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Start-ups line up to test cautious investor appetite ahead of 1.1



Amid predictions that there will be no Class of 2023 despite a generational hard market in cat, several proposed start-ups are continuing efforts to raise capital to launch as early as 1.1 next year, in a test of fragile investor appetite for the sector – at least in support of balance sheet companies.

The roll-call of start-up initiatives that are either still live or have been active this year includes a number of high-profile retired executives who in previous hard markets would be expected to attract plenty of investor interest.

They include former **Hannover Re** CEO Wilhelm Zeller, who has teamed up with ex-**Axis Re** CEO Steve Arora to work on a potential Zurich-based reinsurer called **Alpine Re**, in a move first revealed by this publication yesterday.

Meanwhile, Brian Duperreault has emerged as the figurehead of a mooted reinsurance-focused start-up from **Mereo Advisors**, which was

co-founded by managing partners Lawrence Minicone and Jason Miller and has also been working with former Execution Noble and Securis executive Neil Strong.

Both Duperreault and Zeller are in their mid- to late seventies and have decades of experience and good standing in the industry.

Despite reports detailing the purported business plan behind the proposed Mereo start-up – which would include a fund structure as well as a reinsurance business – sources said it was unclear whether a lead investor had been secured for the project, which has been in the works for at

[Continued on page 6](#)

Allianz Covid BI reinsurance arbitration dispute delayed until 2024



Europe's largest insurer Allianz is now set for a 2024 arbitration showdown with certain markets, including Lloyd's, on its 2020 SuperCat reinsurance

facility relating to its Covid-19 business interruption (BI) losses, following a drawn-out discovery and negotiating process this year, *The Insurer* can reveal.

The London market arbitration proceedings – which were initially expected to take place in Q4 2023 – follow claims submitted on various of Allianz's 2020 reinsurance programs including its circa €1.6bn (\$1.72bn) SuperCat program (xs €300mn).

The pandemic's widespread impact

on businesses led to an influx of claims seeking compensation for financial losses incurred during the crisis. However, differences in interpretation and assessment of these claims have resulted in protracted discussions between Allianz and its reinsurers.

According to sources, the discovery process is expected to conclude in October, paving the way for a preliminary issues hearing likely in March 2024. A

[Continued on page 10](#)

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Helios in 2024 sidecar talks to double capacity size to £600mn



Listed Lloyd's investment vehicle Helios Underwriting is in talks with investors about launching a sidecar that could double its 2024 capacity, *The Insurer* can reveal.

Helios' new CEO Martin Reith is at the Monte Carlo *Rendez-Vous* promoting the initiative less than a week after Lloyd's unveiled its best H1 aggregate combined ratio – at 85.2 percent – since 2007.

Helios currently underwrites a portfolio of £310mn across a basket of different syndicates and has traditionally been close or better than

the Lloyd's market average. Helios is also increasingly used by some managing agents to credentialise new third-party capital raises as a perceived knowledgeable, long-term capital investor, *The Insurer* understands.

According to sources familiar with the proposal, Helios anticipates its portfolio will grow to around £360mn next year by taking advantage of planned pre-emptions.

The proposed sidecar – project name Tarpon – would sit alongside its portfolio, providing the fund manager with the ability to negotiate individually

with syndicates looking to expand further.

A sidecar would also have the advantage of providing management fee income to support the annual underwriting returns Helios receives from its portfolio.

Helios' diverse portfolio – combined with a reinsurance leverage mechanism – also means it currently benefits from a capital-capacity ratio of approximately 50 percent, suggesting it would need to raise a maximum of £120mn to take its 2024 capacity up to £600mn.

It is unclear whether the proposed sidecar would operate through Helios' existing Guernsey-based cell companies or the increasingly popular London Bridge Risk PCC platform, first launched by Lloyd's in 2021.

After the success of the first \$200mn pilot – backed by Ontario Teachers' and Nephila – London Bridge 2 is designed to attract billions of dollars of fresh capital into the Lloyd's market. One structural difficulty, however, is that it operates with a single corporate member while Helios currently operates with multiple members.

Renewals and capital key talking points in *The Insurer* and Lloyds-hosted roundtable



The *Insurer* partnered with Lloyds Bank to welcome a group of leading (re) insurance industry executives to Monte Carlo's Hôtel Métropole for a roundtable to discuss the major talking points at this year's *Rendez-Vous de Septembre*.

The high-level panel of participants included Howden Group's Mark Craig, SiriusPoint's Scott Egan, Ann Haugh from Axis Re, Acrisure Re's Simon Hedley, Waleed Jabsheh of IGI, QBE Re's Chris Killourhy, Paul McKeon from TransRe, Guy Carpenter's Lara Mowery, Aventum Group's James Potter, Hiscox Re & ILS's Kathleen Reardon, along with Terri Barnett, Ryan Bygrave and Michael Smyth from Lloyds, with the event overseen by *The Insurer*'s Christopher Munro.

The upcoming property, casualty

and specialty renewals were inevitably a major topic of conversation, with property catastrophe in particular drawing plenty of attention.

