

Covid ignites reinsurance rates, but slower-burn factors provide fuel for 2021

The debate over how far Covid losses will escalate is not the only key to January renewal dynamics

Will 2021 be the moment reinsurance underwriters have been waiting 20 years for – another broad-based hard market?

Or could it be another false dawn, a recurrence of the post-Irma 2018 reload, when rate change disappointed investors?

And however rates evolve, how will the market be reshaped by the experience of the Covid pandemic?

Central to these questions is the issue of to what extent Covid-19 losses will be a core driver of current dynamics.

As the year has progressed, many have begun to query whether the claims will reach the \$80bn heights initially feared, with recognised losses including IBNR at \$25bn by half-year reporting point, according to Zurich-based firm PeriStrat.

The largest swing factor is expected to come from BI claims, with an initial decision from the UK Financial Conduct Authority test case looming potentially as early as mid-September, although judges are not bound to any firm deadline and the decision will almost certainly be appealed.

But even without this clarity, a solid argument could be made that Covid losses are essentially the proverbial straw that broke the camel's back for reinsurers, and so market disruption will not be primarily influenced by their size.

Reinsurance outlook:

- Broad-based rate improvement expected to continue, but how fast and far is debatable as Covid loss fears diminish
- Low investment yields and higher costs/lack of retro supply are bigger influences driving pricing demands
- Start-ups may lead to some reshaping of the sector, but are not expected to diminish rate momentum
- Lack of defined pandemic response a possible PR obstacle for the industry
- How far will incumbency bias and remote working play against those seeking growth?

Covid: It's not just about the claims

Instead, it is the broader economic conditions of pandemic life that reinsurers argue have left them with a higher cost of capital and reduced earnings potential, requiring a broad rate upswing. These factors include low fixed income yields and other indirect impacts of a potential recession, as well as additional costs from a tighter retro market.

Set against existing unfavourable trends such as concerns around loss inflation and casualty reserving, these are leading to a general expectation that broad-based rate hardening will continue to redress prior years of soft market pricing.

However, underlying supply and demand factors seem more tenuously balanced on the face of it: reinsurer capital has withstood the initial Covid hit well, with fresh equity (and debt) raised and more potentially on the way.

Hyperion X put fresh capital raised at \$16bn including \$3bn of debt and start-up funds – which while modest in the context of a \$500bn reinsurance market, is still notable in the context of the Covid losses reported to date and a market that has raised little fresh equity in recent years.

Offsetting the relative stability in supply, demand for property reinsurance is expected to be up as insurers look to reduce catastrophe exposure and manage volatility.

Retro de-leveraging

Meanwhile, two interconnected factors that could be a much more significant handbrake on reinsurer supply and effective risk appetite are the slowdown in ILS markets over the past year, and disrupted retro supply.

The ILS market has looked less resilient this year. While it withstood the initial flight to cash in March, fundraising efforts have been hampered by the lockdown and it is not clear whether rapid equity recoveries will diminish memories of those shock drops and perhaps make it harder to sell the diversification argument to find purchase.

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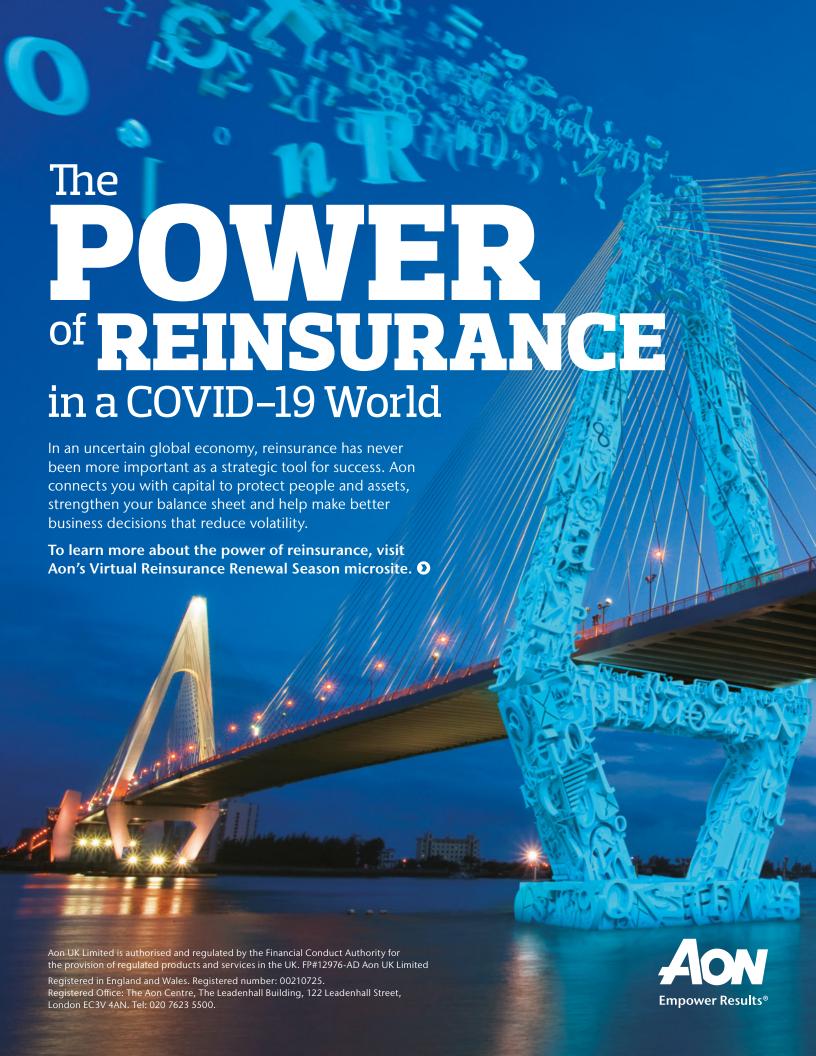
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insuranceinsider.com (Re)Connect 2020





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Virtual conference: real business

The combination of Covid-19, an active hurricane system, hungry investment capital and a sense of market urgency is causing 1.1 to shape up as one of the most interesting renewals for decades

Welcome to (Re)Connect, Insider Publishing's virtual alternative to the Monte Carlo Rendez-Vous!

Something that has struck me over the past few months is that, bizarrely, despite the lack of commuting, international travel and physical meetings, I seem to be busier than ever. The relentless series of Zoom/ Teams/Webex meetings and the ramping up of the normal day-to-day affairs as we exit crisis mode and start to return to a "business as usual" environment has left many in our industry – myself included – struggling for breath.

This increase in pace and purpose seems to be galvanising change in the industry. Critics of the "normal" Monte Carlo argue it's nothing more than an expensive festival of hot air – a cushty meeting of industry bigwigs in a beautiful setting to shake hands, down a few drinks and take in the coastal air. It's really little more than a rather fun boondoggle at which no actual work gets done.

But this year, it's different. Whether it's driven by the hardening market, the unknowns of the Covid-19 fallout, an active hurricane season or a combination of all of the above, real business is happening.

A whole host of start-ups, scale-ups and management buy-ins have been announced, buoyed by excited interest from private equity houses, keen to take advantage of a shift in fundamentals that seems to be moving the needle from a hardening to a hard market.

Talented underwriters and brokers are lining up new roles and realigning themselves at new firms ahead of the expected growth market.

The legacy market is having (yet another) moment, as carriers seek to optimise their balance sheets to free up capital to deploy in more opportunistic ways. Recent

headlines include RenaissanceRe's tie-up with Randall & Quilter to reinsure Syndicate 1458 casualty reserves via a loss portfolio transfer, while CNA Financial has appointed Willis Re to advise on a potential legacy transaction for a book of US excess workers' compensation business.

And a number of reinsurance deals have already been signed.

Last month, Suncorp finalised its 2021 catastrophe reinsurance programme, adding a new aggregate excess of loss (XoL) cover.

The XoL cover provides A\$400mn (\$275mn) of cover for events in excess of A\$5mn once the retained cost of events reaches A\$650mn.

But the transaction that caught my eye was the Sompo International deal.

The carrier purchased a whole account XoL cover offering protection for most of its long-tail book in one of the biggest new casualty reinsurance transactions of the year, as reported by this publication.

The 18-month deal provides \$25mn of protection across a range of lines of business excess of a \$5mn attachment point, and is understood to have covered a huge \$2bn-premium portfolio.

It stands out for a couple of reasons: the size of the deal, and the fact that it reflects a change in Sompo International's buying activity, as it traditionally sticks to quota share reinsurance. The carrier's executive chairman John Charman also has a reputation as one of the shrewdest buyers in the business, so if he's going down the XoL route, you can be sure others will follow.

These deals could be a sign of things to come. As the industry turns its attention towards the 1 January renewals, a transitioning market may prompt more reinsurance restructuring than we've seen in decades.

This isn't like 2001 after 9/11, or 2005 after KRW, or 2017 after HIM. This, to use that over-used description, really is an unprecedented time for our market. Best buckle up for a real rollercoaster of a ride.

Charlie Thomas
Content Director,
Insurance Insider

Continued from page 01

Ultimately, the investors most sceptical that enough fuel is ready for a hard market are likely to be existing ILS investors, since some of them have heard this before and it didn't happen in 2018.

Moreover, some ILS capital might be locked because of Covid-19 – panellists at the recent *Trading Risk* ILS Week estimated that this could trap 30% of retro capital and \$5bn of overall capital. It was not clear, however, if this was truly deployable capital or if panellists were counting trapped capital.

But even so, panellists were also optimistic that on a net basis, amid some capital churn, ILS capacity can hold its ground or shrink only modestly heading into 2021 as investors attracted to the rising rates on offer replace those exiting.

Meanwhile, the niche ~\$15bn retro market will once again have an outsized impact on underlying dynamics as reinsurers grapple with the deleveraging impact of having less quota share and earnings level protection available, and have to take a difficult decision on taking more risk net.

