insurance insider
(Re)Connect

Reinsurance broking: The race for third place

Market identifies TigerRisk and Gallagher Re as key contenders for mid-market position

The MMC-JLT and Aon-Willis mergers have created the potential for a challenger broker to break through to occupy the ground vacated by JLT, as well as the possibility for a strong layer of competing smaller entities to excel in particular lines and win market share.

However, outcomes at this stage are highly uncertain, with each of the handful of contenders showing different strengths and ambitions and the possibility of regulatory intervention in the Aon-Willis merger as a potential wildcard.

More broadly, the hyper-consolidation of the reinsurance broking market has profound implications for both clients and rivals, with the two biggest players placing around 80% of global reinsurance business.

On the one hand, there is an opportunity for smaller challengers to grow into the middle-range market once populated by JLT and earlier still Benfield, not least because some reinsurance buyers will prefer to use smaller intermediaries or employ a number of brokers for different contracts. The prospects of a selection of the key challengers in capitalising on the gap in the market is analysed below, looking at their strengths in recruitment, product specialisation and financial backing.

Reinsurance broking tiers

Tier 1 ($400mn+)
Aon-Willis pro forma ($2.5bn+)
Aon ($1.7bn) Guy Carpenter ($1.5bn)
Willis Re ($750mn)

Tier 2 ($200mn-$400mn)
~~JLT Re ($310mn)~~

Tier 3 (sub-$200mn)
TigerRisk ($125mn)
Holborn Beach BMS Re Capsicum
Lockton Re RKH Re McGill and Partners

Source: *Insurance Insider*
Based on 2019 revenue figures, includes estimates

On the other, the sheer scale of Aon Reinsurance Solutions and Guy Carpenter, their advanced capabilities in analytics and actuarial science, and their links to large retail books present a significant hurdle for any challenger looking to grow market share significantly.

For clients, the intense consolidation of the reinsurance broking market may create a demand for choice and diversity, while for reinsurers, the situation may present an uncomfortable dynamic in which the size and sway of a few vast intermediary businesses weakens their bargaining position as vendors.

The JLT gap

Marsh & McLennan Companies' takeover of JLT made Guy Carpenter a $1.7bn revenue reinsurance operation, while the combination of Aon and Willis Towers Watson (excluding Willis' fac operation) will create a $2.5bn behemoth.

The top tier of reinsurance broking now comprises just two firms, the smaller of which is still 10 times the size of the next largest rival, TigerRisk. The space where JLT once sat – the $250mn-$400mn niche – is empty and seen by some as for the taking, but there are doubts as to whether any of the sub-$200mn brokers have the firepower or desire to pick up where JLT left off.

Regulatory intervention

The Aon-Willis merger will create a near-duopoly in reinsurance broking. At present, approximately 80% of the circa $5bn revenue market is controlled by the three current largest players. Aon places around 35%, Guy Carpenter 30% and Willis Re, as it stands, about 15%.

Regulators are already scrutinising the deal and its potential impact on competition in reinsurance, with the US Department of Justice taking the deal to second-stage review. Aon CFO Christa Davies has said the company is confident it will close the merger next year with no divestitures, but at this stage it is impossible to rule out a forced sale, potentially of Willis Re.

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Inside

GROWTH OPPORTUNITIES?

Take Your Pick

Adversity can often herald opportunities, so insurers need to pivot to innovate and respond to the unmet needs of customers. As new risks emerge in a COVID-19 era, what steps are you taking to invest in new and relevant products? How are you allocating capital to address today's and tomorrow's risks?

Take a firm grasp of your best routes to growth and make better business decisions by visiting Aon's Virtual Reinsurance Renewal Season microsite.

insurance insider

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Embracing the virtual challenge

When we set out our initial plans for *(Re)Connect*, it was something of a daunting task.

To not only put on a five-day virtual event as an alternative to the traditional Monte Carlo *Rendez-Vous* – cancelled this year due to Covid-19 – but to do so in a way that addressed the practical needs for delegates, was an ambitious goal.

We were fortunate that Lloyd's was thinking along the same lines. And with the Corporation lined up as a fully engaged partner to *(Re)Connect*, together we invited the market to re-envisage how it collaborates in the run-up to the most crucial renewal season in a generation.

And boy, did the market respond. The final numbers aren't quite all in at the time of writing, but here's a few early statistics for you: *(Re)Connect* has registered more than 2,600 delegates and facilitated more than 1,700 direct instant messages between them. More than 100 private one-to-one video-enabled meetings were hosted on the platform, and we recorded more than 300 responses during live polls.

We produced more than five hours of footage of fireside chats with executives from across the market, and hosted many more industry leaders through our 11 interactive webinars and four Chatham House executive roundtables.

We even brought a little of that Monte Carlo glamour to proceedings by launching our first interactive, live cocktail-making class – run by our friends at Sipsmith Gin.

And of course, we hosted our virtual *Insurance Insider* Honours, celebrating the great and the good from our industry with our usual pizzazz, featuring an evening of entertainment, music and live comedy.

On behalf of myself and the rest of the *Insurance Insider* team, we wanted to say a huge thank you for being a part of *(Re)Connect*. It has been fantastic to engage with so many of you over the past week.

Thanks also to all our sponsors and partners. The support we have received from across the market has been incredible, and we couldn't have produced this event without you.

And if you missed out on any of the content this week, all the fireside chats and webinars are available to watch On Demand for the next 60 days – just log onto the platform, hover over the "Agenda" tab and hit "On Demand".

The networking open room is also open until 16:00 today, so please do keep scheduling your one-to-one meetings.

"For all the efficiencies gained through remote working, there's a strong desire to get back to a business-as-usual setting"

For now, it's unclear what the future holds for physical conferences. But there seems to be a consensus that the *Rendez-Vous* will return in some form or another next year, pandemic pending.

For every naysayer who believes that this time, the market won't want the optics associated with going to a billionaire's playground once a year to do business, I've found at least five others who think if the *Rendez-Vous* didn't disappear after 9/11, KRW or the 2008 financial crisis, the coronavirus is unlikely to see it off either.

At the heart of it, we're a social market made up of sociable individuals. And for all the technological advancement of the past six months and the efficiencies gained through remote working, there's a strong desire to get back to a business-as-usual setting.

Perhaps the best we can hope for is a sort of hybrid, where we can take the good outcomes and the lessons learned from the past half year and use them to make our physical interactions more meaningful, more efficient, more worthwhile.

Until then, I look forward to seeing many of you on Zoom, Webex, Teams or something else in the very near future.

Charlie Thomas
Content Director,
Insurance Insider

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Should this come about, all bets could be off, as the spin-off of a $700mn revenue reinsurance broker to a trade protagonist or even to a financial buyer would instantly create a number three player that would dwarf any smaller players.

However, for the purposes of this analysis, we assume that the Aon-Willis deal will go ahead as planned.

The likely candidates

When considering which sub-$150mn-tier broker might be a contender for the bronze position in reinsurance broking, market sentiment leans clearly towards two businesses: TigerRisk and Capsicum Re, soon to be rebranded as Gallagher Re.

TigerRisk has an impressive track record, having grown entirely organically to a respected $100mn-revenue business in 12 years. Its success is driven by strong client advocacy, several lucrative personal connections held by key brokers and particular strength in one-off deals and niche business.

The Rod Fox-led business this year secured investment from New York private equity house Flexpoint Ford, signalling a further three to five years of expansion.

Sources identified a number of strengths at TigerRisk. While the broker competes with larger players in classic treaty, it has also created a niche for itself in business such as capital relief, adverse development covers and legacy deals. Its technological capability is also spoken of highly.

However, although TigerRisk will become the third-largest reinsurance broker by revenue after the Aon-Willis merger, there are potential barriers to it holding and securing the spot, not least its concentration of revenues with key clients such as Tower Hill and Farmers.

The broker also has no retail broking arm associated with it, as Guy Carpenter and Aon do. While fans of TigerRisk would argue its success to date without the leverage of a big retail book proves its ability to win business on its own merit, others see this lack of sway as a large handicap and one which will eventually limit its ability to grow.

Capsicum Re – to be named as Gallagher Re from 1 October – is the other highly regarded contender.

The business, now fully owned by Gallagher, is certainly ambitious. CEO Rupert Swallow has publicly said that the unit aims to use the heft of the Gallagher group to obtain its "rightful seat at the top table of the reinsurance business", adding that the reinsurance book will grow to be "commensurate" with the size of its parent's $4bn primary book.

Sources identified Capsicum as a potential third-place broker due to the "deep pockets" of its parent company, and the reputation of the team. Although founder Grahame Chilton rejoined the wider Gallagher business, he is credited by sources as having recruited the former "engine room of Benfield" (as was) into Capsicum.

Capsicum has also pursued a successful strategy of hiring key individuals and teams with sticky business in niche areas, such as chairman Raja Balasuriya in motor lines and Alastair Lockhart-Smith in marine and energy.

Gallagher's vast US retail platform also provides the potential for influence on the reinsurance side.

However, Capsicum will face challenges. The unit is structured in individual cells around key brokers bringing with them clients who are loyal to them personally, and Gallagher must now institutionalise that business or reduce its key-person risk by incentivising top talent to stay with the company for the medium term. Despite Gallagher's entrepreneurial culture, it can be difficult to corporatise and integrate a smaller business of this nature.

Outside of these two, there are other possibilities for the third slot.

Lockton Re, with the hire of Guy Carpenter's Tim Gardner and Claude Yoder, made clear its intention to break into the reinsurance market both in the US and London, as group chair (then president and CEO) Ron Lockton declared the firm would go "all in on reinsurance" in May last year.

As previously reported, Lockton Re has an ambition to build up $400mn in reinsurance revenues, which would put it squarely in third place.

It is also notable that Lockton recruited much of the former JLT Re leadership team, including Ross Howard, Keith Harrison and Derek Keating, from Guy Carpenter. An early success for this team was the winning of the London-placed portion of the American Agricultural property account.

A major advantage for Lockton Re in climbing the league table of reinsurance brokers is its estimated $6bn-$10bn US retail book, again providing the potential for leverage.

However, there are questions as to whether this would be possible for a decentralised firm such as Lockton, in which individual regional offices are culturally, entrepreneurial and organisationally highly independent, preventing the kind of "strategic carrier" approach that could be envisaged at a different type of business.