Unsurprisingly given the make-up of the participants, there were differing views on what the market can expect heading into 2024. Reinsurers suggested hardening would continue while brokers countered that rate increases to date have had their desired effect. Keep your eyes out for the full write-up when it is published in the coming weeks.

THE INSURER

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Aviation reinsurers flying high after first AerCap settlement lands

It hasn't been an easy few years for aviation reinsurance and retro underwriters.

The Boeing groundings which began in 2019 spiralled into a \$3bn+ loss impacting multiple XoL treaties and retro programs, while Russia's invasion of Ukraine created the black swan event whereby ~400 Western-owned aircraft were left behind in the pariah state.

The latter – as we documented in yesterday's edition of our Monte Carlo Dailies – has prompted a tidal wave of litigation from aircraft lessors against insurers providing different pockets of coverage, including contingent all risks and war.

Our tracker – also published yesterday – lists claims worth ~\$10bn principally in the UK courts. However, this has the potential to grow, as most estimates suggest the total value of aircraft trapped or confiscated in Russia at around \$13bn.

The situation is fiendishly complicated and, on account of the traditionally high limits expected in aviation reinsurance, potentially costly. It also raised the prospect of years of highly paid lawyers arguing multiple points around wordings coverage, the impact of sanctions, loss causation and cancellation terms.

But on the eve of the *Rendez-Vous* came a potentially major breakthrough. AerCap – the world's largest lessor – agreed a settlement with Russian operator Aeroflot relating to 17 aircraft which, crucially, had the approval of US authorities and indeed banks, and was thus not in breach of sanctions.

After all, if the lessors are able to strike deals with the Russian operators, then this not only reduces the loss but also opens up the possibility of the international insurers reaching commercial settlements with the leasing companies.

As Lloyd's CEO John Neal said: "It's good news for us too – it means we can sit down and start to have the conversation about what the claim is."

Indeed, this publication understands that the outlook may be even more positive than originally assumed, following our analysis of the structure of

the settlement after talking to aviation specialists familiar with the deal.

The \$645mn settlement saw Aeroflot pay around two-thirds of the insured value of the aircraft and engines. In addition, AerCap retains its circa 10 percent maintenance reserves, which means the "insured loss" falls to around 25 percent of the assets in scope (following the settlement AerCap reduced its claim against all-risk insurers to \$2.75bn).

Being the largest and most influential aircraft lessor, it is reasonable to assume this will be a framework that AerCap will apply with other operators and which may also be adopted by other lessors.

Furthermore, one sticking point had been US sanctions and Western banks wary of transacting any deal. This settlement proves there are workarounds with regulators and financial institutions.

If the overall loss falls by circa 75 percent then there is clearly a much more manageable figure to negotiate commercial settlements between insurers, reinsurers and the lessors.

Few would want to roll the legal dice of uncertainty in that situation.

In other words, the likelihood of the worst loss outcome has significantly reduced – this can only be good news for primary aviation insurers and their reinsurers.

Indeed, there is more good news. Risk-adjusted aviation reinsurance rates have climbed in recent renewals (in light of the above), and reinsurers attending the *Rendez-Vous* appear confident this will continue in 2024.

Speaking yesterday, Hannover Re's P&C reinsurance head Sven Althoff issued a report saying that while the rate of increase may taper off: "On the whole, Hannover Re anticipates the positive pricing momentum in aviation reinsurance to be sustained for 2024."

Before we get too excited, however, there's always the chance of further deterioration on the Boeing loss with another review expected shortly. Let's hope it is not a case of the Lord giveth and he taketh away...

The likelihood of the worst loss outcome has significantly reduced – this can only be good news for primary aviation insurers and their reinsurers



Peter Hastie,
managing
director

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Start-ups line up to test cautious investor appetite ahead of 1.1

least a year. Other start-ups that have been mooted this year include Tats Hoshina's long-term project Fathom, which sources have said remains live and is gaining traction in fundraising towards a 2024 launch.

The executive has been working on various start-up initiatives for a number of years, but is understood to have provisional investor support for his latest project.

The fate of capital raising for two other proposed start-ups – John Doucette's Project Alpine and the venture **Catalina** founder Chris Fagan was working on earlier this year – is not known.

Away from potential reinsurer balance sheets, this publication reported that **Financials Acquisition Corp** (FAC), the London-listed special purpose acquisition company that recently handed most of its funds back to investors, is now working with **Aon**, **Argenta** and various banks to create an ambitious £1bn multi-syndicate investment vehicle.

FAC – sponsored by FINSAC, a limited liability partnership founded by William Allen and Andy Rear in the first quarter of 2022 – said in a stock exchange filing that it has established London Innovation Underwriters as part of its long-sought-after business combination. However, it has already returned most of its original £150mn capital and with the listed Lloyd's investment fund Helios trading at a discount it will prove to be a challenging proposition (note also Helios' plans to launch a 2024 sidecar, as revealed today on [page 3](#)).