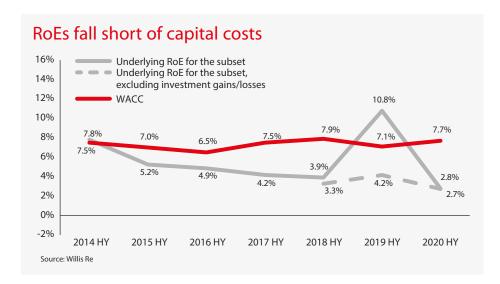
In reinsurance, many participants are being careful not to over-sell the rate change that is taking place and are projecting that the market will continue rising, rather than necessarily representing a "hard market" involving capacity shortfalls and a chance to secure excess margin.

In contrast, the retro market has already arrived at that point – and this is going to be a major factor in boosting underlying rates.

Supply is constrained and there is an acceptance that demand will continue to exceed capacity. While many carriers have the ability to retain more risk, the challenge will be running 2021 without previous hedges that protected them from catastrophe volatility at a time when investors will be expecting a much improved performance.

This concern could ultimately be the incentive to break the impasse in the market over Covid claims and trapping of capital. If it came down to the question of whether to trap capital to protect a 2020 year that has turned out better than investors were expecting or defend a year on which expectations are riding high – some believe that reinsurers could opt for the latter.

However, depending on the scale of retro protection in place, others expect others expect that extensive locking of capital



"In reinsurance, many participants are being careful not to over-sell the rate change that is taking place and are projecting that the market will continue rising, rather than necessarily representing a 'hard market' involving capacity shortfalls and a chance to secure excess margin"

will take place to retain security against a delayed surge in BI claims.

Tactics and who's got most to prove?

Everyone in the market has probably been through the process of writing, ripping up and rewriting several 2021 business plans at this point.

Perhaps the carriers with most to prove are those which raised major sums of equity earlier this year.

Can they all deliver on the growth promise they sold investors? Or will the theory that some carriers raised cash for more defensive purposes prove to be true if some of these carriers struggle under the weight of further losses or fail to grow?

One challenge facing all players – carriers and brokers – heading into the January renewal is that of incumbency bias. A renewal carried out from the home office – or even a central one as lockdowns lift – means the luxury of less travel for senior staff.

And the expected step back from catastrophe volatility should give room for scale-up players such as Convex or Fidelis to pick up growth. In the broking market,

significant turnover may give room for challengers to win accounts (although this trend is likely to play out more strongly in 2021 after gardening leave).

Despite these opportunities, this year of pandemic has narrowed horizons and thrown up difficulties in building new relationships remotely, so the possibility remains that it could be harder to achieve growth than expected at new challenger firms or those looking to overhaul portfolios and counterparties.

Given the huge levels of uncertainty, it is a general expectation that the renewal process will get underway early, with the possibility that reinsurers may once again tactically delay quotes as they did in the Florida renewals.

Ultimately, even though the reinsurance sector is starting to flatten the U-shaped pricing curve, rate rises are still running behind the primary markets.

This will favour quota share writers, although it also raises the possibility that cedants will look to scale back proportional placements and retain more risk – creating uncertainty over how far carriers may try to push on ceding commissions.

Continued on page 05

Future reshaping

Aside from the short-term impact, the bigger question is how the pandemic might shape the new normal for the market.

Certainly, the echoes of the 9/11 market tumult still shape the market. That year introduced a fresh wave of start-ups, with three major players of the five set up that year remaining as standalone firms, and governmental backstops set up to try to encourage support from the terrorism insurance market and, in turn, reinsurance demand.

The US federal terrorism insurance scheme TRIA launched just a year after the 9/11 attacks, but with battles over BI coverage still underway, there is little sign that any future solutions will be in place as quickly this time around.

Fundamentally, the global, undiversifiable nature of the risk means it is hard to see future new pandemic income streams emerging for reinsurers in a significant way, even if they have a small role to play in future public-private partnerships.

Perhaps a bigger concern is whether the lack of a future solution may strain renewals with insurers as more exclusionary terms are applied.

In terms of the potential class of 2020, several initiatives are rapidly making progress during hurricane season and new vehicles led by Dinos lordanou and Richard Watson have already signed up cornerstone investors.

"If 2020 has taught us anything, it is to expect the unexpected"

While new launches naturally draw a lot of excitement, the actual sums raised are not that meaningful in the context of the broader market, especially as the new intakes will be deployed across a wide target range of business opportunities.

All the major launches will have their own spin on plans but they are all thought to be looking for buy-in opportunities for a rapid scale-up entry to the market and chasing growth in an improving E&S insurance market, as well as reinsurance business.

However, it is far easier to get started in the reinsurance market and, if they all make

(Re)insurer public equity raising 2020

Firm	Amount (\$mn)			
RenRe	988			
QBE	814			
Hiscox	466			
Lancashire	354			
Beazley	300			
R&Q	100			
Total	3,022			

Source: Insurance Insider

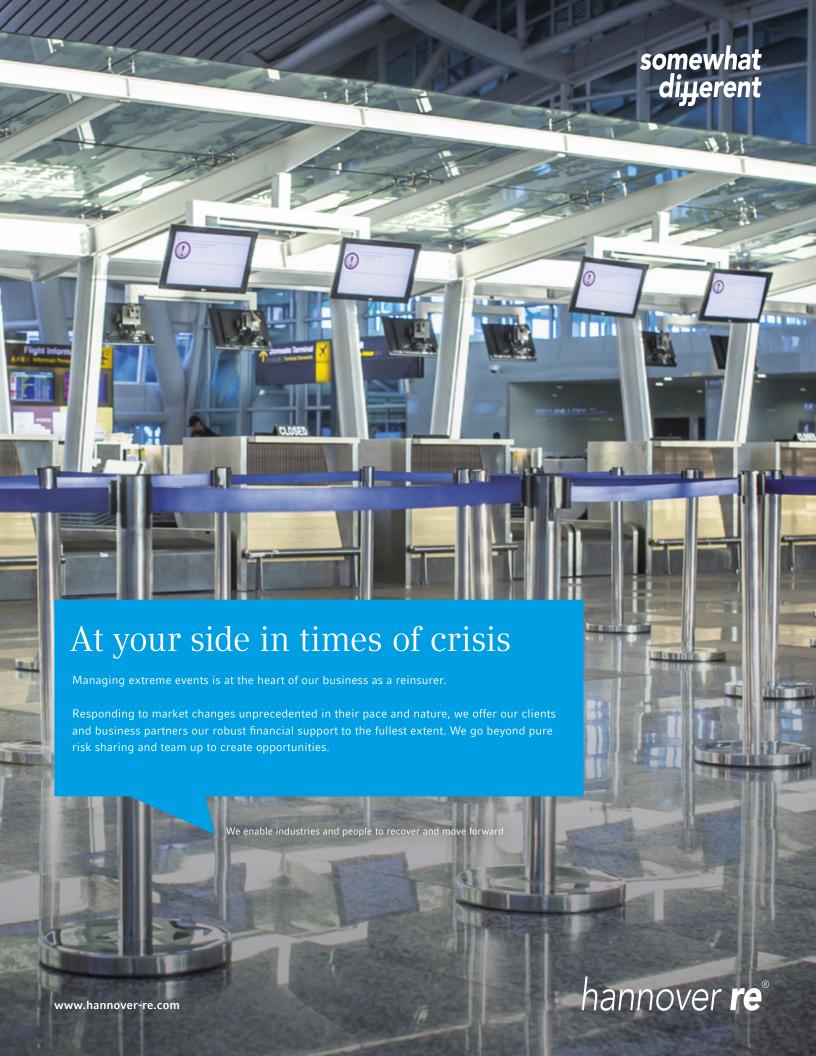
it to the starting blocks, we should see some waves from these contenders, with early M&A likely.

If 2020 has taught us anything, it is to expect the unexpected. This is a goal the reinsurance market was built on, but this year has brought it home to the personal experience of all market participants in unison far more effectively than assessing the fallout of an international disaster from afar could ever do.

Private equity fundraising activity

Individual/ company	Amount (\$mn)	Further notes
Ark	800	Evercore and TigerRisk advising on fundraise to target Lloyd's and Bermuda expansion as well as possible US onshore
Beat Capital	Unknown	Evercore appointed for fundraise in order to create own balance sheet and support existing Lloyd's business
Convex	1,000+	Looking to raise additional equity capital, with speculation that it will seek to hit its previous go-live target of \$3bn
Dinos Iordanou	1,000-1,500	Capital lined up with Carlyle and H&F to deploy either via a new venture, or through acquisitions. Former Axa XL CEO Greg Hendrick linked to venture
Jeff Consolino, Ed Noonan	850	Noonan and Consolino with backing from SkyKnight, Dragoneer and Aquiline has bought into StarStone US; Enstar retains minority stake
Fidelis 1	500	Fidelis has tapped investors including ADIA, Crestiview and CVC to grew equity base by 45%
Fidelis 2	200	Fidelis launches fresh \$200mn equity raise in September, with \$100mn of debt likely too.
Martin Reith	700	Working with Macquarie to size up start-up or buy-in opportunities
Mitch Blaser	Unknown	Early stages of exploring the feasibility of creating a new specialty insurer, Lloyd's preferred platform. Targeting stamp of £200mn
Richard Watson	Up to 1,000	Appointed Evercore for fundraise, working alongside Russell Merrett and Stuart Bridges for Lloyd's-Bermuda venture
Joel Livingston	Unknown	Is in early stages of exploring a Bermuda reinsurance business and has met with PE firms to assess appetite

Source: Insurance Insider



Monday 14 September

08:45 Welcome from Insurance Insider

Charlie Thomas (Moderator), Content Director, Insurance Insider

09:00 - 14:00 Fireside Chats



Christian Mumenthaler. Group Chief Executive Officer, Swiss Re



Jean-Jacques Henchoz. Chief Executive Officer, Hannover Re



Joachim Wenning, Chief Executive Officer, Munich Re



John Neal, Chief Executive Officer, Lloyd's



Andy Marcell. Chief Executive Officer, Reinsurance Solutions, Aon



James Kent. Global Chief Executive Officer, Willis Re

14:00 Impact of Covid-19 on Future at Lloyd's

LIVE INTERACTIVE PANEL

- · How COVID-19 has impacted The Future at Lloyd's
- · Three main priorities: Delegated Authority, Claims and Placement
- · Virtual underwriting room

Catrin Shi (Moderator), Managing Editor, Insurance Insider Sue Jakobek, Managing Director, PPL **Jennifer Rigby**, Chief Operations Officer, Lloyd's **Sheel Sawhney**, Group Head of Claims and Operations, Brit Louise Smith, Chief Digital Officer, Lloyd's

15:00 The Reinsurance Outlook

LIVE INTERACTIVE PANEL

- · Market conditions through a Covid lens how has the market responded to the pandemic-induced uncertainty? Where is there stress, concern or volatility?
- · What are the complexities involved with a reinsurer evaluating their Covid-19 exposure?