BMS has garnered a reputation for quality under CEO Nick Cook during the past five years and demonstrated impressive growth, attracting some speculation that it could grow into the $400mn-plus space.

The broker announced in June 2019 that it had secured backing from British Columbia Investment Management Corporation and private equity firm Preservation Capital Partners, in a deal that corporate finance firm Hines estimated priced BMS at a 16.1x Ebitda multiple.

Cook has said in the past that BMS' ambitions are to continue to grow its core business – London wholesale – but at the same time expand in US reinsurance, particularly as Aon and Willis Re combine.

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Select TigerRisk specialist deals

Date	Client	Deal
Jan-17	AIG	$34bn legacy deal – transferred to Berkshire Hathaway
Jun-17	Hamilton Re	Structuring and placement for $65mn sidecar Turing Re
Oct-17	QBE North America	Partnership with MGA ARC Excess & Surplus
Dec-17	Chaucer	Structuring and placement for $95mn Thopas Re sidecar
Apr-18	Arch Re	$410mn legacy deal – transferred to Catalina
Jan-19	AmTrust	Placement of $2.9bn quota share for US small commercial
Sep-20	Renaissance Re	R&Q loss portfolio transfer of Syndicate 1458 casualty reserves
Ongoing	American Financial Group	Run-off auction for remaining Neon assets

Source: Insurance Insider

Other notable players in the sub-$200mn space include Acrisure-backed Beach, which is understood to have had revenue of around $60mn last year and a strong growth rate of 25-30% in 2020. The business, run by former Willis Global CEO Grahame Millwater, has a strong track record in consulting, placing specialist segments of large global programmes and arranging MGA capacity, as well as placing some retro business.

But any contenders to the big two will come up against similar and significant challenges.

Aon and Guy Carpenter have vast analytical and actuarial capabilities, backed up by huge reserves of data, making it extremely difficult for any newcomer or small player to compete for classic property cat or risk treaty business.

The top two's other major advantages are the strength and depth of their talent bases and their vast retail businesses, the latter of which presents the opportunity for significant, if informal, leverage. These two elements together present little chance for contenders to win business on a large scale.

Cutting in to relationships between reinsurance brokers and the carriers they serve is also notoriously difficult as those connections are frequently longstanding.

The M&A question

Some sources suggested that the only way for any of the sub-$200mn brokers to become truly mid-tier rather than a boutique specialist in a relatively short timescale would be through an M&A deal.

In reinsurance, however, there is little opportunity for further consolidation. As one source put it: "Who would buy, and what would they buy?"

While some mooted the possibility of either Gallagher or Lockton buying TigerRisk at some point, the latter's newly inked deal with Flexpoint Ford puts this at least three years into the future if not more, and founder Fox and the management team have been fiercely independent to date.

Changing nature of reinsurance and buying

Although it is clear that an attempt to prise large P&C treaties away from the big two would be audacious and difficult, the evolving nature of reinsurance structuring and buying may help smaller brokers eat into Aon's and Guy Carpenter's market share.

Buyers of capital are increasingly willing to consider different products such as fac and capital solutions. There is a school of thought that although the big brokers have significant presences in fac and non-traditional areas of business, they still operate in firm siloes that prevent them from providing a nimble enough service to clients whose demands are varied. This shift, however, is slow-going, and the big brokers – Aon in particular – are making extensive efforts to unify their operations.

Leading in specialisms

There is a school of thought that now the big two are so powerful and so large compared to all other competitors, it would be a fool's errand for any to try to catch up.

Several sources predicted a future in which none of the challenger brokers attempt to occupy the space left by JLT as an "all-singing, all-dancing number three".

Instead of looking to grow and become one-stop shops, these brokers could continue to dig deeper into their specialisms and come up against the big two only where their broking talent and expertise can compete.

War for talent

The merger of MMC with JLT has dislodged brokers from their positions, while the forthcoming Aon-Willis combination will create further dislocation and provide ample opportunity for smaller brokers to pick up key personnel and potentially accounts as some individuals may prefer to work for smaller companies where they may be afforded more independence.

The table below provides a summary of select key appointments by TigerRisk, Lockton Re and BMS, indicating where each stands to potentially gain market share.

However, it is worth noting that while hiring talent from rivals can bring in revenue in the short-term, it is succession planning and a display to clients of "bench strength" that helps retain it.

Also relevant is the impact of the Covid-19 pandemic on client retention. The uncertainty caused by the lockdown significantly impaired brokers' ability to win business from rivals, potentially leaving firms that spent lavishly on recruitment with a gap where expected revenue should be.

Select 2020 reinsurance hires – TigerRisk, Lockton Re, BMS

	Name	Former employer	Line of business/remit	Date
TigerRisk	Oliver Denbigh	Aon	Retro	Jul-20
	Juan England	Willis Re	European operations	Jul-20
	Francis Paszylk	Aon	London casualty treaty	Jul-20
	Lawrence Po-Ba *	Securis	Capital for Lloyd's syndicates	May-20
	Brian O'Neill	Guy Carpenter	Executive for Florida business	Mar-20
Lockton Re	Graham Barden	Guy Carpenter	Aviation	Jul-20
	Jeremy Lee	Aon	Retro	Jul-20
	Will Cheney	Willis Re	North American property	Jun-20
	Bob Bisset	Aon	Retro	Jun-20
	Matthew Foreman	Aon	Retro	Jun-20
	Martin Stephenson	JLT Re	Marine and energy	May-20
	Keith Thurman	Aon	Workers' compensation	May-20
	Phillip Mallon	Aon	North American casualty	Apr-20
BMS	Rich Macrane	Willis Fac	Fac	Jun-20
	Norman Wiltshire	Aon	London market reinsurance	Jun-20
	Nick Titcomb	Marsh	US and London market marine reinsurance	Jun-20
	Dominic Addesso	Everest Re	Chairman - US reinsurance	May-20
	Larry Broadnax	Guy Carpenter	Fac	Apr-20

** Has since left the business. Source: Insurance Insider*

(Re)Connect revisited

Nineteen fireside chats, nine interactive webinars, four closed-door executive roundtables, one live cocktail class and the biggest virtual awards evening in our industry – this is the best of *(Re)Connect*

More than 2,600 of the market's (re)insurance brokers, underwriters and service providers signed up to take part in *(Re)Connect* in 2020 – Insider Publishing's virtual alternative to the Monte Carlo *Rendez-Vous*.

As the curtain closes on our five-day virtual conference, we take a look back at some of the highlights from this week.

Market conditions

If there was on major theme that emerged on Day 1 of *(Re)Connect*, it was that there is a sellers' market this year, with reinsurers enjoying all the leverage.

Munich Re CEO Joachim Wenning noted a new phenomenon in this cycle in the form of "spillover" effects to non-loss-affected programmes and regions. He expects the current marketing hardening to result in "a couple more very good years with better rates", although he pointed to a picture in cat that was more dependent on externalities than in casualty/liability lines.

Hannover Re's Jean-Jacques Henchoz also forecast accelerating momentum from mid-year renewals, where rates were up 10% in excess of loss.

Even the intermediaries accepted reinsurance rate hikes were coming at 1 January – at least in property. Aon's Reinsurance Solutions CEO Andy Marcell noted: "In cat, the rate of the rate increases is going up and 1.1 looks like it will be a continuing story."

Casualty, meanwhile, was likely to be more heavily driven by original rates.

Willis Re global CEO James Kent said that the broker expected "the technical correction" in North America to continue, although he pointed to scope for dynamics to tip. "The point about this market is it is not capital constrained… [so] where pricing and performance improves, we do see capacity moving there."

Other speakers opined on the need to balance growth with underwriting discipline.

Lancashire CEO Alex Maloney was among those who pointed out that returns were still way off being considered sustainably profitable.

Key statistics from *(Re)Connect*

- 2,600 delegates
- 1,700 instant messages (IMs) sent
- 215 IM conversations held
- 300 live poll interactions
- 100 live one-to-one video-enabled meetings
- Five hours of video interviews with leading executives

Speaking on Day 3 of *(Re)Connect* he said: "We do need to think about how to be sustainable, charging the right price for our products and making a sensible return, then we can look at the more ambitious goals we have.

"If you think about the London market, we are currently struggling to write marine business [profitably] after we have been writing it for 300 years. It is very difficult to think about the future if you can't master what you have been doing for 300 years."

Elsewhere, Axis Re CEO Steve Arora said reinsurers faced a balancing act in approaching 2021 renewals to ensure they do not prioritise seeking scale over profitable growth.

Carriers should not just focus just on rate change, but also on terms and conditions, creating the right structures and correcting any inadequacies in the expected loss calculations, he said.

"Scale for the sake of scale is not a good strategy"
Jonathan Zaffino, Ascot

Ascot's group president Jonathan Zaffino agreed. "Scale for the sake of scale is not a good strategy."

Premium growth that comes through properly executing an underwriting plan is a more effective approach, he explained.

"It all starts with those [underwriting] fundamentals and you can't ignore those in this market, that has to be very much front and centre," Zaffino noted.

Systemic risks

Unsurprisingly, Covid-19 and its impact on the market were front of mind for many of *(Re)Connect*'s speakers.

Swiss Re CEO Christian Mumenthaler said that BI had been a particular reserving challenge, but he argued that multiple areas were subject to a big range of outcomes. "Casualty is a big question mark, no one knows what's going to happen to casualty due to Covid-19."

Willis Re's Kent said the most extreme of the multiple scenarios projected earlier in the pandemic by his primary colleagues – which would result in $140bn of claims – had not been seen yet.

He added that the long-tail component of the loss – including directors' and officers' and errors and omissions – represented "the great unknown".

Aon's Marcell meanwhile talked about the "overhang of pandemic claims" and also stressed the role of low interest rates – an indirect consequence of Covid-19 – as a key driver of market dynamics.

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RMS's Robert Muir-Wood, however, decided to use the *(Re)Connect* platform to highlight the challenges around climate-related risks, including wildfire.

"Heatwaves are a particular peril which we're already seeing evidence of increases," Muir-Wood said.

Rising ocean temperatures also portend more intense tropical storms further away from the equator, which in turn can change weather patterns and result in more rain.

"We are less likely to have tropical cyclones getting mixed up with extra-tropical cyclones. That means they're moving slower," he said. "If they're moving slower, we may get more rainfall out of a tropical cyclone."

