. You need to have a system that can keep up with your specialist underwriters and make them efficient.

We do a lot of data mining on business we quote but do not sell, which is incorporated into our database. We are analysing not only the business that we underwrite and its performance, but we are also comparing it to the business that we did not write, to learn how the market evaluates risk differently.

> “We have used a binary decision-making process a lot in our business and, in my opinion, it does not have to be some sophisticated macro technical tool to help an underwriting unit develop guidance”

***Insider Quarterly*: Tell me about your weather avoidance app and how that came about?**

Gary Marshall: Back in the early 2000s when all the hurricanes hit Florida, we required dealers to move their inventory outside of a flood zone before the hurricane arrived. I always wanted to do something like that for hail. How can you avoid cars being damaged when you know a hailstorm is predicted for that day or evening?

I found a service which cost a few hundred dollars per address per year, which seemed very expensive. Our CEO, Bryan Wilburn, asked: “Can we just build a weather app for it?” And we looked at each other and said: “That is brilliant, let’s do it”. So we built it to give our customers three levels of warning. It asks them if they are moving their cars to a protected area, and requires a response.

That is the kind of thing, as a specialist and proactive MGA, that can really differentiate and add more value for our partners and our customers.

GARY MARSHALL is chief operating officer and chief underwriting officer of Risk Theory

***Insider Quarterly*: Looking more broadly at the insurance industry, do you see much innovation taking place?**

Gary Marshall: Oftentimes, when I tell somebody I am doing something unique, I find out that someone else is doing it also. Certainly, at the small business level there is plenty of creativity out there for which most people do not give the insurance industry credit.

I would caution anyone from spending on a huge legacy system that is hard to get into and therefore hard to get out of if you outgrow it or become unhappy with it. After you have spent months or years and millions of dollars installing it, it is very difficult to make a change and so you wind up being inefficient and ruled by the system.

As a small company, we focus on simple solutions to problems. We prefer to build our own systems, or access boutique vendors, to get better service.

***Insider Quarterly*: How important is it to attract young, millennial, talent into the industry as it undergoes its digital transformation?**

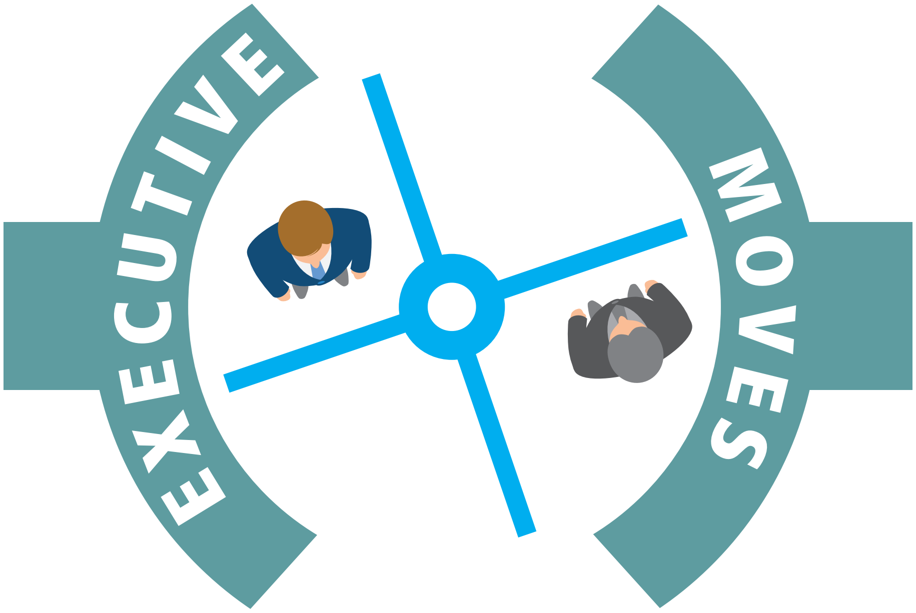
Gary Marshall: I have been in the business for over 30 years and I am amazed at young people’s ability to grasp new systems and technology, better and faster than more experienced people.

It seems that the people who started in the business before there were electronic printers on every desk, when everybody was still using typewriters, are today using big corporate systems that they have a hard time mentally navigating.

That likely will create an efficiency gain for the industry, as the younger people coming in are more mentally in tune with the technology. And yes, there are challenges with that age segment, but they are certainly more capable technologically.

The thing that I foresee for the industry is that there is so much technology, that people do not have to understand the basics anymore.

I can see the industry having a knowledge shortage in that respect, because the machine can do so much for them.



The ins and outs of the executive job market

Tony Ursano
Tony Ursano has returned to the (re)insurance industry as the CFO for Hamilton Insurance Group, four months after leaving TigerRisk Partners. Ursano replaces Jonathan Reiss, who has been appointed president of Hamilton's newly formed Strategic Partnerships unit. Before becoming president at TigerRisk, Ursano was chief executive of Willis Capital Markets & Advisory.

Todd Jones
QBE has appointed Willis Towers Watson executive Todd Jones to lead its North American operation, succeeding Russ Johnston, who is stepping down to "seek opportunities outside of QBE".

Jones was most recently head of global corporate risk and broking at Willis, and was previously CEO of Willis North America.

Jennifer Allen
Fairfax Financial Holdings has named Jennifer Allen as its new CFO following the sudden death of David Bonham in May. Allen has worked at Fairfax for 13 years, most recently as vice president of Fairfax and CFO of both Fairfax India Holdings and Fairfax Africa Holdings.

Juan Andrade
Everest Re has appointed Chubb executive vice president Juan Andrade as CEO to replace Dominic Addesso from January. Andrade joins the business on 1 September as COO, and takes the CEO role in January. At Chubb, Andrade was responsible for the carrier's general insurance business in more than 50 countries outside North America.

Andrew Hughes
Hiscox ILS promoted Andrew Hughes to the role of managing principal in July, following the resignation of Richard Lowther earlier in the month. Hughes joined Hiscox ILS Bermuda in 2015, working as its general counsel and chief compliance officer. Before joining Hiscox, Hughes worked at Queensland Investment Corporation on alternative asset class structuring and investments.

Lou Iglesias
Fairfax Financial Holdings has made Lou Iglesias CEO of subsidiary Allied World as Scott Carmilani takes a new role within Fairfax Insurance. Iglesias was previously president of Allied World, having joined the company in 2012 as president of US P&C, later becoming president of North American insurance.

Alison Martin
Zurich has appointed insider Alison Martin as CEO for the Europe, Middle East and Africa region following the sudden departure of Amanda Blanc in July. Martin joined Zurich in October 2017 as group chief risk officer and will retain the risk management function for a limited period while a replacement is found.

Richard Watson
Hiscox chief underwriting officer Richard Watson will step down from his role and the carrier's board at year-end. The (re)insurer said it will announce a successor in due course after assessing internal and external candidates. Watson, meanwhile, will continue to serve as an adviser and on subsidiary boards. He joined Hiscox in 1986.

Peter Kiernan
Axis Re Bermuda president and chief underwriting officer Peter Kiernan is to leave the business. His next destination is unknown. Kiernan has worked at Axis since May 2006 and remained in post through a restructure in May 2018, in which he was also made head of property for Axis Re North America.