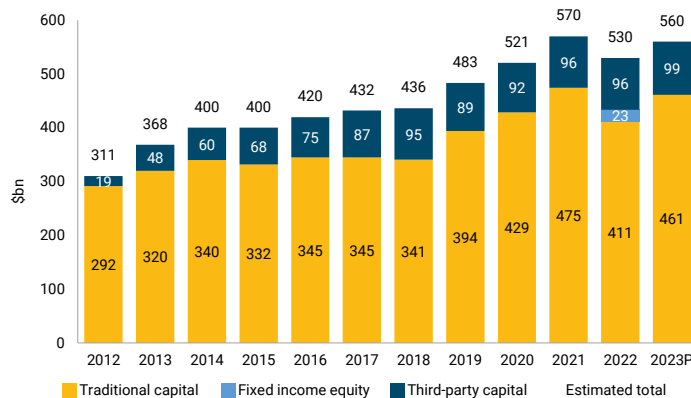
Capital raising challenges

Indeed, multiple sources have talked about the ongoing challenges of

attracting investors to start-ups, particularly if there is a potential cat element to their business plans, with investor committees remaining cautious over exposure to climate risk.

There is a sense that investors on the sidelines are waiting for a full year of good results and evidence that reinsurers are holding the line before committing.

Global reinsurance – estimated dedicated reinsurance capital



P=Projected

* For reinsurers that have ample cash liquidity to support potential shock losses, the fixed-income equity adjustment captures the amount of capital that AM Best anticipates will be recovered as bonds mature over time.
Sources: AM Best data and research, Guy Carpenter

In a briefing just ahead of Monte Carlo, Aon noted that in contrast to previous hard reinsurance markets, only around \$10bn of incremental capital has been raised, and half of that has been coming in to support cat bonds.

Incumbents **Everest** and **RenaissanceRe** account for a portion of the balance, with true start-up capital not materialising.

Kelly Superczynski, head of capital advisory at **Aon's Reinsurance Solutions** arm, said investor reticence is in part down to concerns around secondary perils and climate change.

But it is also related to the perception that investors can't exit at much beyond book value after five years, which is the typical time horizon for

backers of start-up carriers.

The reinsurance sector is currently trading at a median price to tangible book value of 1.34x, which is up from 1.17x at the end of Q2 and 1.14x at the end of 2022.

"But those aren't exactly price-to-books that investors get super excited about," she said.

"So the point is investors still aren't super excited about balance sheet investments in the reinsurance sector," the executive continued.

Superczynski noted though that there is some interest in cat risk, with investments in sidecars and cat bonds to take advantage of current pricing conditions.

Sources have pointed to success by incumbents such as Everest and RenRe in fundraising for their own balance sheets, while **Hamilton's** proposed IPO will be another investor test for an existing balance sheet business. Other potential

IPOs in the pipeline include **Aspen**, which will be watching closely for how Hamilton proceeds. One headwind, however, is the modest valuation of **Fidelis** (~0.8x) when it listed earlier this year.

There have been successful fundraises by carriers for third-party capital vehicles. RenRe has been an active capital raiser through its Capital Partners business, while **Vantage** and **Ark** are among those that have raised funds for sidecars or affiliated fund managers.

Sources on the sidelines at the annual reinsurance event say there are several fundraises are also in the works at some of the larger ILS managers, including **Nephila**, **Pillar Capital** and **Securis**.

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Apollo to launch 1.1 cyber re SPA with Envelop Risk



Lloyd's insurer Apollo is set to launch a cyber reinsurance special purpose arrangement (SPA) in collaboration with SoftBank-backed MGA and modelling firm Envelop Risk from 1 January 2024.

The news confirms this publication's earlier reports that the SPA was working to obtain approval. According to sources, this was recently granted and the SPA is now set to proceed at 1.1.

Apollo previously announced a partnership with Envelop Risk in November 2022, which saw the Lloyd's carrier enter the cyber market via its innovation/tech "Ibott" Syndicate 1971. Under the arrangement,

Envelop provides cyber reinsurance structuring capabilities, proprietary analytics, risk pricing and modelling.

Apollo has looked to reposition itself as an innovation lead in the Lloyd's market in recent years, with the Ibott syndicate in April leading Apollo's launch of an ICX consortium, designed to support innovation in the insurance industry.

Ibott Syndicate 1971 was itself formed as an SPA in 2018 before transitioning into a full syndicate in 2021.

The new Apollo SPA comes shortly after Lloyd's largest cyber insurer Beazley unveiled plans to convert its SPA 6107 into a dedicated cyber play in 2024.

In the aggregate, Lloyd's is itself one of the industry's largest cyber markets with an estimated 20 percent market share, although it does not publish a GWP number. However, it has traditionally leaned more towards primary and cyber quota share.

As it writes more cyber XoL, however, the market has recently introduced new risk codes. RY pertains to ceded coverage in respect of first- or third-party costs, expenses or damages due to a breach of cybersecurity and/or privacy of data which does not include damage to physical property.

While risk code RZ relates to ceded coverage in respect of first- or third-party costs, expenses or damages due to a breach of cybersecurity that includes damage to physical property.

It is thought a new risk code – R1 – will track business written by the new SPA.

The move also follows another significant development in cyber reinsurance with the announcement yesterday that CyberAcuView and Perils have launched a new loss index which will track major events with insured losses in excess of \$500mn.

Apollo and Envelop Risk did not respond to requests for comment.