M&A

Aon's Marcell and Willis Re's Kent both gamely addressed the Aon-Willis deal, and although they were restrained, what they were able to disclose provided an interesting lens on a deal which will create a $2.5bn+ revenue reinsurance broker and the world's biggest overall broking firm.

Kent advocated for the deal, saying if you looked throughout Willis Towers Watson there was not a single question that an insurance CEO could ask that they cannot find an answer for. "When you look at the merger of Aon and Willis, it puts that on steroids in terms of the scale and the scope of expertise that we're able to provide to clients."

Effectively addressing a different audience, Marcell focused on the scope that Aon's rivals had to successfully compete for talent – and business – post-deal.

Referencing prior broker M&A deals, including MMC-JLT, Marcell said that these showed that "opportunities arise for other intermediaries to get additional capital and investment, which they have, and to lean into the marketplace thinking there is an opportunity to acquire talent and expand their business".

He concluded: "There has been a shift in talent as those competing brokers start to staff up. And that's natural, it will be ever thus, and it's healthy for the marketplace to see some of this transition."

The fallout from broker consolidation was a key theme in Day 3's discussions at *(Re)Connect*, as leaders from Lockton Re and McGill and Partners both said that client desire to have more choice would enable their growth.

Both firms are among those seeking to capitalise on the fallout of the Guy Carpenter-JLT Re merger and impending Aon-Willis deal, investing in significant hires to build out their teams.

"We do not change rate based on losses, we change rate based on capital. We have an expectation that our capital is going to become more dear from an actual cost and an opportunity cost perspective"
Kevin O'Donnell, RenaissanceRe

Consolidation has created a "yearning for choice" among clients, Lockton Re CEO Tim Gardner said.

"It's a difficult environment for reinsurers if in the future you get 80-90% of their business from two sources. That's not really a marketplace for them."

McGill and Partners founder Steve McGill agreed, noting that carriers were concerned about concentration risk. "They have got phenomenal relationships with major high-quality broking firms but they want to see alternatives for distribution," McGill said.

TigerRisk is also positioning itself for growth following the top-tier broker mergers.

"When you look at the merger of Aon and Willis, it puts that on steroids in terms of the scale and the scope of expertise that we're able to provide to clients"
James Kent, Willis Re

CEO Rod Fox said it was possible that the mammoth brokers might try to grab more power from carriers.

"You can see two strategy rooms with large funnels showing business moving directly from broker to capital – eliminating the underwriting process as we know it," he suggested.

But capital providers would have to push back against this, he said. "The market has to be careful about the concentration of power."

Money, money, money

The major theme during Day 2 of *(Re)Connect* was capital: who is raising it, how much it will cost, and how best to use it.

Most of the speakers referenced the importance of capital as a driver of current market conditions, as well as noting how using it effectively would give carriers a competitive advantage.

RenaissanceRe CEO Kevin O'Donnell, whose firm executed a $1bn raise in June to capitalise on the current market opportunity, said the cost of capital was the major driver for future rate momentum, not losses.

"We do not change rate based on losses, we change rate based on capital," he continued. "We have an expectation that our capital is going to become more dear from an actual cost and an opportunity cost perspective."

In his view, reinsurers of the future would have the "broadest palette" in bringing capital to bear on risk.

Key attributes will include "having third party capital, having the flexibility to understand complicated risks [and] being a good partner in understanding how to share risk", O'Donnell said.

Everest Re CEO Juan Andrade struck a similar tone and said that capital alone would not equate to success for (re)insurance businesses in the future.

In this environment, with so much

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uncertainty from Covid-19 and prolonged low interest rates, clients care about sustainability and security, he said.

"That's the challenge for the capital coming in – will it be there in a year, or two, or three? [The business case] has to be more than taking advantage of a firm market.

"It seems that today there is a convergence in terms of pricing between reinsurance and ILS so therefore it means we are at a sort of equilibrium"
Denis Kessler, Scor

It's about relationships and it's about sustainability."

There is much market speculation around exactly how much capital will enter the market ready for 2021 – either via the anticipated "Class of 2020" start-ups or scale-ups of existing entities.

TigerRisk's Fox estimated that as much as $10bn of fresh capital will be brought in for the current market opportunity.

The new capital was not just responding to a hardening property catastrophe market, but also "huge dislocations" in the US excess and surplus markets, Lloyd's and legacy sectors due to the breadth of uncertainty over Covid-19, he said.

The week's discussions not only centred around fresh capital raised, but also optimisation of existing capital.

In a legacy and liability management webinar, panellists also agreed that optimal capital allocation would be top of the C-suite agenda in the current market environment – and that demand would rise for legacy solutions which would facilitate that capital release.

Lancashire joined the raft of (re)insurers opting to raise capital in Q2, securing £277mn ($365mn) in an equity issue.

CEO Maloney did not rule out the possibility of further raises, adding: "We don't think [the rate acceleration in] Q2 was a short-term blip, we think this is sustainable and we raised capital on that basis," he said.

Maloney added that he was "very comfortable" that the current level of capital raising seen across the market was not going to slow positive rating change.

Meanwhile, the third-party capital space may be laying low for the time being, but it is certainly here to stay.

There is a "pause" in the alternative capital markets right now, Everest Re's Andrade said.

"I think there has been some investor frustration, after the cat losses in 2017, 2018 and 2019, and Covid has muddied the waters a little bit more," he said.

"Capital is generally here to stay. It's paused but it will come back."

Meanwhile, Scor chairman and CEO Denis Kessler said ILS was a "nice tool" to have in a reinsurer's arsenal, but it was not something that would replace traditional reinsurance.

"Three years ago, people were saying ILS was going to dominate reinsurance, crowd it out," he said.

But due to trapped capital resulting from Covid-19 and recent catastrophes, capacity is actually less than it was before, he added.

"It has been great to see the investors are there for the long term. They see the benefit long term of a non-correlating asset"
Kathleen Faries

"It seems that today there is a convergence in terms of pricing between reinsurance and ILS so therefore it means we are at a sort of equilibrium," Kessler said.

Elsewhere, Tokio Millennium Re's former head of Bermuda Kathleen Faries reflected on almost two decades in the Bermuda reinsurance sector, noting that some of the carrier's first ILS partners were still in the business.

"It has been great to see the investors are there for the long term. They see the benefit long term of a non-correlating asset."

Looking forward, there needs to be commitment to expanding what investors are willing to invest in, she continued.

Technology

On the tech front, Aon's Marcell said that brokers had a role to play in helping to cut expense levels within the risk transfer chain. Tech investments could help to cut transaction costs and improve transparency, he said.

TigerRisk's Fox agreed that more digital trading was likely in the future.

While technology is often depicted as an obstacle to success at smaller broking firms, Lockton Re's Gardner argued that it will in fact be an enabler of challenger broker growth and is a great "leveller" to competition.

"If you're going to build the reinsurance broker that can compete, analytics and technology has to be at the forefront of your offering," he said.

But the biggest publicly traded brokers have to spend significant amounts on running legacy technology systems, he added.

"It's not changing the business, it's not changing the technology, it's simply running antiquated legacy systems because they're expensive to keep up."

Elsewhere, delegates heard that initiatives to standardise and structure the use of data at Lloyd's will bring the most substantial cost savings out of all the Future at Lloyd's initiatives.

Speaking on the panel, Lloyd's COO Jennifer Rigby said: "That ability to automate comes from what we can do with data and you will see it in claims [in particular].

The data work within the Future at Lloyd's programme will be particularly important in the drive to remove duplication from the market, she explained. "That is what we are aiming to get rid of."

Decoding the 2021 renewals

A slo-mo P&C catastrophe, Covid-19 is adding new layers of complexity to this year's renewal negotiations, according to our select panel of reinsurance professionals

What's the outlook for 1 January?

Andrew D'Arcy: The reinsurance market is suffering from compressed margins at a global level combined with uncertainty relating to Covid-19 losses and climate-related trends. This combines to form an environment where risk-adjusted rate decreases on any lines in any territories are becoming rare. It would be hard to argue that we are in a broad-based hard market but there are certainly signs of hardening, particularly in North America, and we appear to be past the trough. We would expect to see material rate changes for regions, product lines or accounts with persistently poor loss experience and structures that gained traction in the softest part of the cycle such as aggregate deals are encountering more resistance.

Sven Althoff: Overall, we are expecting price increases and improved conditions in the upcoming renewals across all segments. The Covid-19 pandemic is almost as game-changing as other events like 9/11 in 2001 and the hurricanes Katrina, Rita and Wilma in 2005. In our view, Covid-19 will be the catalyst for significant repricing. Nevertheless, as always there are certain regional dynamics and differences that need to be taken into account.

Thierry Léger: In property, rate increases are expected to be most enhanced in the higher capital-intensive catastrophe-exposed regions such as Florida and the eastern states in the US, but also in areas where there are increasing loss trends, such as Japan, Australia and California. Original commercial insurance rates are increasing, with a high correlation between risk complexity and price increase. For casualty, we expect continued original rate increases and increasing pressure on commission levels in the US, fuelled by loss trends, lower capacity and falling interest rates. In EMEA we see increasing positive momentum on original and reinsurance rates in a low interest rate environment. In Asia, with the exception of Australia/New Zealand, we predict rather flat growth rates.

"We may see more of the traditional, equity-backed reinsurers become sellers of capacity, but they may struggle to deploy that capacity since it will not be cheap"
James Vickers, Willis Re

James Few: TigerRisk expects underwriting discipline to continue due to the 'slow motion cat' of Covid-19 loss development and the implications of economic uncertainty around the world. For peak zone property cat-exposed business and casualty lines where loss trends are still deteriorating, hardening trends are likely to continue even without an active Q3/4. However, we do not consider the market to be truly hard. While Covid-19 might turn out to be the largest insured loss in history, the losses are spread globally and through many lines of business.

Is recent capital raising justified or will the capital influx be a brake on market hardening?

Torsten Jeworrek: Seeing the high uncertainty due to Covid-19 and that insurers are affected on both the asset and liability sides, insurers need to be prepared for further financial impacts. For companies that heavily depend on retro, rising rates are an additional risk for their business models. At the same time, we are observing rising prices on both the primary and reinsurance sides. We now see some players increasing their capital bases – either to bolster balance sheets or to take advantage of an expected market hardening. We do not expect the capital influx to change observable price trends.