James Thaler (Moderator), News Editor, Inside P&C Matt FitzGerald, Managing Partner of Property & Speciality, Capsicum Re Ann Haugh, President, Global Markets, AXIS Re Daniel Malloy, Chief Executive Officer, Third Point Re

Mike Van Slooten, Head of Business Intelligence, Aon Reinsurance Solutions



Tuesday 15 September

09:00 - 13:00 Fireside Chats



Denis Kessler, Chairman of the Board of Directors and CEO, SCOR



Kevin O'Donnell, President and CEO, RenaissanceRe



Juan C. Andrade, President and CEO, Everest Re Group, Ltd



Julia Chu, Chief Risk Officer, Markel Corporation



Bruce Carnegie-Brown, Chairman, Lloyd's



Rod Fox, Managing Partner & CEO, TigerRisk Partners

13:00

Demo and Debate: The Modern Broker is a Digital Broker: How to Turn Technology from a Foe to a Friend, and Drive Twice as Much Business

LIVE INTERACTIVE PANEL

- · What are key technology trends impacting the brokerage world today?
- · How are large and mid-size brokers responding to technological threats?
- · What are Relay Platform's plans for the future of brokerage?

Greg Boutin, Chief Executive Officer, Relay

Adam Blumencranz, Vice President, NFP Ventures

Chris Carney, Managing Director, Verticalised Consulting

Shailendra Mann, Senior Director, Treaty Solutions, Relay Platform **Rick Wiseley**, Advisory Board Member and Client Executive, Relay

Ben Yoskovitz, Founding Partner, Highline BETA and Co-Author, Lean Analytics

14:00 Climate Change and the (Re)insurance Implication

LIVE INTERACTIVE PANEL

- · Are existing climate change products fit for purpose?
- · How has globalisation, population increases, coastal migration, urbanisation and economic development changed the way re/insurers think about climate risk?

Rachel Dalton (Moderator), Senior Reporter, Insurance Insider
Ellissa Cavaciuti-Wishart, Head of Cat Modeling – International, AXIS Capital
Dominick Hoare, Group CUO and Active Underwriter, Munich Re Syndicate
Robert Muir-Wood, PhD, Chief Research Officer, RMS
Kirsten Mitchell-Wallace, Risk Aggregation, Lloyd's

Tuesday 15 September

15:00 Legacy & Liability Management: **Providing coping strategies for** insurers in a post-Covid 19 recession

LIVE INTERACTIVE PANEL

- · What challenges do insurers face in a post-Covid recessionary environment, and what are the options available to help them mitigate these pressures?
- · How can legacy & liability management solutions benefit live carriers in a post Covid market environment? Are we seeing increased demand for these types of products?
- · What issues is the broader financial services market (banking, life insurance, asset management etc) facing?

Catrin Shi (Moderator), Managing Editor, Insurance Insider **Arndt Gossmann**, CEO and Managing Partner, Gossmann & Cie. James Mounty, Global Practice Leader for Customised Solutions, Willis Re Fausto Parente, Executive Director, EIOPA Sonja Rottiers, CEO, Lloyd's Europe; Regional Director, EMEA, Lloyd's Alexander Sarrigeorgiou, Chairman & CEO, Eurolife FFH Insurance Group

16:00 Pandemic Insurance Backstop **Proposals: Status and Outlook**

LIVE INTERACTIVE PANEL

- · Brief recap of extant backstop proposals and status of each
- · High-level comparison of cat event backstops with pandemic backstop proposals - can one size/approach fit all?
- · Advisability of multi-peril panels

Thomas Dawson, Partner, McDermott Will & Emery Sabrina Miesowitz, General Counsel, Lloyd's America Dirk Wegener, President, Federation of European Risk Management Associations Stephen Weinstein, EVP, Chief Compliance Officer, Group General Counsel and Corporate Secretary, RenaissanceRe Justin Wraye, Head of Policy Department, EIOPA

17:00 Virtual cocktail masterclass brought to you by SIPSMITH

Join us for an hour of interactive cocktail making. Our gin experts will be on hand to answer all your gin queries, whilst conjuring up two classic cocktails. Look out for the ingredient list and a Sipsmith discount voucher which we'll send to you in advance of (Re)Connect week.

Wednesday 16 September

09:30 - 14:00 Fireside Chats



Steve Arora. Chief Executive Officer, Reinsurance, AXIS Capital



Tim Gardner. Global CEO, Lockton Re



Hatem Jabsheh, Group COO,



Steve McGill CBE, Founder and CEO, McGill and Partners

14:00 Inside ILS: Alternative Market Evolution in 2020

LIVE INTERACTIVE PANEL

- · How is the ILS market responding to COVID-19? Has it held up to the non-correlated thesis? How have investor inflows or outflows shaped up?
- · The retro market how dislocated is it and how much investment are we likely to see in January? What have we learned from trapping disputes?

Fiona Robertson (Moderator), Managing Editor, Trading Risk Philipp Kusche, Global Head of ILS and Capital Solutions, TigerRisk Partners Stephan Ruoff, Head, Schroder Secquaero Marc Guy Victor Sordoni, Chief Executive Officer, UnipolRe

15:00 Insider Progress: Reshaping Company **Culture post-COVID**

LIVE INTERACTIVE PANEL

- · How has the Covid-19 pandemic changed the way in which the industry thinks about people and culture? How can the industry capitalise on this 'new norm' as a way of creating a better working culture What lessons can be learnt?
- · Does the digitisation of the industry due to Covid create an opportunity for businesses to attract new talent from outside of the industry? Will it prove a catalyst for attracting staff from different types of background?

Rachel Dalton, Senior Reporter, Insurance Insider Vishal Desai, Acting Head of Division, General Insurance Risk Specialists, Bank of England Maxine Goddard, Strategic Operations Leader, Zurich Head of Partnerships, iCAN

Pauline Miller, Head of Talent Development and Inclusion, Lloyd's Paul Wishman, Vice President for Insurance, CGI

Wednesday 16 September

16:00 A Look Ahead: How Technology Acceleration Will Keep Driving the Industry Forward

LIVE INTERACTIVE PANEL

- Risk Data Lakes vs Data Warehouse the benefits of remaining flexible, dynamic and up-to-date
- With the exponential growth of data, how will machine learning and artificial intelligence (AI) solutions continue to transform risk management?

Miguel Baptista, Chief Data Officer, Hyperion X

Matt Grossberg, Founder and CEO, Integrated Specialty Coverages

Mehul Nathwani, Head of Program Delivery & Business Innovation, Aspen

Michael Steel, CGlobal Head of Business Development, RMS

17:00 Risk Transfer in the Age of COVID-19

LIVE INTERACTIVE PANEL

As the reinsurance sector copes with current reduced capacity in the market, the role of alternative capital will be more critical than ever. What this might mean for interest in new and more innovative ILS vehicles? Having stood up strongly in the face of a dramatic market shock, investors are reviewing their appetite for ILS – but will lingering concerns over trapped capital limit growth?

Philipp Kusche, Global Head of ILS and Capital Solutions, TigerRisk Partners **Paul Schultz**, Chief Executive Officer, Aon Securities

Thursday 17 September

09:00 - 14:00 Fireside Chats



Kathleen Faries, Chair, ILS Bermuda



Alex Maloney, Group Chief Executive Officer, Lancashire



Jonathan Zaffino, Group President, Ascot Group

Thursday 17 September

14:00 Catastrophe Clash in the Age of COVID-19

LIVE INTERACTIVE PANEL

In this special webinar presented in partnership with RMS, Reactions Editor-in-Chief Shawn Moynihan leads an executive panel of experts in discussing the intersection of multiple catastrophes (or "clash events"), their combined effects and the way in which the resulting impact can exacerbate losses for the insurance industry.

Whether it's a Category 5 hurricane making landfall in the middle of a pandemic, an earthquake that triggers a wildfire, or a massive explosion that results in supply chain disruption and extensive property damage dozens of miles away, such simultaneous loss events can no longer be ignored – and insurers must begin to think differently about the increasingly systemic nature of risk in order to better serve their clients and help future-proof their businesses.

Shawn Moynihan (Moderator), Editor-in-Chief, Reactions
 Kirsten Mitchell-Wallace, Risk Aggregation, Lloyd's
 Robert Muir-Wood, PhD, Chief Research Officer, RMS
 Iwan Stalder, Head of Accumulation Management Group Underwriting Excellence, Zurich Insurance Company Ltd
 Hjörtur Thráinsson, Modelling Expert, Munich Re

19:15 Insurance Insider Honours Live

Grab your complimentary ticket and a front-row seat to the market leading (re) insurance awards. Now in its 9th year we will be bringing you a live ceremony, celebrity hosts, entertainment and most importantly a celebration with your peers.