CCR Re targets Asia and Middle East growth following €200mn capital injection



Asia and the Middle East will represent the main growth drivers for CCR Re in the near term, as the recently acquired reinsurer seeks to deploy its €200mn (\$215mn) capital injection.

CEO Bertrand Labilloy told *The Insurer TV* the carrier saw longer-

term growth opportunities in South America and Sub-Saharan Africa, where it was currently developing new relationships.

Labilloy was speaking following the recent completion of CCR Re's acquisition by a consortium consisting of mutual insurers SMABTP and MACSF.

Under the transaction, which valued CCR Re at close to €1bn, the mutual insurers also completed a capital injection of €200mn into the reinsurer, fully financed by the consortium.

This resulted in a holding of 75 percent of the reinsurer's capital, with

state-backed nat cat reinsurer CCR maintaining a share of 25 percent.

Labilloy said CCR Re will continue to operate with complete autonomy under its new ownership, with a 'Chinese wall' in place with its parent companies to ensure confidentiality around client information.

On the new capital, Labilloy said: "We will deploy it widely, giving priority to our best clients that we work with across the board and long term."

The reinsurer reported a first-half combined ratio of 94.6 percent, a 3 percentage point improvement from H1 2022.



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Allianz Covid BI reinsurance arbitration dispute delayed until 2024

full arbitration process would then follow in May to June 2024.

Allianz disclosed in late 2020 that it expected a €1.1bn net Covid-19 hit in P&C and ~€200mn in life and health, with CFO and board member Giulio Terzariol telling analysts that while it had seen some reinsurance recoveries for its pandemic losses these were “not material” with recoveries expected to be a “long process”.

“Eventually, we could clearly think of recoveries which cost a few hundred million. But, I’m pretty confident that reinsurance companies are going to have a different idea. We’ll have a business conversation between business partners, and then we will see what the outcome is going to be,” he explained.

It is understood that while most reinsurers, thought to include Munich Re, Swiss Re, RenaissanceRe and Sampo, have made commercial settlements reflecting strategic relationships with Allianz, other carriers – including Beazley and at least one other Lloyd’s market – have yet to settle either because of uncertainty over liability or quantum.

The disputes centre on Allianz’s interpretation of its reinsurance contracts. The insurance heavyweight is understood to have initially taken a broad interpretation of issues such



Talking points

- Allianz London arbitration pushed back from Q4 2023 to likely mid-2024
- Early-stage discovery process expected to conclude in Q4
- Lord Jonathan Mance selected to chair arbitration
- 2020 SuperCat covers Western Europe, Australia with €1.6bn (\$1.72bn) of coverage (xs €300mn)
- Allianz moderates position on recoveries and agrees multiple commercial settlements with reinsurers individually

as geographies, hours clauses and contingent loss. It is also understood to be aggregating all losses into the 2020 year, arguing that the pandemic and any subsequent losses can be traced back to the lockdowns of that year.

Sources say private negotiations have resulted in Allianz moderating its position with outstanding reinsurers over issues such as contingent claims.

Reinsurers’ arguments are likely to remain focused on how to define a covered event, favouring a narrow approach to the interpretation of event or catastrophe. Reinsurers have also put forward the argument that they did not contemplate widespread loss without physical damage, and

therefore Covid losses cannot be aggregated.

Lord Jonathan Mance, a distinguished legal figure and former deputy president of the UK’s Supreme Court, has been selected to chair the arbitration proceedings, according to sources.

The London market reinsurers are represented by law firm CMS, which is thought to have appointed as arbitrator Colin Edelman KC.

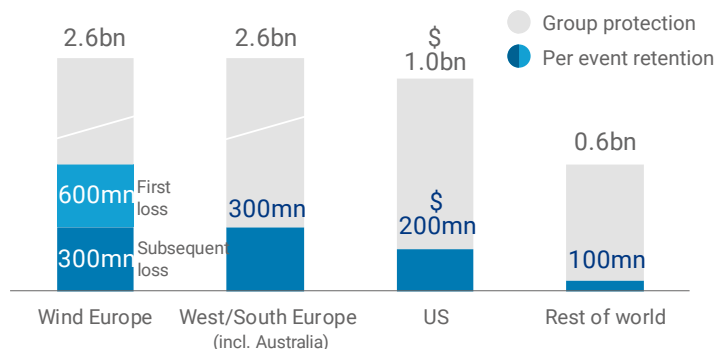
On the other side of the dispute, Allianz is being advised by Holman Fenwick Willan, which has a global (re)insurance practice led by Christopher Foster, and also by its internal head of group complex claims, Andreas Stahl. Stahl – formerly general counsel at Hannover Re – is a German qualified lawyer with over 15 years of London market experience in (re)insurance claims, coverage and dispute resolution.

The outcome of this arbitration will be keenly watched because of the potential bearing it may have on other Covid BI reinsurance disputes which remain unsettled.

Allianz disclosed a €1.3bn hit from Covid-related losses at the full-year 2020, largely stemming from a negative impact of €1.1bn in its P&C unit, with the majority of reserves for incurred but not reported claims.