David Priebe: We do not believe the capital inflow is likely to put a brake on the hardening trend. There are five major reasons for this: concerns around social inflation leading to possible reserve deficiency; historically low interest rates; investment market volatility despite a recovery from the depths of Q1; elevated frequency and severity of natural catastrophe activity in recent years; and capital needed to respond to rating agency pressures.

Jean-Paul Conoscente: Our strong conviction is that the increase in demand is largely outpacing the increase in offer, with demand for reliable reinsurance solutions being fuelled by risk aversion in the face of uncertainty. Overall, we expect Covid-19 to act as a catalyst to the hardening trends which we had already started to witness this year. In addition, most of those raising capital were companies relying heavily on third-party capital – either in the form of retrocession or capital market funds. We expect this new capital raised to replace some or most of the prior third-party capital, given the high returns anticipated on the original business. As a result, the supply of reinsurance should remain stable compared with 2020.

Mike van Slooten: Reinsurers don't raise capital without good reason, particularly when recent returns haven't met the expectations of investors. But Covid-19 represents an unprecedented challenge, in terms of its nature and the uncertainty it creates. It has pressured the solvency margins of weaker players and created opportunities for stronger players. Both are compelling reasons to seek additional funding and in some cases it's been a blend of the two. We've also seen hints of new start-up activity, but our sense is that the incumbents will attract the bulk of any new capital that enters the industry this time around. To the extent that it does, it will help to mitigate some of the market pressure, but we don't think it is going to be sufficient to alter the broader dynamic.

Tim Gardner: In my view, capital raises are justified. I would argue that they are always

Continued on page 10

justified as investors and the associated capital will be the arbiters for evaluating market opportunities. They will support those opportunities with investment if they deem them worthy and turn them down if they don't, that is the nature of our business and we should remember capitalism imposes a very healthy objective analysis. Capital strength creates the opportunity for flexibility and that's what many clients will need in the current landscape.

Are cedants buying more reinsurance, or buying differently?

James Vickers: Cedants in general are buying more. Insurance-company managements were always aware of the potential for correlations between the asset and liability sides of the balance sheet, but they didn't feel the need to take action. Covid-19 has brought home the risk of such unexpected correlations, and pushed interest in managing severe tail-risk events to the forefront. With ongoing challenges to investment returns, the stability of underwriting profit is paramount. Together, these factors have encouraged insurers generally to buy more reinsurance protection, which has long since proved its value as a capital and volatility management tool. Casualty reinsurance buyers are purchasing at least the same, and often more. They have seen adverse prior-year development and a near-total collapse of investment returns which is creating pressure on calendar year returns and concern about whether rate increases have reached rate adequacy in certain classes.

Andrew D'Arcy: Due to the pandemic, many cedants are rolling over their expiring programme structures. Designing and introducing a new structure to the market in this environment may be seen as more difficult than usual. There has been some increased demand for programmes that would protect a client's solvency position, or additional cat cover, particularly in the early stages of the pandemic as the asset side of the balance sheet was under pressure and the outlook was very uncertain. As we approach 1.1 we expect that most cedants will seek to renew their expiring programmes but may encounter resistance on some parts of their placement, particularly deals with aggregate structures or other soft market features such as cascading limits or multi-year terms.

Thierry Léger: Our clients continue to focus on predictable earnings and de-risk their balance sheets. As a consequence, we see demand for reinsurance is up, including a significant uptick in facultative placements for the larger commercial risks, and more capacity sought after in the nat cat space. There is not a broad run on reinsurance for capital management purposes, but discussions on weaker-capitalised clients have been initiated and we expect a part of the market to look for capital relief solutions including structured reinsurance.

"The Covid-19 pandemic is almost as game-changing as other events like 9/11 and KRW. In our view, Covid-19 will be the catalyst for significant repricing"
Sven Althoff, Hannover Re

David Priebe: In this environment of uncertainty, there is great value in risk assessment and mitigation, as well as the formulation of sound capital strategies. Cedants are assessing their coverage levels in light of recent loss activity and current evaluations of risk appetite, which is increasing demand for coverage in some cases. But new capacity, even for existing buyers, is coming up against reinsurers' more cautious approach.

James Few: Many clients are looking to hedge risk with more reinsurance protection throughout the curve including strategic quota share partnerships and a combination of varied capital sources. The rising market is attracting risk takers who wish to grow whilst other clients with impaired balance sheets and stakeholder pressure need defensive capital. Low down ILS-driven aggregate covers are more challenging to find but demand remains and therefore product innovation opportunities exist.

What are the implications of Covid-19 claims development for reinsurers?

Mike van Slooten: Reserving for Covid-19 claims had a significant impact on reinsurers' results in the first half of 2020 and we are likely to see additional effects as the full economic consequences of the pandemic become apparent. Significant uncertainty remains around the ultimate extent of the insured losses and their distribution across the industry, and that can only have the effect of constraining underwriting appetites.

Sven Althoff: As regards coverage for pandemic exposure we expect that this will be excluded to an even higher extent in standard wordings. There will be specific products in place. Depending on what should be covered, these products may come from the private sector. Others will have to be developed in partnership with governments, as the risk-bearing capacity of the industry would be insufficient to, for example, provide global pandemic cover for business interruption and supply chain disruption.

Jean-Paul Conoscente: Some lines are quite straightforward, such as events cancellation, with a good level of visibility already available. But some other lines with meaningful potential industry exposure are more complex and harder to assess. Take casualty or credit and surety: with limited cedant and insured information available at this stage, costs are assessed through models, implying a lengthier development pattern as adjustments will need to be made when more detailed claims information emerges. Another example is property BI, where uncertainty arises from cover interpretation, loss aggregation and the impact of potential court decisions. Insurers and reinsurers will need to factor these 'known unknowns' into their pricing of the business.

Is ILS capacity going to rebound in 2021?

Torsten Jeworrek: The market for all formats of alternative risk transfer remains close to its all-time high (including trapped capital), but major loss events in the years 2017-19, and some uncertainty on the

Continued on page 11

further Covid-related developments in 2020 have changed the market's sentiment. As the recent cat bond issuances have demonstrated, investors are not willing to support peak-peril transactions at low spread levels. At wider spreads deals still attract broad interest, but we are observing increased investor interest in supporting the more liquid part of the market, as many products' illiquidity has turned out to be an issue over the past years. Growth in 2021 will mostly depend on whether the ART market will see a sustainable hardening of rates.

Jean-Paul Conoscente: Overall alternative capital has remained flat in 2019 & 2020 to slightly decreasing after reaching its peak in 2018. We believe there is still a strong appetite in the capital markets for reinsurance business. However, the performance of the past four years has now driven capital markets to be more demanding in terms of structure and pricing. Whereas the growth of ILS capacity was initially done on the back of a cheaper capital base allowing ILS markets to require cheaper prices than traditional reinsurers, the market dynamics today have changed and the returns required by ILS markets are no longer so different from those of traditional reinsurers. As a result, ILS development in H2 2020 and 2021 will be more sustainable than in 2016, 2017 or 2018.

Thierry Léger: We believe ILS capacity will rebound in 2021 and it has already bounced back from the lows seen during the height of the volatility in late March 2020. In a remarkably similar way to the financial crisis over a decade ago, the ILS market remained liquid during a period of broad financial dislocation in almost every asset class. The widening of ILS spreads didn't impact valuations to the same degree as some credit instruments and that has proved once again the benefits to investors of allocating to ILS. We are witnessing the beginning of an influx of capital to take advantage of wider ILS spreads (which are certainly off their peaks but still at heightened levels) and that has resulted in stabilisation of the ILS market. It is our expectation that this influx of capital will continue as spread levels haven't been this wide since 2013 and a hard reinsurance market will attract more institutional capacity.

James Few: The impact on ILS supply depends partly on the Covid-19 impact on property policies – is this diversifying asset class as uncorrelated as previously believed? How much collateral will ultimately be trapped? Model error is also a factor – answers to investors' questions on underwriting, accuracy of reserving decisions, model weaknesses and clarity of coverage will colour cedant and ILS manager reputation and therefore ability to raise ILS support. Alternative asset class rates of return and general distraction by allocators due to Covid-19 impacting other asset classes will divert some interest away from our class and slow growth for a period but we believe supply will remain available albeit at higher required hurdle rates.

What shape is the retro market in?

Andrew D'Arcy: Whilst there is capacity available, it appears to be being deployed with discipline and selectiveness. It's unlikely that opportunistic purchases will be common with rates at the levels they are, reducing demand somewhat but there is still opportunity and rated carriers have become an increasing source of capacity selling more traditional ultimate net loss structures. We can expect that some of the capital raises announced will be deployed in the retro market which may dampen future rate increases.

David Priebe: The retrocession market remains strong, with increased demand and available capacity in occurrence, though harder conditions exist in aggregate and quota share. Cedants should expect there to be increased cost for the coverage they require. Uncertainty exists relative to the degree of Covid-19 exposures and applicable recoveries, which will be a factor in the next few months. There has been limited activity on the rated side except for continued reductions in retrocession quota share capacity, but we are seeing some rated carriers exploring re-entering the retrocession space if rate hardening is viewed as sustainable.

James Vickers: It's a challenging time for retro. With the trapped capital problem for collateralised covers there is a more constrained market. It's characteristically an opportunistic market, and very dynamic. If the price is attractive for buyers, the more sophisticated reinsurers are happy to be buyers. But if prices rise sufficiently, they may suddenly flip and become sellers of capacity. It's not easy to see where we are in that balance, which makes retro a demanding market to call. It could change shape before year-end; we may see more of the traditional, equity-backed reinsurers become sellers of capacity, but they may struggle to deploy that capacity, since it will not be cheap.

Sven Althoff, member of the executive board, Hannover Re

Jean-Paul Conoscente, CEO Global P&C, Scor

Andrew D'Arcy, Head of international property & casualty business, Gen Re

James Few, UK CEO, TigerRisk Partners

Tim Gardner, CEO, Lockton Global Re

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

Thierry Léger, chief group underwriting officer, Swiss Re

David Priebe, chairman, Guy Carpenter

Mike van Slooten, head of business intelligence, Aon Reinsurance Solutions

James Vickers, chairman, Willis Re International

Life industry looks beyond Covid-19

Solvency II is holding life insurers back at a critical time, argues **Colin Dutkiewicz**, global head of life in Aon's Reinsurance Solutions business

Regulators should take a second look at Solvency II to help life insurers provide the products consumers want beyond the Covid-19 crisis, according to Colin Dutkiewicz, global head of life in Aon's Reinsurance Solutions business.