Go to insuranceinsiderhonours.com to find out more and register for the Honours.

in insurance HONOURS LIVE

Friday 18 September

After four jam-packed days of speakers, take advantage of the opportunity to catch up with your connections and to forge some new ones. Remember you can catch up with all of this week's sessions on demand, and if you haven't already take some time to get to know all of (Re)Connect's sponsors.

Reinsurance Market Sentiment Survey 2020

A survey of more than 40 (re)insurance executives has revealed positive expectations around a functioning retro market, but much uncertainty about the impact of Covid-19

While Covid-19 is not keeping reinsurance executives awake at night – at least for the time being – a series of market dynamics are combining to make the January 2021 renewals among the most keenly anticipated for several years.

A survey of more than 40 reinsurance C-suite executives in July and August this year has revealed a relatively relaxed attitude in the run-up to 1 January, with the majority believing they could enjoy the benefits of a functioning retro market and almost half believing that, despite the recent wave of capital raises, the market should continue to harden going into next year.

It should be noted that some of the survey responses were received prior to a string of loss events which hit the specialty market at the beginning of August, including the Beirut explosion, the Ethiopian Airlines fire, the MSC Gayane drugs bust, the Air India crash and an oil spill off the coast of Mauritius, as well as hurricanes Isaias and Laura.

The reinsurance cycle

The majority of respondents still believed in a reinsurance cycle although many added that the cycle is less extreme, that hard markets now take longer to materialise and that price increases are not as dramatic as in the past.

"There is so much uncertainty in current times, that predicting cyclical trends, supply/demand metrics and capacity levels is an inexact science," said one respondent.

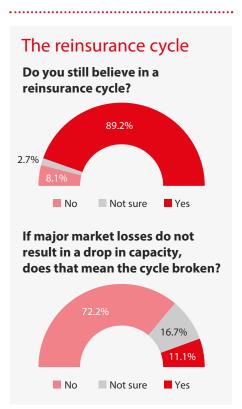
Others pointed to the advent of alternative capital as a major turning point. The evolution in the underlying structure of the market has been significant in the past decade with the advent of ILS, argued one executive.

This has increased liquidity, dampening the amplitude and shortening the wavelength of such cycles. However, they still believed there were sufficient time elements, frictional costs, barriers to entry and exotic risk premia to create periods of supply/demand imbalance.

Key findings

- Most respondents still believe in the reinsurance cycle, although many added that the cycle is less extreme today.
- Responses were mixed on whether recent losses were enough to justify the capital raises. Almost half of respondents thought that continued capital raising would not pause the hardening market.
- Some 41% of respondents did not expect quota share participation to drop as rates improve. The majority thought there would be a functioning retro market at 1 January and more than 40% of survey participants expected ILS capacity to remain the same in 2021.
- Around 36% of participants said they had experienced Covid-19 losses in the \$0mn-\$50mn range and 26% said they had seen losses over \$500mn.

"Predicting cyclical trends, supply/demand metrics and capacity levels is an inexact science"



Others still pointed to the macroeconomic picture, noting that capital was likely to continue to flow into our market while interest rates remained depressed – a trend that was likely to be exacerbated by Covid-19.

For others, the explanation was simpler. "(Re)insurers are motivated by growth and profit. If a (re)insurer identifies a segment where inadequate pricing and poor experience have led to tighter underwriting and higher pricing, they invariably reach a point where they believe that if they come in with slightly relaxed underwriting standards and lower pricing, they can increase market share," said one commentator.

"This leads the inevitably to other (re)insurers following suit which leads to reduced margins and loss, thereby eroding profits, causing a tightening of underwriting standards and increased pricing – thus starting the whole cycle [all] over again."

Capital expansion

Reams of column inches have been filled over the spring and summer months in 2020 relating how a number of players participated in capital raises, either to scale up, to start up or to buy in.

The survey's respondents gave fairly mixed views on whether the losses experienced in the first half of the year were enough to justify the capital raises,

Continued on page 14

with some 40% believing they were and another 29% thinking the exact opposite.

The current hurricane season and Covid-19 were complicating factors for many, with a number of commentators suggesting it was too early to decide if the capital inflows were justified.

"Maybe, just maybe, the rate increases we've seen in the last 18-24 months get us on a par with retrospective losses," opined one. "The going-forward loss cost picture is murky at best: Covid-19, continuing social inflation, civil unrest – all point to a need for even higher rates. Additional capital generally short-circuits that part of the cycle."

Some 51.4% of respondents believed scale-ups were better poised to serve the market's interests, compared with start-ups or buy-ins, which scored 37.1% and 11.4% respectively.

Interestingly, almost 50% of respondents thought that continued capital-raising would not pause the hardening market.

One respondent pointed to there being "more pain to come", while another said that the investors today were more educated than in the past and would demand to know what opportunities were available before signing over their cash.

We also asked our panel: "If major market losses do not result in a drop in capacity, does that mean the cycle is broken?" and more than 72% answered "no".

The more detailed answers ranged from the deeply cynical to the more pragmatic.

One executive noted: "As PT Barnum said, 'There's a sucker born every minute'. Uninitiated capital tends to flow into the

Summary and methodology

Over July and August, *Insurance Insider*'s Insights team invited senior market individuals from our readership to take part in a research study aimed at gaining insights into the present and future states of affairs in the reinsurance industry.

Our goal with the survey was to explore various market themes including the reinsurance cycle, capital raising, the different types of reinsurance and the effects of Covid-19 on the industry.

We received 43 survey submissions over the course of the survey period.

market at such times because they 'didn't pay the loss'."

Another suggested that there was more than just market losses to consider when looking at capital trends, such as a return to underwriting discipline, while a third supposed: "It could simply indicate banks looking to leverage available capital and dumping it in the insurance sector as they did after the Lehman collapse."

"The going-forward loss cost picture is murky at best: Covid-19, continuing social inflation, civil unrest – all point to a need for even higher rates. Additional capital generally short-circuits that part of the cycle"

Quota share, retro and ILS

Some 41% of respondents did not expect quota share participation to drop as rates improve but the same proportion were not sure what would happen.

"QS could increase as reinsurers try to get closer to the money and incent primary carriers through attractive ceding commission," suggested one executive.

Others pointed to the opportunity to increase scale in a rising rates market. "Some will scale back but others will use quota share to grow line size to take advantage of a more favourable rating environment."

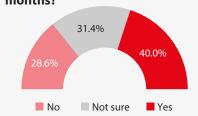
Others disagreed and said they were already seeing participation shrinking: "The market is already seeing this take place, albeit it is not widespread; but as companies become more comfortable with rate adequacy, they'll take more of their business net," said one respondent.

With retro, the majority of respondents thought that were would be a functioning retro market at 1 January renewals but many expected it to be challenging.

"The retro market does not seem to be sharing in the euphoria of good times being here to stay," commented one, while another noted: "It's going to be a foot race for capacity as demand will likely outstrip supply."

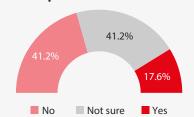
Capital

Has there been enough pain to justify the amount of capital raising we have seen in recent months?

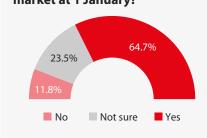


Quota share, retro and ILS

Do you expect to see quota share participation drop as rates improve?



Will we have a functioning retro market at 1 January?



There was a very mixed picture when respondents were asked about ILS capacity going into 2021, with more than 40% believing levels would stay broadly the same, but another 35.3% expecting it to increase. Of the remainder, 23.5% expected levels to decrease.

"Although there is official support for capital diversity, there is no evidence that ILS will help the market, just themselves," commented one cynic.

"Losses have outpaced income in that book and without capital release from previous losses will dampen the attractiveness," said another.

Continued on page 16



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Created in 1970, SCOR has been helping its clients navigate through a constantly changing risk universe for 50 years. As a global Tier 1 reinsurer, major risks are our raw material. We face shocks and we absorb them: natural catastrophes, industrial accidents, pandemics... Our shock-absorbing capacity is based on a controlled risk appetite, with strict underwriting discipline and prudent asset management; a robust capital shield; a balanced business model between Life and P&C reinsurance; high diversification across underwriting risks by both geographies and lines of business; and very active risk management. Our AArating, confirmed by Fitch, by Moody's and by Standard & Poor's, bears witness to the resilience of our business model. We value proximity to clients, we value expertise and we strive to address and meet societies' changing protection needs in an expanding and increasingly complex risk universe.

Under our latest strategic plan, "Quantum Leap", we are shaping the reinsurance company of the future to push back the frontiers of insurability. And through the Art & Science of Risk, we fully intend to contribute to the welfare and resilience of Society for the next 50 years.







Much of the vagueness was around how the ILS market would react to the situation presented by Covid-19.

"Given the uncertainty with Covid-19 and what is shaping up to be another active nat cat season, I think ILS capacity will decrease," suggested one.

Others were more bullish, suggesting the macroeconomic picture and the drive for investment returns would keep the ILS market buoyant.

"Given the uncertainty with Covid-19 and what is shaping up to be another active nat cat season, I think ILS capacity will decrease"

Covid-19 losses

While a small section of respondents had not yet seen any losses relating to Covid-19, some 36% of participants said they had experienced losses in the \$0mn-\$50mn range and another 26% said they had seen losses over \$500mn.

That said, the majority of participants thought their losses were manageable. Event contingency, BI and property lines were thought to be the most loss-affected lines but some respondents added that some Covid-19 claims were still unknown and hadn't yet appeared in some reinsurance markets.

Other classes of business where losses had already come through included trade credit, general liability, workers' compensation and travel.

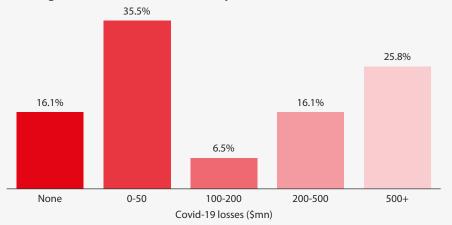
When asked about the likelihood of disputes arising between reinsurers and their cedants on Covid-19 claims, just over half (54.8%) believed the divergences were likely or very likely. Just 6.5% thought disputes were very unlikely.