2021 nat cat protection (natural perils)

Group retentions(simplified, €mn, if not stated otherwise)

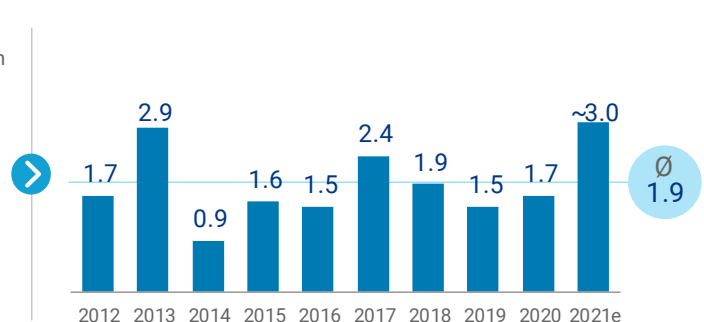


+ Aggregate cover of €0.3bn xs €1.3bn

Source: Allianz

Track record

Group NatCat impact (in % of NPE)





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Coalition in talks to launch new cyber reinsurance MGA

Cyber insurtech Coalition is in talks to secure capacity for a new cyber reinsurance MGA to write unaffiliated, third-party treaty business, in the Joshua Motta-led firm's latest prominent step to establish a diversified portfolio, *The Insurer* can reveal.

Sources suggest the new vehicle would look to write the full spectrum of cyber reinsurance products – including quota share, excess of loss and aggregate stop loss – for a range of clients that would span local, regional and global carriers.

The move follows the roll-out of Coalition's open-source cyber risk modelling tool in February 2022.

The model simulates how a singular cyber risk event can trigger a chain reaction resulting in substantial economic losses, and includes an illustration of the potential for a nearly \$30bn insured aggregated cyber loss event.

Coalition collaborated with academia on the systemic risk modelling tool, which the firm's head of insurance Shawn Ram alluded to in a recent interview with *The Insurer*.

"We think there's a misunderstanding around systemic risk and cyber, which has a significant impact on reinsurance, on capacity, on pricing," Ram told this publication last month.

"And so I think that was a pretty meaningful step that we took in February," he said, describing the modelling tool, as well as Coalition's ambitions to be a thought leader in the cyber segment.

In a sector where (re)insurance appetite has tightened, the move by Coalition is likely to be welcomed by cedants as a new source of capacity.

With threat activity approaching all-time highs following a recent

resurgence, many market participants are predicting a rehardening of cyber market conditions, which is expected to become much more tangible as upcoming cyber treaty renewals play out.

Coalition recruited Swiss Re's former global head of cyber John Coletti in May, and it is understood that the executive has been intimately involved in getting the new cyber reinsurance MGA off the ground.

The move by Coalition to launch a reinsurance MGA would mark the firm's first foray into writing cyber on a portfolio basis, expanding beyond

make the point that there is room for more cyber reinsurers to come into the market, in addition to managing third-party capital through sidecars.

"Everything is on the table,"

Motta told *The Insurer* last year.

"We already are starting to take risk, and so we are no longer just another cyber MGA – and that's been the case for a long while."

Similar to existing major (re)insurance industry players that currently write both insurance and reinsurance – most notably at Bermuda-based firms like Everest, Arch, Axis, Vantage, Convex and

Axa XL, among others – Coalition's reinsurance operations are expected to be independently staffed and operate with a 'Chinese wall' in place.

In addition to writing business through capacity partnerships as an MGA, the company pivoted to a full-stack model when it launched A-rated Coalition Insurance Company earlier this year, a move it described as "a major milestone" and said was a "validation" of its past success.

Last year Coalition launched Bermuda-based reinsurer Ferian Re in conjunction with

BDT Capital Partners, a vehicle that assumes some Coalition business. The insurtech also struck a multi-year capacity deal with Allianz covering programs in the US and the UK.

In late 2021 it launched a captive as an additional source of capacity, and has capacity deals in place with Vantage, Arch, Ascot, Fortegra, Swiss Re Corporate Solutions and Zurich.

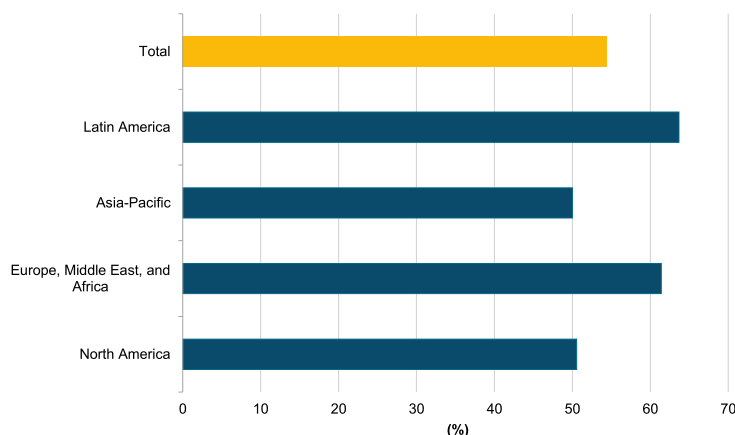
The company announced last July it had raised \$250mn in a Series C funding round that valued the firm at \$5bn.