Dutkiewicz believes that life insurance companies have become more risk averse and that Solvency II is contributing to the trend: "Every company now wants to have a 'capital lite' product set. It means they stop writing products regarded as risky and start writing others that are less capital intensive," he says.

Also, life companies in Europe used to write savings products with guarantees. But offering a 4% guarantee when their own returns were 0% created a problem. Their response was to stop offering those products and move to writing unit-linked-style products where there is no risk on the insurer.

"It's meant that products that policyholders actually want are being eroded and discontinued. From a societal point of view consumers are bearing so much more risk than they were before, and it's partly due to Solvency II-based risk capital regimes," Dutkiewicz says.

"Now the Covid-19 crisis is accelerating that process because companies in distress are withdrawing products quicker than they were before. A regulatory framework developed in the aftermath of the 2008 financial crisis to reduce systemic risk is preventing the industry from taking risk by making it economically unviable – all to the detriment of the consumer."

Dutkiewicz feels that life insurers could – and should – push back and take another look at what consumers need: "Let's look for products that can answer consumers' problems and let's have a capital regime that is not overly restrictive to make it possible. In other words, swing the dial back to providing the service consumers actually want."

Post-Covid19, the timing is right for policymakers to help insurers contribute more to economic recovery, Dutkiewicz reckons: "The political jargon is 'build back better'. The economic recovery is coming and the insurance industry can help with that. The UK life insurance sector has £3tn in assets to be put to work in recovery. It can also provide the products consumers need at a time when they have heightened awareness around personal protection as a result of the current crisis."

Reality check for reinsurers

Covid-19 has also influenced the way that reinsurers view pandemic risk, according to Dutkiewicz. Most of the big life reinsurers are composites and they had big coronavirus-related losses on the non-life side of the business. Counter-intuitively, however, their outsized non-life losses have made boards more conservative on the life side of the business.

"At Aon we have a book of pandemic cover with around $1bn of exposure, but reinsurers don't want to write it; they only want to write the full quota share on that portfolio. They're happy to take 'at-the-money' mortality risk but they're not happy to offer the 'tail' pandemic protection," Dutkiewicz says.

"Conversely, insurers are saying that they are happy to take the mortality risk, but they do want to protect themselves against a pandemic. This represents a disconnect in the market whereby reinsurers have a good understanding of pandemic risk but are unwilling to provide capacity that's wanted by insurers."

Life reinsurers have actually been good at modelling pandemics and understanding their exposure. "They understand Covid-19 versus any other virus; they've run thousands of scenarios and can articulate them well. But they only use their analytics to run their own book. They don't really deploy that understanding to support their clients."

In short, reinsurers have been content to provide capacity for what they want to write – but it isn't what the client needs: "Leaving an unsatisfied demand like this creates an opportunity for new players to come in. If reinsurers covered life insurers' pandemic risk they would have a new source of profit – and deliver more value to their clients," Dutkiewicz explains.

Model reappraisal required

In terms of regulatory capital and risk management, life insurers anticipated an event like Covid-19, and it isn't an extreme mortality event. The additional mortality on a life portfolio is 5-10% more than normal at worst, Dutkiewicz estimates.

But if the catastrophe models used by life insurers and reinsurers have stood up well so far, they are rapidly becoming inadequate, Dutkiewicz says.

> *"Let's look for products that can answer consumers' problems and let's have a capital regime that is not overly restrictive to make it possible. In other words, swing the dial back to providing the service consumers actually want"*

"Prior to this year the industry has used stochastic models, which worked with Covid-19: it's a 1-in-10 or 1-in-20-year loss. But the picture changes as the pandemic progresses to the next stages, and the future development is unknown. There is no precedent for knowing whether a vaccine will work, for example.

"It means that we all now have to take a scenario-based approach and make some assumptions around say, the four best- and worst-case outcomes and decide which of those outcomes governments want to protect against. In other words, the stochastic modelling has worked well to a point, but it won't work for the next two years," he warns.


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Welcome to the ninth year of *Insurance Insider* Honours

This year is a bit different to the last eight as, unfortunately, we cannot be together to celebrate the fantastic achievements within the market from the last 12 months. We have switched from the lavish set of 2019 to our sofas and are celebrating from home this year, but we can assure you that 2021 will be back with an even bigger bang. As always, we are indebted to the expert counsel and hard work from our superb judging panel, so thanks to them for all of their help. Thanks also go to our sponsors for their ongoing support. But of course we couldn't host an awards ceremony if no one entered – so we would like to thank all of you who took the time to submit an entry, even if you haven't been honoured with a nomination.

In case you missed the big night on 17 September, here's a reminder of the night's big winners:

Outstanding Contributor – Distribution

Sponsored by **Allied World**

James Kent, Willis Towers Watson

Outstanding Contributor – Risk

Sponsored by **EY**

Matthew Wilson, Brit Insurance

Lifetime Achiever

Sponsored by **Charles Taylor**

Richard Pryce, QBE

Young Broker of the Year

Sponsored by **Munich Re**

Nadim Semaan, Gallagher / **Freddie Trusselle**, McGill and Partners
HIGHLY COMMENDED: **Johnny Fraser**, Capsicum Re

Young Underwriter of the Year

Victoria Buckingham, Munich Re Syndicate / **Aoife Woulfe**, Tokio Marine Kiln
HIGHLY COMMENDED: **Stuart Cowen**, Katalyst Financial

Young Claims Professional of the Year

Sponsored by **DOCOsoft**

Andrew Lovell, Beazley Group
HIGHLY COMMENDED: **Tom Bennett**, CFC Underwriting

Risk Carrier of the Year

Sponsored by **DLA Piper**

Munich Re Syndicate

Underwriting Initiative of the Year

Sponsored by **NEAM**

CFC Underwriting - eHealth
HIGHLY COMMENDED: **Axa XL** – NEAT (New Economies, Autonomy and Technology Team)

Broking Initiative of the Year

BMS Innovation Lab

Insurance Innovation of the Year

Sponsored by **Tokio Marine Kiln**

Tractable - AI Estimating

Disruptor of the Year

Sponsored by **WNS**

Tractable
HIGHLY COMMENDED: **Loadsure**

The Diversity & Inclusion Award

Sponsored by **HFG**

Afro-Caribbean Insurance Network (ACIN)
HIGHLY COMMENDED: **RPC**

Campaign of the Year

Sponsored by **Impact Media**

Lloyd's - Future at Lloyd's

(Re)Insurance Transaction of the Year

Sponsored by **Stephens Rickard**

Swiss Re Corporate Solutions - QUAKE
HIGHLY COMMENDED: **Bayview Asset Management & Swiss Re Capital Markets** – The Sierra Ltd. 2020-1

M&A Transaction of the Year

Sponsored by **RPC**

BMS, British Columbia Investment Management Corporation and Preservation Capital Partners
HIGHLY COMMENDED: **Gallagher & JLT Aerospace**

MGA of the Year

Sponsored by **ACORD**

Falvey Insurance Group
HIGHLY COMMENDED: **CFC Underwriting**

Broker of the Year

Sponsored by **Arch**

Howden Broking Group
HIGHLY COMMENDED: **McGill and Partners** / **TigerRisk Partners**

The Cuthbert Heath Award

(Claims and Losses) Sponsored by **Sequel**

Beazley
HIGHLY COMMENDED: **PCS, a Verisk business**

CFO of the Year

Sponsored by **Lloyds Bank**

Matthew Schweinzger, Acrisure


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Outwards Reinsurance Survey 2020

Social inflation, an above-average hurricane season, Covid-19 and other factors have resulted in rates hardening across the board. *Insurance Insider* quizzed buyers of reinsurance on their preparations and expectations for 1.1

As we head towards the most fascinating 1 January renewal season in decades, *Insurance Insider* spoke to more than 20 buyers of reinsurance on an anonymous basis to take the temperature of current market conditions.

Perhaps unsurprisingly, all respondents thought reinsurance pricing would either increase or stay the same at the all-important 1 January renewal. The vast majority – 88.9% – said they expected price hikes, while no one thought rates would go down.

It was a similar story regarding terms and conditions, where 88.9% of survey participants expected T&Cs would tighten, with the remainder saying they would stay the same.

When asked about different structures of reinsurance, some 50% of our panel thought quota share cover was more attractive than in previous years, while 37.5% of respondents felt it was just as attractive as previous years. Just 12.5% felt it was less attractive.

For more than two-thirds of respondents, their decision was driven by the suitability of the product for their reinsurance needs, while another 18.8% were driven by pricing.

A couple of respondents also referenced increasing ceded margins on excess of loss (XoL) structures.

When asked how attractive XoL reinsurance was in today's market just 6.3% felt it was more attractive than in previous years, with the majority (62.5%) suggesting its appeal was around the same as in previous years.

Again, their decisions were driven by the product's suitability for their coverage needs (75% of respondents), with the remainder choosing their answer based on price.

Key findings

- **Renewals:** All the buyers surveyed expected reinsurance pricing to remain flat or increase at 1.1. The majority of cedants also expect terms and conditions to tighten.
- **QS vs XoL:** Quota share reinsurance was considered by half of respondents to be more attractive compared with previous years. Its suitability rather than its price was the overriding factor in driving this shift in preference. Around 6% believed excess of loss coverage was more attractive compared with previous years.
- **Covid-19:** The majority of reported losses from Covid-19 are between \$0mn and \$100mn, with event contingency and BI the worst-affected lines.
- **ILS and retro:** Just over half of respondents said that redemptions from ILS were greater than last year. Most believe there will be a functioning retro market at 1.1.
- **Capital:** Some 75% of participants thought the recent influx of new capital could limit rate rises but 58% thought there would not be enough new business to talk about a "class of 2020".

Methodology

In a bid to explore the reinsurance-buying side of the sector, *Insurance Insider*'s Insights team polled reinsurance managers over the course of July and August to discover what this market thinks about renewals, the attractiveness of different types of reinsurance, Covid-19, capital raising, ILS and retro.