Nine out of 10 respondents said the quarrels were likely to be around occurrence definitions, with a quarter of our executives also expecting rows to develop over hours clauses.

Quibbles over "silent" pandemic coverage, disease coverage and flimsy wordings were also highlighted by our panel.

Covid-19 losses

How big are the Covid-19 losses that you have seen so far?



In which lines are you seeing Covid-19 losses having the biggest impact?

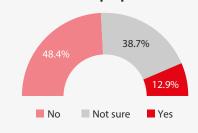
20% 19% 6% 17% 17% 14% Event contingency General liability



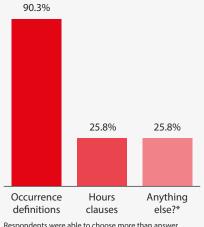
■ Credit, trade credit, ■ Other* surety

*Other includes aviation, D&O, health, marine, cyber

Are people exaggerating the claims at an industry level to serve their own purposes?



What wording will the disputes depend on?



Respondents were able to choose more than answer for this question so percentages will not sum to 100

*Respondents provided the following answers when choosing 'Anything else?':

- 'Silent pandemic' coverage
- Coverage (or not) afforded under the contract wording
- Disease coverage
- Exclusionary language
- Is a pandemic an event at all?
- It will be down to the clarity of understanding reached between the contracting parties on what is and is not covered



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Q&A with Paul Schultz

Paul Schultz, CEO of Aon Securities, gives us his insight into trapped capital, cat bond appetite, the protection gap and Randolph Re's first anniversary

Back in July, Aon's Reinsurance Market Outlook report said the amount of reinsurance capital provided by the alternative market had shrunk by 4% to \$91bn at the end of Q1 2020, with at least \$15bn of collateral thought to be trapped because of recent major losses, "including Covid-19". How has the picture moved on since then?

Alternative capital has rebounded since Q1, and we believe that if current trends continue, by year-end it will be at similar levels to those seen at the beginning of 2020. It should be mentioned that the reduction in capital wasn't a reflection of a change in the perceived value of ILS – it was largely due to investors allocating capital to areas where they saw greater opportunity for growth, such as equities, which rallied incredibly after the lows seen at the end of March.

In terms of trapped collateral, the effects will be felt in some parts of the ILS market more than others. For instance, in ultimate net loss retro, trapped collateral will continue to be an issue, but cat bonds will likely be unaffected. It is worth noting that there will be innovations around trapped capital to create liquidity in illiquid positions. Once collateral is trapped you have to let losses develop, but there are ways in which you can look at the expected development and create more liquidity.

Appetite for cat bonds appears to have remained robust. What's driving that appetite? Is it the fact that they are for specific named risks, their liquidity or something else?

There is strong appetite in the cat bond market, both from investors and sponsors – total issuance in the first half of the year was already 20% higher than the full-year issuance for 2019. Given this, we expect a relatively strong full-year issuance total of more than \$9bn.

Going forward, we would expect steady growth that builds on the current momentum, leading to more cat bonds sponsored by insurers and reinsurers. This trend will be driven in part by investor demand for liquidity, causing a slight shift in the overall ILS product mix, and so cat bonds may see relatively more growth than collateralised reinsurance and sidecars, where the capacity is currently somewhat more distressed due to the illiquid nature of that type of contract and the similarity of many of the sidecar portfolios.

Do you anticipate greater participation from institutional investors such as large pension funds next year?

New investors enter this space periodically, but the core support for cat bonds has remained fairly consistent and is likely to stay that way. As mentioned previously, some investors have chosen to increase their exposure to equities since the first quarter, so there hasn't been a huge increase in ILS capital.

ILS investors are mainly institutional, and the capital allocated to start-ups and ILS is largely from different sources. Start-ups are utilising collateralised capacity alongside their start-up capital, so it's a harmonious relationship, which hasn't always been the case – ILS and rated paper used to be seen as almost opposing opportunities in terms of the deployment of capital, but now it's a more complementary relationship. With different forms of capital coming into the market you could start to see overlaps.

how ILS and capital markets solutions can be a big part of solving the protection gap, particularly in Asia. What are the roadblocks which are currently preventing this from happening on a grand scale?

The current market conditions have really focused the market on property.

You've spoken passionately about

The current market conditions have really focused the market on property opportunities, which makes sense as it's more of an opportunistic pricing environment today. There's always interest to innovate around product and structure to create more efficient ways to transfer risk.

But when there's more emphasis around property solutions, other areas seem to get put back on the shelf somewhat, which is what we have seen in casualty. It's a much more complicated process to find out how to address casualty in terms of loss development.

As Randolph Re approaches its first birthday, can you give us some insight into the aims of the platform and whether it has performed as expected?

We structured Randolph Re to be a state-of-the-art platform built for scale and efficiency that makes the structuring of cat bonds faster and more efficient, with lower third-party costs.

It was designed to fill the gap between collateralised reinsurance and traditional cat bonds, as it allows for syndication, smaller deal sizes and single- or multi-year coverage, while aligning with the traditional placement process so that brokers, cedants and ILS investors can develop structures that work for all sides to get a private cat bond to market.

These features were brought together for the first Randolph Re transaction, which was a \$50mn deal arranged for new syndicated capacity for indemnity wildfire coverage in California, and was successful despite the tough market conditions and Covid-19. We are now building the pipeline for the upcoming 1 January renewals and beyond.





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US Property Cat Rankings Survey 2020

Two market veterans won the 2020 edition of *Insurance Insider's* US Property Cat Rankings survey –the market's independent annual talent survey – for the third consecutive year, as voter preferences for previously top-ranked individuals appeared to remain stable year on year.

Richard Trubshaw of Managing Agency Partners (MAP) comfortably claimed the top place on the underwriting league table in this year's survey, after having won the title in the prior two years.

Similarly, Guy Carpenter's Tim Martin won the top accolade on the broking side for the third year in a row, improving on his score from the previous iteration of the survey.

Top underwriters

Trubshaw came out well ahead of other top-ranked underwriters but secured around 20% fewer votes year on year. Nonetheless, the 20 brokers who voted for him gave an overall score of 49, beating runner-up Richard Holden of Fidelis Insurance by 21 points.

The MAP active underwriter and founding partner received support from a broad spectrum of voters, with differing ranges of experience in the market although –

Continued on page 21

Methodology

The survey

The US Property Cat Rankings 2020 survey ran from 17 December 2019 to 7 February 2020, having first launched in 2017. It was undertaken by *Insurance Insider* as part of the Rankings series, which covers a range of classes including political risk, political violence, cyber aviation and D&O.

Respondents and nominees

The survey was addressed exclusively to brokers and underwriters operating in US property cat reinsurance, regardless of where they are based.

As with the rest of *Insurance Insider*'s Rankings series, this is a two-way survey by which underwriters nominate the best brokers and brokers nominate the best underwriters.

Nominations and scoring

The survey is individual-based so respondents only nominate and score the best professionals, not companies.

Individual scores, however, are aggregated across teams and divided by the number of nominated professionals in those individual teams so as to derive company rankings.

Ranking results

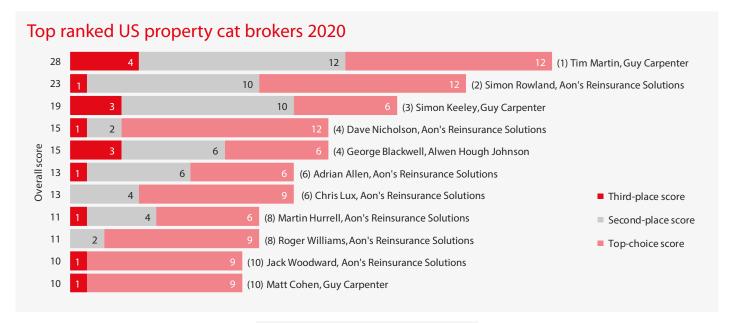
The ranking of underwriters and brokers is calculated using a scoring method known as Borda count, which assigns three points to any respondent's top choice, two points to the second and one point to the third.

This method provides consistent weighting to each vote while accounting for voters' order of preference.

Therefore, it provides the best representation of market preferences.

The Borda count method is used extensively in other popular ranking awards such as the NBA's Most Valuable Player Award and the Eurovision Song Contest.

Top ranked US property cat underwriters 2020 49 10 (1) Richard Trubshaw, MAP 28 (2) Richard Holden, Fidelis Insurance 17 (3) John Carty, RenaissanceRe (4) James Holliss, Chaucer Overall score 11 (4) Matthew Gorrell, Axa XL ■ Third-place score 10 4 (6) Andrew Tudor Thomas, Validus Re ■ Second-place score (6) Mark Vaughan, Beazley ■ Top-choice score 8 (8) Matthew Bellamy, Fidelis Insurance 8 2 (8) Tom Sutton, Lancashire Group (8) Will Curran, Tokio Marine Kiln



not surprisingly – 50% of supporters were brokers with over 20 years' experience.

His remaining votes were equally split between those with under 10 years' experience and those with 10 to 20 years of experience.

He also garnered two thirds of his votes from brokers who had previously not voted for him in previous editions of the survey.

Second place again went to Fidelis' Holden while third was taken by RenaissanceRe's John Carty, who moved up from fourth in 2019.

Chaucer's James Holliss dropped off the podium, sharing fourth with Matthew Gorrell of Axa XL.

Elsewhere, Matthew Bellamy of Fidelis was one of the big movers on the underwriting side this year, finishing joint eighth, up from 22nd in 2019. Bellamy had not featured in the inaugural 2018 US Property Cat Rankings.

Top brokers

21

As for the brokers, the podium has kept the same three members since the start of the survey in 2018.

Guy Carpenter's Tim Martin won first place as 14 underwriters voted for him, up slightly from 12 in 2019.