Joshua Motta

Primary insurers utilise a significant amount of reinsurance capacity

Reinsurance utilization: primary cyber insurance segment (2022)



Data is based on our cyber insurance survey for global multiline insurers and global reinsurance groups.
Source: S&P Global Ratings.
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its retail-oriented roots, and would mark the latest step in its innovative approach to the cyber business.

Coalition's co-founder and CEO Motta had previously signalled his firm's ambitions to play a role in reinsurance in an interview with *The Insurer* a year ago, where he spoke admiringly about RenaissanceRe's history in the catastrophe reinsurance market.

Motta noted that RenRe was launched to better leverage technology in modelling cat risk to



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Morocco earthquake set to trigger XoL payouts on EV CAT nat cat pool



Excess-of-loss reinsurance protection for Morocco's EV CAT natural catastrophe pool is set to be triggered by the magnitude 6.8 earthquake which hit the country late on Friday, *The Insurer* understands.

The pool, which came into force in January 2020 and was established by the Moroccan state to improve resilience in the aftermath of a catastrophic event, transfers risks from the government to the private reinsurance market on an excess-of-loss basis.

Premiums are collected by local insurers via a tariff on all insurance policies exposed, with local carriers retaining a small portion of the exposure on a proportional basis.

The tariff is ceded to the EV CAT natural catastrophe pool, which is

managed by domestic (re)insurers La Cat and Société Centrale de Réassurance.

The maximum available capital for payouts has moved from \$100mn to up to \$300mn since launch. Gallagher Re is the lead broker on the placement alongside Guy Carpenter.

In the event of the Moroccan government declaring a natural catastrophe, the reinsurance protection is triggered if claims breach the excess-of-loss protection.

Premiums collected by the scheme are held to provide a further buffer should a catastrophe exceed the excess-of-loss limit.

Morocco also benefits from a solidarity fund for catastrophic events (FSEC), a public funding mechanism that aims to provide coverage to the uninsured and most vulnerable households by charging a levy on premiums.

The fund launched in 2019 with support from the World Bank's \$275mn disaster risk management development policy loan.

Rescuers are continuing to attempt to reach survivors today, with more than

2,000 people already confirmed dead.

The earthquake shook Morocco's High Atlas mountain range shortly after 11.00 pm local time on Friday at the "relatively shallow depth" of 18.5 km (11.4 miles), according to the United States Geological Survey, with the epicentre located about 72 km southwest of Marrakech.

The quake is the strongest to impact the region for more than a century, but only a small portion of the damage is expected to be insured.

Plenum Investments said there is currently no coverage in place via cat bonds for earthquakes in Morocco, but added that they would be "an effective instrument in the event of natural disasters to quickly finance reconstruction and aid".

Speaking at a press briefing at the annual industry *Rendez-Vous* in Monte Carlo, Fitch Ratings said it was unlikely that the earthquake would be a major event for the (re)insurance industry.

Robert Mazzuoli, director of Fitch Ratings' EMEA insurance group, noted that it remained "very early days" in terms of providing an accurate loss picture.

Climate activists target reinsurers at Monte Carlo *Rendez-Vous*



Climate activists have disrupted the annual reinsurance meeting in Monte Carlo, urging the sector to stop (re)insuring deforestation and oil exploration in the Democratic Republic of the Congo (DRC).

Protesters from Greenpeace, Insure Our Future and Urgewald blocked the entrance to the Fairmont Hotel in Monte Carlo this morning, in the latest action calling on the sector to stop underwriting coal, oil and gas production and instead support the transition to renewable energy.

Delegates arriving at the venue this morning were confronted with a small number of protesters holding banners reading "Insure our future not fossil fuels", and "Don't insure rainforest destruction".

Greenpeace last week published a

report which highlighted that oil fields in the DRC are becoming "uninsurable" as reinsurers including Munich Re, Hannover Re, Swiss Re and Scor have withdrawn their reinsurance capacity.

"If leading insurance and reinsurance companies follow their commitments and their general ESG policies, oil companies will struggle to find coverage for their environmentally and socially destructive business plans, or it will be significantly more expensive," the climate groups said in a joint statement.



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Henchoz warns society is “in denial about price of risk” as he calls for further rate increases in 2024



Hannover Re has forecast further price increases at the upcoming 1.1 renewals as it warned the trend of increased loss payouts will likely be sustained.

In a media briefing at the Monte Carlo *Rendez-Vous*, CEO Jean-Jacques Henchoz said the improvements achieved in both pricing and conditions during this year's renewals were “not sufficient in view of the still challenging risk situation”.

Henchoz told journalists that society at large was “in denial about the price

of risk”. “The reality of today's world is that the price of risk is increasing and the issue is society generally needs to come to terms with that,” he said.

“Adequate pricing is a prerequisite for us to offer the best possible reinsurance capacity,” Henchoz said.

“As we want to grow with our clients and help close protection gaps, we will also put an emphasis on innovation in order to allow our clients to transfer risks both through traditional reinsurance and tailored solutions.”

Alongside rising costs from large losses, the reinsurer also cited geopolitical uncertainties and sustained high rates of inflation as drivers of the need for further improvements in pricing and conditions.