Only those who are directly involved in buying reinsurance were invited to the research study.

Covid-19

From the 62% of respondents that said they had already seen Covid-19 related losses, the majority reported losses of between \$0mn and \$100mn, while no respondent had yet seen losses over \$200mn.

Event contingency and BI were the top two Covid-19-related loss-affected lines according to respondents, followed by property and travel.

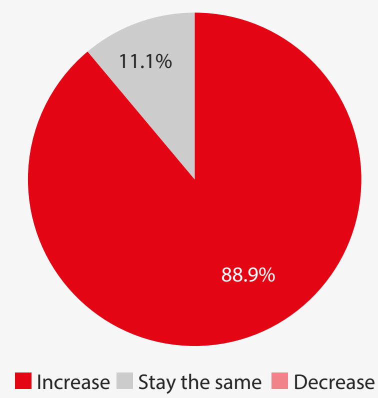
Many expected Covid-19 would impact terms and conditions and some said that pandemic-related wording or exclusions would be applied in future for clarity. All respondents expected to register significantly more Covid-19-related losses ahead of 1 January.

"This is an on-going loss which will definitely creep. This is the biggest loss that nobody is currently owning up to having," commented one buyer, while another pointed to the as-yet unknown picture for

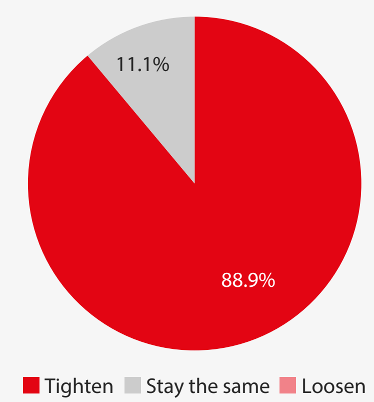
Continued on page 20

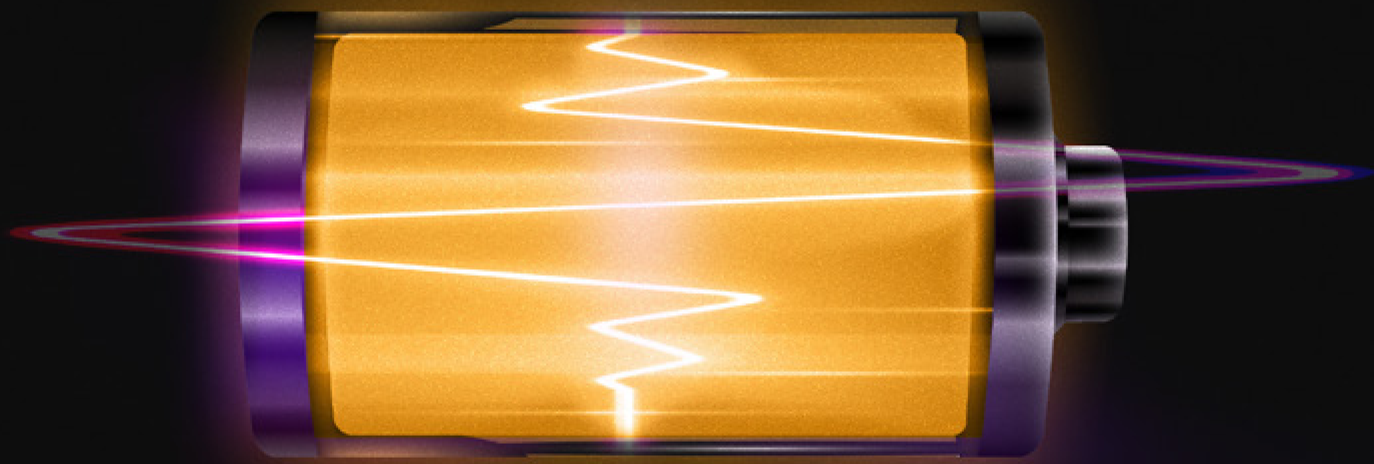
Renewals

At the 1.1 renewals, I expect the pricing of reinsurance to…



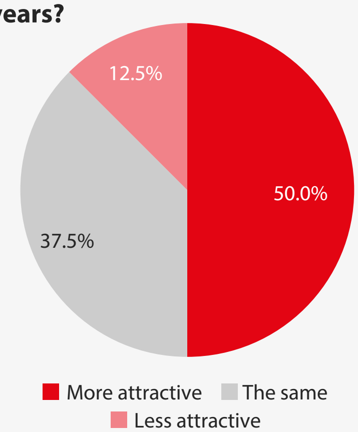
At the 1.1 renewals, I expect terms and conditions to…





Quote share vs XoL

How attractive do you consider quota share reinsurance for your needs, compared with previous years?



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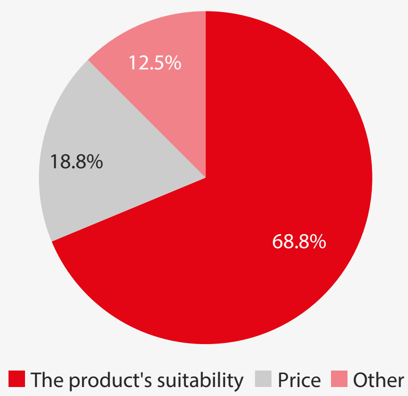
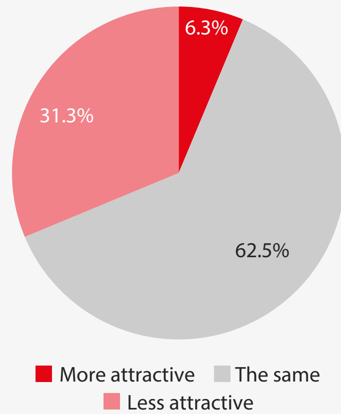


How attractive do you consider XoL reinsurance for your needs, compared with previous years?



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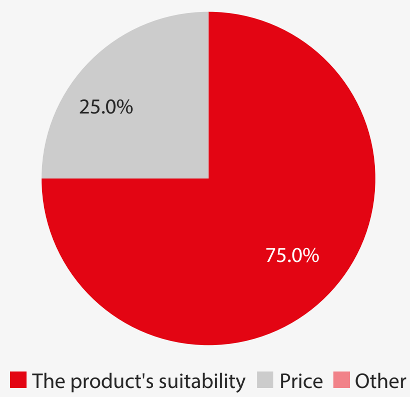
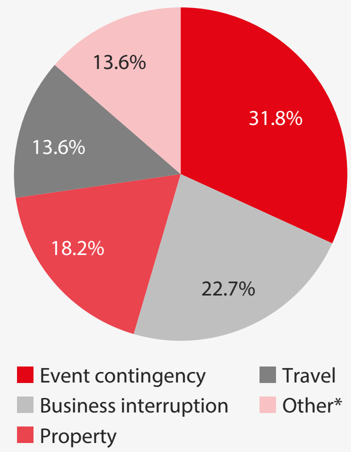


Covid-19

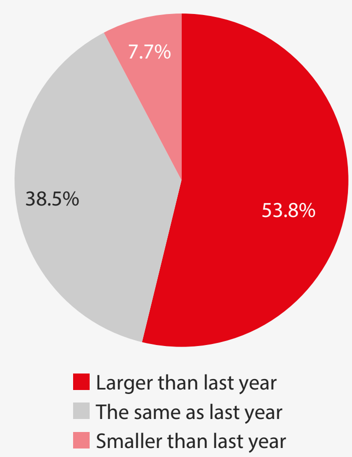
Which lines are the Covid-19 losses coming through?



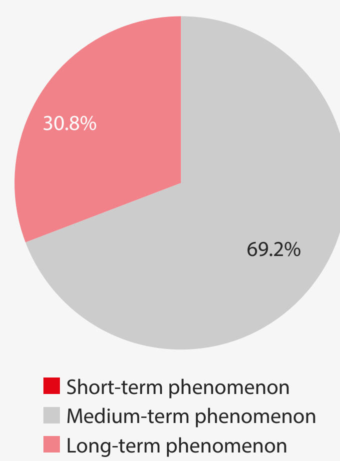
*Other includes treaty, workers' comp and EPL

ILS and retro

Redemptions from ILS are…



Do you expect this to be a…



longer tail lines.

Almost 85% said terms and conditions would be affected by the coronavirus fallout, with many expecting more specific pandemic wording to appear, alongside an increase in specific exclusions in some lines.

There was a mixed view on whether hours clauses would be more restricted or would increase, with some buyers even anticipating an increased time period for pandemic-related events.

ILS and retro

Just over half of survey participants (53.8%) said that redemptions from ILS were greater than last year. Some 7.7% thought they were smaller than in 2019, with the remainder expecting redemptions to be in line with last year. More than two-thirds expected higher redemptions to be a medium-term phenomenon going forward.

It was the general consensus that there would be a functioning retro market at 1 January, but some added that it would be challenging and capacity would be tighter.

"I expect to see a flight to quality, and the capacity will be there for the better players," said one buyer. "I envisage there to be a bit disparity on pricing and things markets will accept."

Another noted: "There will always be an opportunistic market for retro through a combination of rated, ILS and new start-ups. Barriers to entry are very low for cat writers."

Another respondent stated: "The opportunity for writing a net book of retro should be attractive."

Class of 2020?

Many of our reinsurance buyers expected to see new entrants come into the market,

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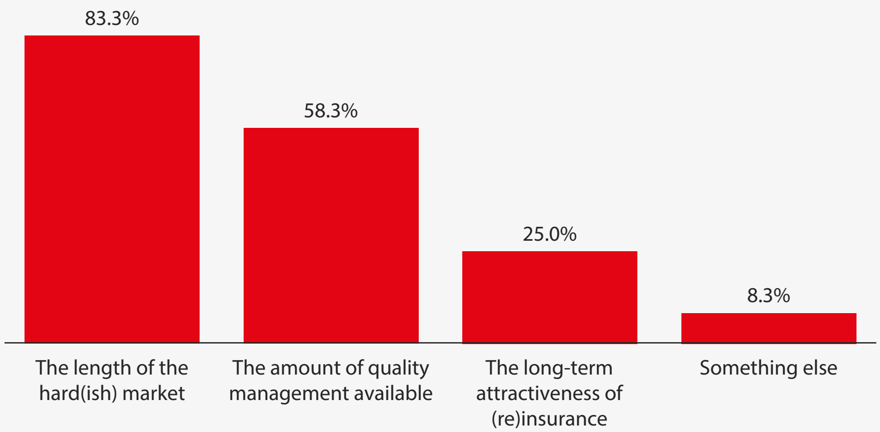
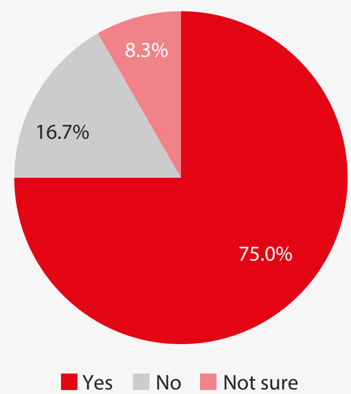
Capital

What is the limiting factor on new capital?