Although his vote count ticked up, his overall score decreased to 28 from 32 in 2019. This was because fewer underwriters placed Martin as their top-choice broker this year compared with last year. Under the Borda count methodology, nominees receive more points when a respondent identifies them as their top choice, and this

Key survey stats

- A total of 973 professionals 540 of them underwriters and 433 brokers
 – were individually invited to take part in the survey
- The number of validated nominations stood at 463
- A total of 95 underwriters and 126 brokers were nominated and ranked – out of the 973 professionals on our screened database
- As such, the talent assessed by the survey covers the top quarter of the distribution

year the proportion of Martin's nominations from underwriters placing him top fell from 75% to 29%.

That said, the majority of Martin's votes came from the most experienced underwriters. More than 25% of his nominations were derived from participants with over 20 years' experience and some 50% arose from those with 10 to 20 years' experience.

Second place was taken by Simon Rowland of Aon's Reinsurance Solutions, who finished in the same position in 2019.

Rowland shared second with Guy Carpenter's Simon Keeley in 2019. However, Keeley slid down to third this year as his overall score lagged Rowland's by four points, despite an equal number of votes.

One of the biggest risers on the broking side in 2020 was George Blackwell of Alwen Hough Johnson, who climbed up to joint fourth after ranking 18th in 2019 and 2018.

He tripled his vote count in 2020 after garnering much support from underwriters with over 20 years' experience in the market. Blackwell has been working at Alwen Hough Johnson for almost 10 years and has been in the market for over 17 years, according to his LinkedIn profile.

He shared fourth position with Aon's Dave Nicholson.

Companies

As the survey was individual-based respondents were not given the opportunity to vote for the best companies. However, individual scores were aggregated across teams and divided by the number of nominated professionals in those individual teams so as to derive company rankings.

Fidelis emerged as the top underwriting company in the 2020 US Property Cat Rankings in terms of average scores.

The carrier climbed up to the top of the rankings this year after achieving an average score of 10.3, with four underwriters making up an overall score of 41.

While Fidelis led the company rankings on the underwriting side this year, it missed out on the league table altogether in 2018 and 2019. This is because average company scores are only calculated where teams consist of three or more individuals, and Fidelis only featured two underwriters in those years' surveys.

Likewise, MAP did not qualify for a place on this year's company league table since its team consisted of just two individuals.

Continued on page 23

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RenaissanceRe was pushed to second place this year after getting an average score of 7. Meanwhile, underwriters from Blenheim scored an average of 5, taking the carrier up to third after not receiving a place in previous editions of the survey.

While some 46 underwriting companies featured in the 2020 US Property Cat Rankings, the number of broking houses was considerably lower, at 11, but still up from eight in 2019.

The relatively large ratio of underwriting firms to broking houses is a distinctive feature of this class compared with other lines covered by the Rankings series. The results, similar to those in previous years, point to a concentration of the US property cat intermediation market, which stands in stark contrast with the more fragmented underwriting side.

New broking firms nominated in this year's survey included Beach and Associates, Lockton Re, Steadfast Re and Thomas E Sears.

Although 11 intermediaries featured in the survey, just five qualified for a place in the company rankings, where the order of companies is determined by average scores.

Aon's Reinsurance Solutions emerged as the number-one broking firm in this year's survey as its brokers scored 5 on average. Some 38 Aon brokers were nominated this year, securing an impressive overall score of 191.

Aon's high average score, in contrast to those of peers Guy Carpenter and Willis Re, showed the perceived quality of its team members.

Rowland and Nicholson were Aon's largest contributors this year, scoring 23 and 15 respectively.

Elsewhere, average scores for brokers at second-placed TigerRisk Partners reached 4.8 this year, just 0.2 points behind Aon. Marc Havens and Kevin Feldman both scored the highest out of the nine TigerRisk brokers nominated in this year's survey.

BMS Group took third place with an average score of 3.8, having ranked sixth in 2019.

Meanwhile, Guy Carpenter took fourth place – down from first in 2019 – with an average score of 3.6. Although Guy Carpenter had the largest team with 49 nominated brokers, Aon's team of 38 achieved an overall score that was around 8% higher.

Continued on page 25

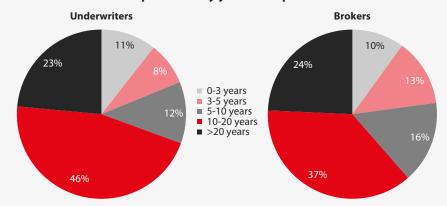
Sample analysis

Insurance Insider collected 155 complete submissions from underwriters and brokers in the 2020 edition of the US Property Cat Rankings. Provided below is a breakdown of survey respondents by years' experience they have in the US property cat reinsurance market and location.

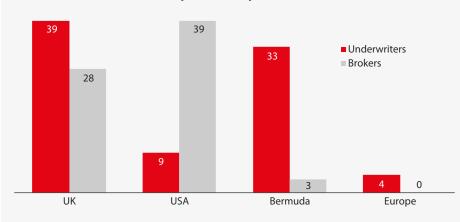
Respondents in the US Property Cat

Rankings tend to be, on average, more experienced than respondents in other lines of business the Ranking series covers. In the 2020 edition of the survey, some 66% of the 155 respondents had over 10 years' experience in the industry. Newcomers with less than three years' experience made up just 10% of all respondents.

Respondents by years of experience



Respondents by location



Top-ranked broking companies 2020

Overall rank	Company	Overall vote count	Overall score	Number of brokers	Average score
1	Fidelis Insurance	16	41	4	10.3
2	RenaissanceRe	11	28	4	7.0
3	Blenheim	8	15	3	5.0
4	Validus Re	8	19	4	4.8
5	Axa XL	10	21	5	4.2



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Attributes

When nominating the top three professionals, respondents were also asked to mark them on specifically defined attributes. These qualities define the best underwriting and broking practices.

There are six attributes defining the best underwriting standards and eight attributes defining the best broking practices, against which nominees are rated.

On the underwriting side, 'negotiating skills' fell to its lowest level this year – 4.32 out of 5 – after spiking in 2019 with a score of 4.44. However, the lowest scoring trait for this year was 'creativity', as underwriters scored an average of 4.23.

'Knowledge/experience' and 'communication skills' were underwriters' best-rated attributes, with scores of 4.58 and 4.57 respectively.

Meanwhile, on the broking side, lower attribute scores indicated a downwards shift in the way underwriters perceive their broking counterparts' talent.

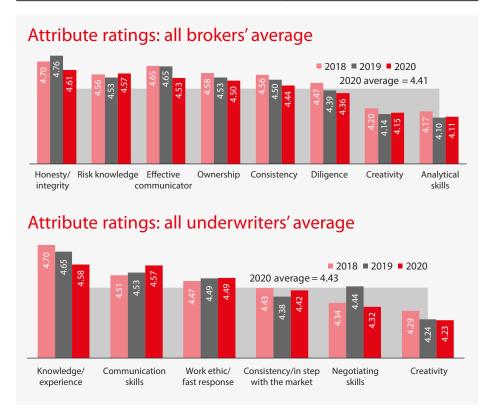
'Creativity' and 'analytical skills' were again the two lowest-rated traits for brokers, scoring 4.15 and 4.11 respectively. However, they were two of three attributes where scores grew this year. 'Risk knowledge', which was found to be brokers' second bestrated attribute, also grew slightly this year to 4.57.

On the other end of the spectrum, scores for 'honesty/integrity' slumped by 3.3% year on year to 4.61 despite still being brokers' best-rated attribute.

To download the 2020 US Property Cat Rankings report containing headline results click here.

Top-ranked broking companies 2020

Overall rank	Company	Overall vote count	Overall score	Number of brokers	Average score
1	Aon's Reinsurance Solutions	89	191	38	5.0
2	TigerRisk Partners	24	43	9	4.8
3	BMS Group	8	15	4	3.8
4	Guy Carpenter	90	177	49	3.6
5	Willis Re	27	55	18	3.1



US Property Cat Rankings Awards 2020

Powered by the survey data, *Insurance Insider* celebrated the US Property Cat reinsurance market's best talent as part of our annual awards. Through an extensive social media campaign and an online video announcing the winners we celebrated the market's achievements, its rising stars and the most-skilled individuals, as well as the service providers that enable underwriters and brokers to do what they do best.

With one exception, our awards are unlike traditional ceremonies where a panel of judges pick who they believe to be the winner of a category. Our winners

are derived from the data gathered through the US Property Cat Rankings survey.

Award winners

Rising Star Broker of the Year: Jack Hulston, Aon's Reinsurance Solutions **Rising Star Underwriter of the Year:** Jonny Law, MS Amlin

Most Skilled Broker of the Year: Chris Lux, Aon's Reinsurance Solutions Most Skilled Underwriter of the Year: John Carty, RenaissanceRe

Catastrophe Modelling Agency of the Year: AIR Worldwide

Weather Tool of the Year: Weather Underground

US Property Cat Claims Team of the Year: MS Amlin and RenaissanceRe

US Property Cat Brokerage of the Year: Aon's Reinsurance Solutions

US Property Cat Underwriting Firm of the Year: Fidelis Insurance

US Property Cat Broker of the Year:

Tim Martin, Guy Carpenter

Cyber Underwriter of the Year: Richard Trubshaw, Managing Agency Partners Outstanding Contributor of the Year: (chosen by a panel of senior editorial staff at *Insurance Insider*): James Holliss, Chaucer



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The modern broker is a digital broker

Relay's CEO **Greg Boutin** suggests a focus on technological agility and digital collaboration are the new success drivers for reinsurance brokers

If Covid-19 has taught us anything, it's that our old ways of doing business no longer cut it.

Today, businesses around the world are being forced to ramp up their digital transformation in order to meet the challenges of social distancing and remote work. In fact, according to research by Gartner, where digital transformation often used to take years to complete, it is now being executed in a mere eight weeks.

No longer are long project planning times, siloed forms of communication and legacy technologies sufficient. It's now in action and agility where survival rests.