Despite these challenges, Henchoz provided a positive outlook for the year ahead.

“I'm quite optimistic about the outlook

for 2024 and beyond. We are in a situation where we have the necessary capital to use and I see a growth opportunity for us in many parts of the world in many different lines of business,” continued Hannover Re's CEO.

“But it needs to be stated that this cannot be at all costs, it needs to be done in an underwriting spirit both in primary and in reinsurance. If these conditions are met, I'm very confident the market will grow.”

At the upcoming 1.1 treaty renewal, Hannover Re has predicted upward pricing pressure for several classes in Europe, including German motor and London market covers for terrorism and political risks.

Hannover Re also said it anticipates demand for natural catastrophe reinsurance to increase across all major regions at upcoming renewals.

Léger: Reinsurers can alleviate insurability challenge through data and accumulation control



Scor CEO Thierry Léger has called on the reinsurance industry to “accept the challenge of insurability” as the interconnected risk landscape exacerbates the protection gap across nat cat business, calling exclusions “a last resort”.

Speaking at a PwC executive briefing at the *Rendez-Vous* in Monte Carlo, Léger underlined the scale of the insurability challenge in the current risk environment.

“Across the world and across lines of business, there is a protection gap. And

in today's world, it doesn't get better,” he said.

“I think we're really challenged at this point. The hits are coming from left and right. I do believe that in the next five to 10 years, we will turn some of it into opportunity, but where we stand today with all the disruption going on around us, volatility is massively increased.”

Léger added: “That's the world we're in – it creates new correlations that didn't exist before. For reinsurers, new correlations are very dangerous, and these new accumulation scenarios are always things we have to watch very closely.”

For example, the impact of climate change on the frequency and severity of extreme weather events has seen the accumulation potential of secondary perils increase, particularly in the first half of 2023 as the US and Europe saw severe thunderstorms, flooding and

wildfires. This is exacerbating existing pressure on balance sheets and the reduction in available capacity that has been seen since 2017, with nat cat lines experiencing above-average losses from large events and triggering hardening market conditions.

However, Léger added that underwriting exclusions are not the most appropriate response for the industry in looking to deal with insurability challenges.

“Of course we can add exclusions, but ultimately that's not the solution. Exclusions should be a last resort,” he said.

“Sometimes it's transitory, you need exclusions at the beginning until you've established a model, but ultimately it cannot be that our industry is adding exclusions and having less relevance to the companies.”



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Convex Re grows to \$1.6bn+ GWP as market behaves in “rational way”

Convex Group estimates its reinsurance arm has grown to \$1.6bn+ in 2023, and the London-Bermuda specialty carrier anticipates further growth into 2024 in both its specialty and reinsurance arms.

Speaking at the annual industry conclave in Monte Carlo, group CEO Paul Brand confirmed reinsurance now contributes “around” 40 percent of its global portfolio which is on track to grow from \$3bn in 2022 to \$4bn this year.

Brand, who succeeded Stephen Catlin in the role in June last year after serving as deputy CEO, told *The Insurer* that he expects further increases in property cat rates will be required after another heavy loss year and with an uncertain hurricane season playing out across the Atlantic.

He added that the firm expects to further increase its property reinsurance at 1.1.

“Convex has a reasonably strong cat appetite. We’re not one of the markets that has pulled back,” Brand explained.

“We believe pricing is reacting in a rational way and over time, we believe that we’ll make decent returns on that sector, particularly when we consider that we are able to support all the lines a reinsured brings to us.”

He added: “We would anticipate that we’re going to see further rate increases at 1.1 and these will generally be across all lines of reinsurance. It is very positive.”

But he noted the hard market does not encompass all lines and, in particular, he pointed to primary D&O rates as a concern.



Talking points

- Brand: hard market will stick beyond 2024
- Convex now writing \$1.5bn+ in reinsurance GWP
- \$4bn 2023 group GWP target “remains achievable”
- Christophe Chandler promoted to group deputy CUO, reinsurance
- Paul Simons named CEO of Bermuda operations

Aon’s public D&O index recorded its fifth quarterly fall in H2 2023, suggesting pricing competition was fierce despite macro-economic concerns. Asked for reasons, he responded:

“There’s a lot of fear of missing out. People saw an enormous spike in rates [in 2019 to 21] and wanted to get in and be a part of it.”

But he added that there may be structural reasons as well: “The market isn’t really coinsurance in the way that a lot of others are. They tend to have small layers that are 100 percent, or close to 100 percent, by a couple of the markets. I do feel that does create leverage, because there’s not a huge amount of visibility in terms.”

Returning to reinsurance, Brand predicted firmer pricing conditions would remain for some time.

“The hard market will continue until such time as people get aggregate profits, and... they’re actually making very high returns to reward investors for what’s been a very difficult set of results for numerous years,” he said.

“We seem some way away from that

kind of landscape, and that’s before questions around claims inflation, tort inflation and... cat losses are addressed.”

Convex has enjoyed rapid growth since its well-timed launch in 2019 under the leadership of Catlin and Brand, a partnership which oversaw the build-out of Catlin Group prior to its \$4bn+ acquisition by XL in 2015.