Respondents couldchoose more than one answer so percentages will not sum to 100

Will the amount of new capital being formed limit rate rises or curtail length of rate rises?



taking advantage of a "clean" balance sheet without any Covid-19 losses attached.

Looking to recent new entrants, one commentator noted: "Those looking to start up are proven management and are not just adding capacity, they're bringing something else."

Another pointed to the potential to make use of new technology, and the benefit of not being hampered by legacy systems.

Not everyone was so enthusiastic, however. "Newcomers will find it tough to gain traction without a large initial balance sheet," said one buyer. "Ratings may even then limit them to specific classes."

Those firms that were seeking to scale up instead were broadly welcomed by buyers of reinsurance, with one respondent describing scale-ups as a "sensible" choice.

Another commenter noted: "There needs to be the opportunity for the better markets to be able to seize on the current rating opportunities. We don't want to see people getting full too quickly, which could drive risks back to the domestics."

Management buy-ins were also seen as "sensible", with many pointing to the deep pockets provided by private equity backers as a boon for these types of firms.

Some 75% of participants thought that new capital could limit rate rises, but 58% thought there would not be enough new business to talk about a class of 2020.

"There are too many different ways to put capital into the market now to identify a 'class' of start-ups," explained one buyer.

"There are too many different ways to put capital into the market now to identify a 'class' of start-ups"

"Money flows into the market quite seamlessly these days given the barriers to entry for a start-up including brand, reputation, credit ratings, claims paying record."

Asked what factors could limit the amount of capital flooding into the sector, 83.3% listed the duration of the hardening/hard market, 58.3% cited the quality of available management and 25% talked about the long-term attractiveness of the reinsurance marketplace to investors.

Class of 2020

Start-ups	Scale-ups	Buy-ins
"Will find it tough to gain traction without large initial balance sheet. Ratings may even then limit them to specific classes"	"There needs to be the opportunity for the better markets to be able to seize on the current rating opportunities. We don't want to see people getting full too quickly, which could drive risks back to the domestics"	"Companies backed by private equity firms usually see aggressive management from their PE backers who want to provide a good return to their investors – the business needs to succeed for this happen"
"Can take advantage of current market conditions without picking up the Covid-19 losses"	"There will be pressure to deploy which may stifle market hardening"	"Usually backed by private equity so have ample funds"
"Those looking to start up are proven management and not just adding capacity, but something else"	"Partnership with another firm brings the benefit of double the expertise"	
"They won't be affected by Covid-19 related losses"		
"No legacy systems – can benefit from new tech"		

A less risky business

James Banasik MSc, who heads a team of meteorologists, data scientists and industry specialists as founder and CEO of MetSwift, explains why innovative weather and nat cat risk analysis will drive the insurance industry's adaptability in a rapidly changing climate.

Sociologists describe a tipping point as the point at which incidental change has shifted, via collective communication and acknowledgement, into "radical" or "epidemic" change.

As the impact and awareness of climate-related changes proliferate, now is the time to determine how we will calculate future weather risk. Risk directors, underwriters and brokers are asking how the existential, global and most perilous crisis of our age will impact business, and how they can navigate this. However, there's an underlying story that offers more nuanced and real insight about what is occurring – and the future implications.

The science behind the scenes

We're all aware that behind current eventful weather, weather patterns (or teleconnections) are changing.

You see arresting images of Australia's wildfire smoke plumes taken from space and hear about the heightened flood risks in Venice – a city already frequently submerged. But did you know the very terms that define some natural cycles are no longer applicable, and that these are the cycles that drive perilous weather events.

For example, the quasi-biennial oscillation was named "biennial" in 1948 as it demonstrated a cycle of 28 to 29 months. In 2015, the cycle started heading westwards as normal. In winter 2016 the oscillation broke down, not entering its easterly phase as it had done for the previous 70 years.

For those in insurance accustomed to shrewdly quantifying risk, assessing weather risk is becoming a more prominent issue – being both more challenging in itself and more problematic when incorrectly diagnosed. It is time for the meteorologists, climatologists and data scientists to step in. It is essential to have the ability – and analytic acuity of AI and data science – to analyse past weather before making efforts to predict the future.

In an increasingly risky climate requiring improved and more frequent policy making, entire worldwide financial systems will have to adapt.

Economic losses from flooding and storms in the Midwest US this spring were estimated to exceed $3bn. On a global scale, floods have become the most deadly and common natural disaster, affecting 250 million people every year. All those with exposed assets will be impacted, and the insurance industry – already exposed itself – will be held responsible for the policy underwriting, accurate premiums and prediction that these pressured operators request.

The New Weather

Meet the "New Weather": via AI, advanced statistical analysis and the integration of long-term historic trends, weather and nat cat insight has already transformed.

Insurance must note the meteorological intelligence now within reach. Global, hyperlocal, cleansed datasets that draw on big data, followed by swift analysis powered by machine learning, can instantly render risk. The application of AI enables longer term forecasting than ever before. What can now be accessed – should insurance firms act based on the current aspirational or nominal embrace of innovation – is increased precision, speed and coverage for future weather risk calculations.

The reality of climate change is that its implications are neither uniform nor consistent. Of a random sample (2,202 stations) of 100,000 weather stations of cleansed and analysed data, 25% showed a net cooling since 2000. While it shouldn't be overlooked that 75% of stations showed a warming trend, the proportion of localised cooling trends is prominent.

In November, this cooling occurred at 52.7% of these stations, demonstrating a global net cooling. The perception of climate change is that risk is increasing. In cooling areas, could it be decreasing?

A perceived uniformity in climate changes belies their reality – understanding this diversity is the insight that the insurance industry needs to access when quantifying each risk.

In an erratic climate, it is ambitious and passionate individuals (often cited as those who propel socioeconomic tipping points) and the private sector that are stepping up in terms of intelligent mitigation and adaptive solutions.

Sella Nevo, who leads Google's Flood Forecast team, has noted: "It's an exciting time to use technology to make a difference. It's equally critical we provide that value for free to any government in the world." If you are sceptical, be aware that business weather-tech overlap is projected to be worth $4.6bn by 2025.

Within the insurance industry, what is being looked for goes beyond accuracy of prediction. The demand is there for instant automation of triggers; the ability for underwriters to streamline the brokerage process through speed and accuracy; and progressively appealing costs to clients, commerce and insurers alike. "New Weather" can work hand in hand to create systematic change.

Systems change and human value

Newly intelligent weather and peril risk is evidently up for grabs in economic terms – in the current market, the competitive pricing of premiums is attractive.

An underwriter's ability to utilise the disruptive tech of statistical and predictive weather modelling – providing probabilistic, highly accurate and automated results – means substantial losses can potentially be minimised. Risk directors see reduced acquisition and administration.

In terms of preparation for and adaptivity to climate impact upon insurance processes, only individuals possess certain essential skills. These include complex social interactivity, creative and critical thinking, transparent communication, truth scanning (in instances such as fake news) and the ability to make radically innovative choices.

We are about to enter a new age of meteorological application – a form of digital enlightenment where environment meets data. This could also herald a new age for parametric risk and the quality of insurance decision-making and responsiveness; encouraging profitability.

The question is, after the tipping point… are you ready?

And something you might not.

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The new model CEO

Flexible working trends and cultural change mean new leadership styles are in vogue and dictatorial bosses have fallen out of fashion

Corporate culture is changing and with it the prevailing model for chief executives in the (re)insurance industry.

And while no single factor has changed the London's market's leadership style, a combination of contributing influences is transforming it.

Companies are making more meaningful corporate social responsibility efforts; staff relations are changing due to millennial hires and a generation of boomers retiring; and technology-led flexible working is becoming the norm amidst the coronavirus pandemic.

Showing underwriting or broking nous and demonstrating authority is no longer enough.

"Leading is ultimately about motivating the team," says Nick Cook, CEO of BMS. "My primary role is getting everybody to row in the same direction."

Autocratic leadership cultures are also being consigned to the past, according Mark Stephens, a partner and executive search consultant at Stephens Rickard.

"It's a more inclusive leadership style, not knowing all the answers, but being able to create an environment where everyone feels they can contribute," he says.

Bye bye, boomers

The industry has been led by baby boomers for an extraordinarily long time.

"A large share of the reinsurance workforce is set to retire soon, so it's more important than ever that we attract more talented young people," says Scor Global P&C CEO Jean Paul Conoscente.

While there are always exceptions, the departure of this "old guard" is hastening a shift in leadership styles, sources agree.

"There is a shelf life for all leaders," says Cook. "The older, more autocratic type of leadership is waning. It was always 'we've always done it this way, so this is the way it's going to be.'"