The world of insurance is not immune to the change. But to adapt, it must overcome its fear of losing control to technology.

The rise of the digital reinsurance broker

Pressured by the need to stay hyperorganised and collaborative in order to meet client needs, today's reinsurance brokers must also adopt forward-thinking technologies in order to future-proof their practices and remain competitive.

Many brokers still rely on clunky legacy platforms to manage their practices. While sufficient for inputting insurance information, these platforms create enormous siloes that often break down communication and collaboration between any players outside a broker's practice. They

also cost millions to build, maintain and upgrade.

To fix these problems, a new platform breed has arrived that is nimble and highly collaborative (for both in-house and out-of-house contributors), known as the cloud-based reinsurance collaboration platform.

Here are a few ways that an agile, cloud-based platform can help brokers streamline their practices and become more competitive:

- Focus on value to client: Today's leading carriers seek to retain control over their data and diversify their relationships, working with brokers as value-adding consultants. Locking in clients through proprietary software is an outdated tactic that backfires in the long run. In practice, those brokers which offer a system that meets their clients' operational needs develop a strong competitive advantage, in the form of deeper insights and new opportunities. They increase the number of client touchpoints, receive cleaner data and grow their share of wallet through influence, not strong-arming.
- Connectivity to clients and instant presentations: For many brokers, presentations are a constant part of business. But putting them together is a time-consuming affair for the alreadybusy broker. New solutions offer built-

- in capabilities to engage clients with real-time online updates, or generate presentations on the fly without turning to PowerPoint.
- Increased mobility and innovation:
 Agile platforms are designed to support
 brokers on the go. To achieve real
 agility, businesses now need to be smart
 about choosing technologies that work
 together to drive greater efficiencies.
 Unlike proprietary platforms that
 are highly restrictive, new platforms
 integrate with email, spreadsheets,
 Microsoft Word and Acrobat out of the
 box, and faster with other applications,
 in order to create a fluid and hyper intelligent working environment.
- White label-friendly: Third-party platforms should drive speed, savings and innovation but not at the cost of losing control. Agile platforms enable a broker's practice to fully brand the software through white labelling. Being able to brand the software with a practice's logo ensures brand continuity is carried through into every user interaction with the platform. Proprietary systems achieve that too, but at much greater cost to their owner.
- Smart analytics, easy reporting:
 Brokers deserve better analytics
 and reporting, including placement
 analytics, for example, to identify which
 reinsurers respond faster with a higher
 acceptance rate. Those analytics become
 extremely powerful when all parties use
 the platform from start to finish. Too
 many platforms today are only used to
 re-key and record information after the
 placement has been negotiated.
- All-around faster collaboration and efficiency: Unlike traditional legacy models, cloud-based solutions are not tethered to proprietary private networks. As a result, brokers and their clients can easily invite a whole host of players – from colleagues to outside partners – to collaborate. And with less siloes caused by legacy systems, teams can become much more efficient and accurate, thereby closing more placements in less time.

Introducing Relay for brokers

Long before Covid-19, the team at Relay understood the challenges of brokering reinsurance placements. We also believe the industry must be equipped with the best and most agile digital tools in order to survive. Which is why we created Relay – a mobile-friendly service that enables teams to seamlessly collaborate, negotiate and then move to complete placements with ease and accuracy.

It is available now for facultative reinsurance and large commercial insurance placements, and is expanding into treaty and MGA/MGU programs in Q4. In addition, as part of our Innovation-asa-Service model, we introduced The Risk Network by Relay, which helps brokers connect faster with capacity and clients.

Try them both easily now at https://app.relayplatform.com/signup and let me know what you think at greg.boutin@relayplatform.com.

Also join our session on "The Modern Broker is a Digital Broker: How to Turn Technology from a Foe to a Friend, and Drive Twice as Much Business" at (Re)Connect on Tuesday, 15 September, at 13:00 (UK time) / 08:00 (NY time).



And something you might not.

CGI

Founded in Quebec in 1976, CGI is among the largest IT and business consulting services firms in the world, helping clients achieve their goals, including becoming customer-centric digital enterprises. **cgi-group.co.uk/complex-well**

Mind the intangible protection gap

For many corporations, the value of their intangible assets at risk is as significant as for their tangible assets. So why is so little protected by insurance?

The idea that insurers in emerging and mature economies could do more to close the protection gap resonates strongly in a sector that badly needs new paths to growth.

Until recently, that gap was defined by familiar P&C risk exposures. But it is becoming clearer to some in the industry that a gaping risk gap exists beyond the confines of bricks-and-mortar business insurance.

For most (re)insurers, corporate coverage relates to tangible assets or, more specifically, property, plant and equipment (PP&E). However, the asset mix of big businesses – and SMEs for that matter –has changed. Today, intangible assets such as information, intellectual property (IP) and even brand equity often represent a much bigger share of a business's overall value.

It is a sea change that has not gone unnoticed. In a speech last year Lloyd's CEO John Neal said: "If you looked at a classic S&P 500 company 40 years ago, 83% of their balance sheet would have been tangible assets. Today, it's only 12%. Insurance is pretty good at insuring the tangible, but quite challenged at finding

the appropriate covers for the intangible."

Lloyd's subsequently launched an initiative, the product innovation facility, with the aim of developing products for non-standard risks, including intangible assets.

Research carried out in 2019 by the Ponemon Institute for Aon quantified the potential size of the intangible risk pool. Its global survey of 2,348 corporate risk professionals found that on average, the total value of PP&E for their companies is around \$1.03bn. The average total value of information assets, which includes customer records, employee records, financial reports, analytical data, source code, model methods and other IP, is slightly more than PP&E at \$1.2bn.

Yet, on average, around 60% of PP&E assets are covered by insurance while an average of only 16% of information assets are insured.

Codifying intangible risks

The main challenge for insurers is fully understanding intangible risk, according to Brian Hinman, chief innovation officer at Aon Intellectual Property Solutions.

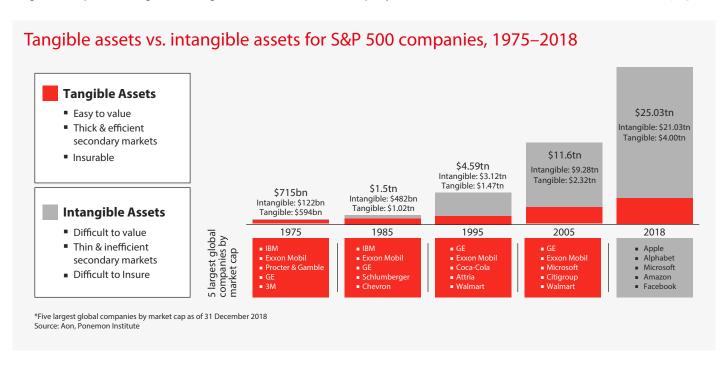
"Until recently, insurers haven't been able to identify or quantify it accurately. It's meant that they have either a) declined to underwrite the risk or b) charged such a high premium that it's prohibitively expensive," he explains.

"What's changing is that increased data availability and better analytics are allowing insurers to analyse potential loss frequency and severity."

But a common language around intangible assets is still a problem, says Aoife Woulfe, head of IP at Tokio Marine Kiln (TMK). She points out that patents, trade secrets, trade marks etc, are national rights subject to national law – therefore they differ from country to country.

"While we may all think we are speaking the same language, we may not be and this can be confusing for all parties involved. This also applies to intangible assets, which may have different applications within businesses, between industries and even accepted standards (for example accounting). Therefore, solutions will always need to be flexible to some degree and, as the world continues to change,

Continued on page 30



move with them," she says.

Robert Muir-Wood, chief research officer at RMS, adds that different categories of intangibles - IP, data on clients, brand value, innovation potential – can blur into one another. "It is often too subjective to determine what is the total 'economic' value of what has been lost after an incident, like a contagious malware attack. What is the value of some stolen and exposed customer data? We can only look at the share price for a listed company," he suggests.

Jan Bachmann, head of innovative risk solutions (EMEA) at Swiss Re Corporate Solutions, points out that defining risk exposures for traditional property insurance is more clear-cut because it is commonly based on named perils. "While all-risk policies do exist, underlying them are still lists of identified perils and the assumption that only a little unidentified, residual risk remains," he says.

"This assumption does not hold in the case of intangible assets. More often than not, they are exposed to a much broader set of risks."

Bachmann says that while the insurance industry does have the necessary modelling capabilities, it is still challenging to reliably assess the accuracy of costing, and

especially pricing, of intangible asset risk in the insurance world.

Models make progress

But progress is being made and in the biggest intangible asset class, IP, effective risk models are being developed to facilitate risk transfer, according to Aon's Hinman.

"Since the passing of legislation in the US and Europe a lot more exposure data has been collected and made available," he says. "We use it in conjunction with other risk analysis data to articulate levels of loss frequency and severity. IP risk assessment helps companies understand their own overall IP risk profile.

"This analysis can also be used by insurance underwriters and help them provide a broad level of protection and at a cost level that's acceptable to the insured," Hinman adds. It's worth noting here that IP is usually excluded from cyber risk insurance programmes.

The IP insurance market has grown in recent years and should continue to expand as claim history builds up. Around 20 insurers participate in the segment and available per-risk capacity is around \$300mn.

More publicly available data, on litigation records and patent filings for example, is also helping product development. "TMK recently wrote a bespoke policy which covers an investment underpinned by a patent portfolio. The client was concerned that should a third party invalidate the patent portfolio, the investor would pull their capital, as was their contractual right, leaving the client with no funds to continue," TMK's Woulfe says.

Aon's Hinman says there's growing demand for insuring against trade secret theft, as an alternative to patenting. It's taking off because the patent process is time-consuming, expensive, and often unpredictable, leading some costconscious businesses to cut down on their patent filing activity.

But their trade secrets are still at risk of theft by outsiders or departing staff members. "They can now purchase meaningful trade secret theft insurance coverage to address that exposure," Hinman says.