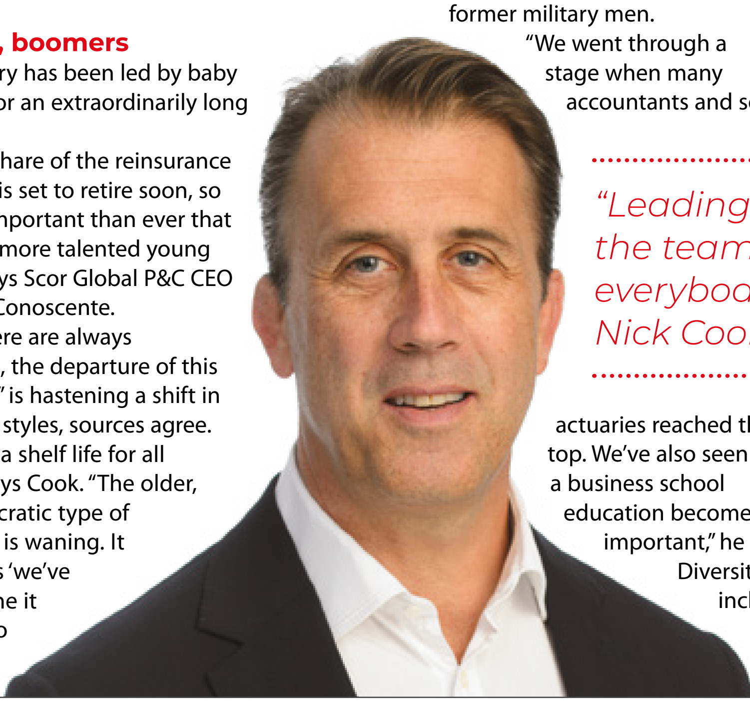
"Leaders now need to be more than just subject matter experts – they have to be much broader and focused on more than just the bottom line"
Mark Cloutier, Aspen

Previous generations of leaders were disproportionately drawn from a male, privileged, white demographic, contributing to the group-think that has haunted insurance company board rooms, Stephens suggests.

"Various studies have shown that diverse boards lead to better outcomes. If you've got an all-male board, it is unlikely that those egos will be questioned," he says.

Hiring trends have gradually broadened the definition of who makes it to the top, Stephens explains, from the 1980s era of blue-blooded senior underwriters and former military men.

"We went through a stage when many accountants and some actuaries reached the top. We've also seen a business school education become more important," he says.



Diversity and inclusion (D&I) initiatives have proliferated in recent years, mirroring movements such as Pride, #MeToo and Black Lives Matter. According to Stephens, there is now also greater evidence of change in how leaders are chosen behind closed doors.

"Clients are insisting on diverse shortlists," he says. "This isn't about tokenism and they're not window dressing. People are realising that diverse boards eradicate group-think and make better decisions."

Shortlists for non-executive board members are also changing, suggests Stephens, citing the example of a recent search request from one traditional London market client.

"I asked him what he was looking for. He said he didn't want 'Rent a Gent', but some real diversity brought to the board. That's indicative of an encouraging change, and I would say it's relatively recent," says Stephens.

D&I moves form part of a greater focus on instilling positive corporate culture.

"Leaders now need to be more than just subject matter experts – they have to be much broader and focused on more than just the bottom line," says Mark Cloutier, executive chairman and group CEO of Aspen. "This change is being driven by a workforce that increasingly wants more from their employer than just a pay cheque."

"Leading is ultimately about motivating the team. My primary role is getting everybody to row in the same direction"
Nick Cook, BMS

Expectation levels have also increased dramatically around non-business issues. Scor's Conoscente says: "We're challenged by our clients, employees, and by the young people we need to join this industry to define the core values the company stands for, and how these core values translate into everyday operations."

Continued on page 28

Corporate social responsibility policies have taken up issues such as climate change, gender equality and D&I. Swiss Re's leadership, for instance, focuses on climate risk and promoting sustainability as a strategic priority.

"We have committed to achieving the goal of net zero emissions by 2030 for our own operations," says Natasha Gill Pajarola, head of human resources for reinsurance at Swiss Re. "Our leaders play a key part in helping us to achieve these ambitions specifically by embedding sustainability in all our business activities."

A deep bench

When Conoscente joined Scor more than a decade ago, the reinsurer's leadership depended on the "Sun-like" approach of leaders at the centre, he explains, with business teams providing technical expertise to feed decisions.

"This is changing, because one person cannot address all these issues," Conoscente says. "We're going towards a small-teams approach, where every function-holder still has responsibility for their function but the management team co-owns all issues regardless of the function it comes from. I think the successful companies are the ones in which delegation occurs naturally because you can become much more result-oriented rather than decision-oriented."

Cook points to the political and sporting world for examples of recruiting a talented bench, acknowledging that no individual holds top trumps across a spectrum of skills, but they can build complementary teams.

"I think the successful companies are the ones in which delegation occurs naturally because you can become much more result-oriented rather than decision-oriented"
Jean Paul Conoscente, Scor

"Great leaders and coaches surround themselves with equally if not more talented people, who bring that diversity of thought," he says.

Stephens thinks changing leadership traits are visible among top brass at the big brokers, where having the biggest client accounts no longer means making it to the top.

"What you need is a leader who can keep the race horses performing and stroke their egos, but you don't want to let those people loose as a CEO, because that's not what they're good at," he says.

"Nowadays, broking houses are more interested in strategic leadership. If you look at the big London market brokers, there's a professional right at the top, with some pretty big beasts below them, but they're never going to run it," he adds.

"Those CEOs who embrace change and who constantly re-assess what they're doing in light of the 'new norm' are the ones who will win out"
Mark Stephens, Stephens Rickard

Flexible working

Effective communication skills are particularly vital during crises, such as this year's pandemic. Communication skills are at an all-time premium for the CEO role, Stephens notes.

"The ability to win hearts and minds has become more important because people have more choice these days and the market is more fluid in terms of employees being able to move around," he says.

Town hall meetings have become weekly occurrences at big brokers. At BMS, Cook has recorded weekly podcasts, as well as stepping up thought leadership and media interaction. "Covid-19 has forced our hand to be much more communicative than ever before, and we will continue that," he says.

Some flex is vital for leaders to communicate effectively with different constituents, emphasises George Davies, senior client partner at executive search and advisory firm Korn Ferry.

"A narrow style as we've seen in the past, whether autocratic or *laissez-faire*, is not going to be successful in this increasingly complex environment," Davies says. "A chameleon type of leader, who can play to various stakeholders, is going to be the leader of the future."

Lockdown's strain on traditional modes of communication has been a nail in the coffin of micromanagement. And companies have had no choice but to embrace remote working.

Stephens notes that remote working has drawbacks, particularly for staff living and working in busy houses, but it can also have benefits.

"I hope companies will embrace agile working, because a lot of professional people, parents in particular, want the flexibility to work some days from home," he says.

A workforce more spread out is also good for D&I, stresses Davies. "Not having everything anchored in London is a demographic opportunity to be much more inclusive of a wider population, providing increased value for the market," he says.

Ultimately, Stephens warns, leaders will increasingly need to deploy the greatest flexibility in their skills to succeed in this environment, while those burying heads in the sand will struggle most.

"You don't change for change's sake, but if the environment changes, there's a high chance you need to change your approach," he says. "Those CEOs who embrace change and who constantly re-assess what they're doing in light of the 'new norm' are the ones who will win out."

Q&A with Steve Arora

Axis Re CEO **Steve Arora** gives his views on market fundamentals, systemic risks and the importance of relationships

What is your view on the overall state of the reinsurance market today?

The global reinsurance industry has suffered significant profitability issues over the last several years. For example, it is likely that it will have failed to earn its cost of capital in three out of the last four years, which if you look at that over a stretch of time will be the worst sequence of results in the past 15 years.

There are several factors that make a compelling case for market dislocation. In addition to the projected losses from Covid-19 and other catastrophe events, reinsurers are likely to see the continuation of prior-year development in casualty lines throughout 2021 and 2022 from underwriting years 2015-2018. We're seeing continued volatility in financial markets resulting in a reduction in company solvency levels. Retro is reducing but getting more expensive. And ratings agencies are increasing scrutiny on reinsurers' capital and operating performance.

This has contributed to a general loss of patience from reinsurers after consecutive years of poor returns. Given these factors, there is a compelling case for real improvement in the market.

That said, there are risk factors and questions. Is the reduction in supply driven by unwillingness (capacity driven) not inability (capital)? In terms of fear and uncertainty, have we passed the epicentre? Can Covid-19 losses be absorbed – similar to casualty losses – over a long period of time?

Taken together, we can expect to see a more profitable market with improved rates and stronger terms and conditions. There are still market dynamics we must monitor, such as low interest rates, which can have a significant impact on profitability. We'll need to wait and see if the improving conditions are enough to drive us into a stronger market moving forward.

What needs to be done within the reinsurance industry to address its continual issue with covering its cost of capital? How can reinsurers get back on track with respect to rate adequacy and long-term, sustainable profitability across the industry? And what can they do to keep the positive momentum going?

In many cases, the current increase in rates is only keeping up with the loss trend. The improvement in market rates and terms is a first step in a longer-term, multi-year correction required in the market which requires action from all. To generate appropriate risk-adjusted returns, momentum must continue across many lines and geographies.

Ultimately capacity needs to leave the market for price equilibrium to increase. What return do you expect to deploy capital? Answering this question is key. Winners in this environment will focus on quality over quantity, portfolio construction and balance, and driving changes in terms and conditions and structures – in addition to rate. And importantly, winners will learn from the past and correct inadequacies in expected loss projections.

What risks are top of mind for you right now?

Climate is one area that is top of mind. We are experiencing more extreme and unprecedented weather events, making it harder for reinsurers to quantify risk. The natural reaction for reinsurers is to reduce exposure to climate-related risks. The downside here is that by reducing exposure, the protection gap increases – this is not an option and it goes against our social purpose as a reinsurer. Balancing profits and client needs, while contributing to our social purpose, is key. Reinsurers must adapt, and be part of the solution.

In the casualty space, of course we're keeping an eye on the effects of social inflation. Finally, we're watching the impact of Covid-19 across the industry. The event is live and still unfolding and will likely influence the industry for several quarters to come.

What qualities do you think will make teams and leaders successful in the changing reinsurance market today?

First is mindset. Successful teams will focus on profitability over scale, which is a difficult balance to strike. Second is differentiation. Successful teams will differentiate based on their sales EQ – this means having the right people and investing in relationships. They will communicate clearly and early with clients, and they will put themselves in the shoes of their clients.

Throughout, teams must maintain objectivity and flexibility. In terms of objectivity, it is important teams keep this in mind when evaluating opportunities and making decisions. Does this opportunity make sense? Does it exceed your threshold and hurdle rate? It must. Teams must also stay flexible and adapt as conditions change.

For us at Axis Re, these qualities are priorities for us. We're focused on generating the biggest intersection possible between our portfolio objectives and our clients' needs. We'll deploy capital where it makes sense and ultimately, we'll stay flexible. We have the scale and sophistication of a global player, but also a size and atmosphere that provides a small company experience to a client – and encourages this flexibility.