Closing the gap further

If the protection gap is closing fast in IP, the picture is less certain for much of the wider heterogeneous pool of intangible risks. Educating risk managers on the exposures their business face would be a start.

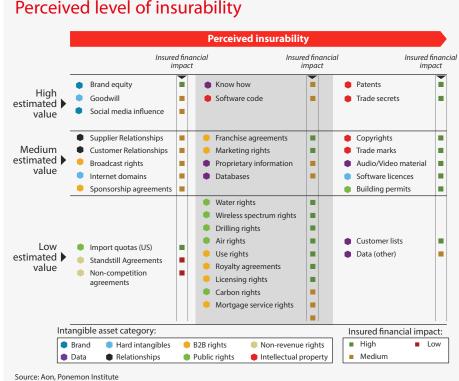
TMK's Woulfe reckons one of the main difficulties still experienced by carriers in the IP business is client awareness,

"Underwriters have a flexible product offering, have the capacity and have the knowledge to underwrite these cases. As client awareness of both risk and available solutions grows, the product offering on the market has developed alongside," she savs

Bachmann is cautious about the wider take-up of intangible asset insurance because such risks tend to be closely related to business and trading risk, which is traditionally in the domain of equity, bond and derivatives investors.

"So insurance offerings that cover such risks need to compare with those alternatives," he says.

"Insurers have struggled in the past to consistently maintain adequate pricing for traditional commercial insurance risks, let alone command risk commensurate premiums to cover intangibles, which has not helped to develop risk appetite for this segment."



Driving digital placement

Lloyd's is modernising its systems and processes to better serve customers and drive sustainable growth

Lloyd's is evolving to become a smarter, faster and more cost-effective place to do business. To protect one of its most important channels, Delegated Authorities, Lloyd's is modernising its systems and processes and delivering technology improvements that will better serve customers and drive sustainable growth.

One of the latest systems doing just that is Lloyd's Coverholder Workbench. Marc Bloom, COO of Lloyd's Americas and business owner (Coverholder Workbench) explains to Tim Rayner, business development director at Sequel Business Solutions, the key deliverables and benefits of Coverholder Workbench.

What is Coverholder Workbench?

Coverholder Workbench is a live digital platform that supports the coverholder placement lifecycle. It includes the functionality for submission, rating and quoting, automated document generation, cash handling – which includes invoicing and crucially, Lloyd's reporting. In partnership with Sequel, it has been designed from the ground up to work in harmony with the Lloyd's market and is compliant with the Lloyd's bordereaux management system Delegated Data Manager (formerly known as DA SATS).

Why is Lloyd's offering Coverholder Workbench to coverholders?

Quite simply, we have designed and built Workbench to provide coverholders the opportunity to work seamlessly with the Lloyd's market, satisfying all of Lloyd's reporting requirements and as a cost-effective solution to support them. It is a purpose-built Lloyd's system that can be used by new coverholders to market their products faster or existing coverholders in need of a better and more efficient system.

Who can use Coverholder Workbench?

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The system is available for all existing or new coverholders, including brokers who are acting as coverholders or managing agents' services companies that are acting as coverholders. Providing the organisation has (or will have) a registered Lloyd's binder, we can onboard them to the system and have them writing business and reporting to their Lloyd's broker or managing agent within a matter of weeks.

What are the top three benefits for coverholders who sign up to use Coverholder Workbench?

Firstly, I would say Workbench provides coverholders with the assurance they are using a system that is fully compliant and will satisfy a Lloyd's third-party audit.

Secondly, it provides for an efficient time to market with an economical, fully compliant operating system for quoting, submission, binding, automatic document production, reporting and cash handling.

Thirdly, it provides increased operational efficiencies as there is no need for re-key across multiple systems – the structured data is entered once at the front end and then pulled through to where it needs to be for any required downstream actions.

Can Coverholder Workbench capture tax requirements?

It certainly can. We have designed the system so that any single tax regime risk locations are automatically captured and, if necessary, reported on the written and paid bordereaux.

For our US coverholders, Coverholder Workbench will support the capture and reporting of all the necessary surplus lines taxes and fees. We will also be maintaining this information to ensure regulatory compliance.

How much does it cost to use Coverholder Workbench and who must pay to use it?

The base cost is surprisingly low. Additional costs will vary depending on the number of binder products or lines of business the coverholder has configured. The number of users and the take up of system functionality are also contributing factors. Detailed commercials will be discussed on a 1:1 basis with the prospective client. In

respect of who pays, we have a payment structure in place which sees the lead managing agent on the binder paying for the annual licence fee.

What are the benefits for managing agents if their coverholders are using Coverholder Workbench?

The managing agent is given the assurance that the coverholder is quoting and binding business within the terms and conditions of the binder or slip. Coverholder Workbench has delegated authority controls that can be turned up and down as required by the underwriter. As an example, we can set Coverholder Workbench up for a coverholder with a prior submit binder, whereby 100% of quotes are referred to the underwriter for review before being bound. Conversely, we can set the system up whereby the coverholder has full control of the pen and can quote and bind with no underwriter oversight until the binder aggregated limit is reached.

Is Coverholder Workbench already being used by coverholders?

Indeed, it is. We have live coverholders in the UK benefiting from using the system and a pipeline of UK and US surplus lines or excess and surplus coverholders preparing to onboard.

Is it likely that Coverholder Workbench will become mandated?

Lloyd's has no immediate plans to mandate Coverholder Workbench. It sits firmly in the Delegated Authority Ecosystem as an optional service for risk placement. Soon, users will benefit from APIs connecting Coverholder Workbench to the future Delegated Contract Manager, BAR as we know it today, and the Delegated Data Manager.

How do I find out more about Coverholder Workbench?

The quickest way to find out more is to email our dedicated mailbox: coverholderworkbench@lloyds.com. Once you've got in touch, one of the team will respond to set up an initial discussion.

2020 vision: anything but clear in the US

From pandemics to civil unrest to political turmoil, the remainder of 2020 will require constant assessment and adjustment for US (re)insurance markets

Key forces impacting the (re)insurance markets remain in flux, including state and/or federal liability shield legislation, the spectre of retroactive (re)insurance liability for coronavirus losses, shifts toward non-admitted markets, and the potential for a sustained economic downturn. Any one of these issues could have a material impact on the (re)insurance markets in the US, but together could truly test the sector.

Covid-19 continues to dominate the legislative and regulatory landscape while only some state legislatures remain in session.

Legislative focus on Covid-19 issues has created a patchwork of differing short- and long-term obligations for insurers, including the lingering threat of statutorily compelled retroactive liability for BI coverage despite policy exclusions. Fortunately, no state has adopted such legislation to date, but the debate is not over.

Most Covid-19 regulatory actions focused on moratoria on cancellation or non-renewal, premium reductions due to lowered risk exposures and expedited remote claims handling.

The fact that 51 US jurisdictions are seeking to address these issues has created a complex set of compliance requirements. The refusal of some regulators to allow pandemic exclusions in insurance policies, coupled with the almost universal exclusion of pandemic risks by reinsurers, has created a potentially dangerous disconnect.

Despite state legislative discussions regarding retroactive liability for BI coverage, the immediate threat comes from state and federal courts now considering hundreds of cases alleging that the pandemic, and resultant emergency orders closing businesses, triggered BI coverage. Thus far, courts have been nearly unanimous in rejecting these arguments, but it is still early days. Stay tuned.

Civil unrest

Racial tensions and related civil unrest have given rise to many civil protests – most peaceful, but some violent – causing loss of life and damage to both public and private property.

Continuing incidents of questionable use of force by police against persons of colour are likely to trigger further civil unrest and riots with consequent property damage and loss of life. The resulting claims under various insurance policies will likely take years to work their way through the legal system before cedants and reinsurers can truly understand the extent of covered losses.

The November state and federal elections have created a huge distraction for elected officials at virtually every level of government. This year, perhaps more so than most prior years, the battle lines with respect to fiscal policy have been sharply drawn and bitterly fought.

Election 2020

A change in the White House, particularly if coupled with Democratic control of both the House and the Senate, would dramatically alter the government's approach to healthcare, taxation and environmental issues, among others, and would likely have long-term implications for the insurance and reinsurance sector.

Both state and federal governments are actively considering, and in some cases have already adopted, statutes providing Covid-19 liability shields for certain groups or industries – such as businesses, schools, churches, cities and counties. As states continue to adopt a patchwork of similar but distinct liability shield laws, with varying degrees of protection extended to different groups, (re)insurers will also have to carefully consider their potential liability (or lack thereof).

The federal government is actively considering possible approaches to management of pandemic loss on both a

prospective and retrospective basis. One model under consideration is based on the Terrorism Risk Insurance Act. Another model is based on a more public/private sharing of risk supported by a large portion of the insurance and reinsurance industry. It is unlikely the federal government will act this year in light of the elections, but eventually it will be under pressure to do so, especially if there is a second surge in autumn and winter.

Covid-19 shelter-in-place orders required many insurance regulators to enable, at least on a temporary basis, regulated entities to make certain filings electronically. The past five months have demonstrated that this form of business is not only possible, but more convenient for all parties. Nonetheless, most regulators continue to expect a return to paper document requirements, such as noting that paper copies of the electronic documents will be required within two to four months after the end of the state of emergency. For those hoping Covid-19 has sped up a move towards electronic transactions/filings, it seems there is more work to be done in making these changes permanent.

There has been an unprecedented move of risks, both personal and commercial lines, from admitted markets to excess and surplus lines markets. This trend is likely to continue in the short to medium term, particularly if states continue to refuse to approve rate and form filings addressing pandemic exposure. In the long term, we expect the markets to return to equilibrium within one or two years, as has happened in the past. Admitted markets (and regulators) should eventually be able to adjust to the new reality as they learn from the experience of the non-admitted markets and adjust their rates and forms accordingly.

Authors: Andrea Best, Dan Brown, John Mulhern, partners at McDermott Will & Emery

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