The private equity owned carrier generated a 98 percent combined ratio and just over \$3.03bn GWP in 2022 in only its third year of underwriting.

“As we look at the half-year point of 2023, we haven’t recorded any major events, and that’s obviously helped us generate a better loss ratio, a better combined ratio – we’re inside of that 98 percent and our broad top line projection of the year of \$4bn. That looks like it’s more than achievable,” Brand continued.

“If you compare the proposition for 2023 against where we started at in 2022, clearly we’re seeing a number of positive things: there’s greater price increases on reinsurance side, which are well ahead of plan, and we’re seeing great improvement in pricing on the insurance side, which [is] broadly well ahead of what was anticipated.

“Convex is able to grow significantly again, and our expenses are growing at a fraction of that.”

Brand spoke to *The Insurer* after Convex last week announced that Paul Simons will become Bermuda CEO with Christophe Chandler named as group deputy CUO, reinsurance with both reporting to Matt Paskin, group CUO, reinsurance.

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Insurer TV Panel: Non-cat ILS has potential to be several billion dollar opportunity



Increasing investor confidence around insurance risks could drive interest in non-cat ILS and help create a multi-billion dollar opportunity, according to Howden Tiger's Philipp Kusche.

Kusche, who serves as Howden Tiger's global head of ILS and capital solutions, was speaking to *The Insurer TV* as part of a Casino Square panel discussion at the *Rendez-Vous*.

"As investor interest becomes more familiar with the insurance industry, it is not only focused on property cat, which is the most developed risk category, but also in other lines. There's certainly investor interest across the spectrum," he said.

"As investors have learned more about the insurance industry over the last five years, there's enough knowledge now to also dive into some of these other classes."

Kusche said investors considering longer-tail risk will often have different objectives to those looking at property cat. For example, a cat bond investor may be more focused on liquidity and long correlation.

When pressed on the potential for scale of the non-cat ILS market, Kusche added: "Several billion is probably the best estimate. Certainly in order for this market to grow, the longer-tail, non-cat lines have to be in focus, otherwise it's going to be hard for the market to grow substantially in the next few years."

Stephen Velotti, CEO and chief investment officer at Pillar Capital Management, added that other lines of business present potential issues

in terms of valuation. For example, he outlined that a cyber or casualty event may be ongoing for an extended period of time without detection.

"When people want to leave, how do you strike a value so that they can exit the fund? It's a much more complicated structure than property cat," Velotti added.

"Who pays for that? Is it the investor that was in the fund five years ago, or an investor in the fund today? With



Given that we're seeing an ongoing supply and demand imbalance, we are seeing more sponsors explore the cat bond market, and the cat bond product is a true complement to the traditional reinsurance placement. That's something which really fuelled the cat bond market issuance from existing and also new sponsors



all those other lines of business, the valuation is even more opaque, and you definitely need somebody else to come in and take a look at that."

Cat bond market sees record issuance in H1

Following a record-breaking first half for cat bond issuance, surpassing the \$10bn mark, Kusche noted that this surge had been driven by both the investor and sponsor side.

"Given that we're seeing an ongoing supply and demand imbalance, we are seeing more sponsors explore the

cat bond market, and the cat bond product is a true complement to the traditional reinsurance placement. That's something which really fuelled the cat bond market issuance from existing and also new sponsors," he explained.

With the issue of trapped capital mitigated "to some extent", owing in part to the more prevalent use of fronting, Kusche remained optimistic that the growth momentum in the cat bond market will continue.

"From our side, the trends we have seen over the last six months of demand-supply imbalance is something which puts cat bonds and other ILS products high up on the agenda of many sponsors," he said.

"We're certainly having a lot of ongoing discussions with a lot of our clients to consider at least cat bonds. Not everyone might execute them, but they're certainly becoming part of the regular risk management program many of our clients have in place."

Vesttoo unlikely to mar ILS growth

Discussing whether the recent scandal involving Israeli insurtech Vesttoo and allegedly fraudulent letters of credit will leave a stain on the otherwise thriving ILS market, Kathleen Faries, CEO of Artex Risk Solutions, was optimistic that this would not be the case.

"Clearly we can't let the trust and stability of the industry be tarnished, and I don't think it will be," she told *The Insurer TV*.

"What's interesting about these kinds of events is that we always do learn something from it, we always try to improve. There may be more regulation, and obviously lots of different people in the transaction have to be aligned in order to make sure we ask the right questions before we trade."

Acrisure Re's Hedley: Regional carriers hit hardest by last year's renewal chaos



US regional carriers, from single-state up to super-regional, were hit hardest by the hike in rates at last year's chaotic 1.1 renewals, says Simon Hedley, CEO of Acrisure Re.

While the sector is more orderly compared to this time last year, difficult conversations remain in the minds of some carriers after what was termed a "chaotic" and "difficult" renewal season in 2022.

"Looking at critical property cat, we

went into a renewal season last year with certain expectations on behalf of the reinsurers, and expectations we had to manage carefully on behalf of the cedants," Hedley explained.

"That largely came to pass in terms of a further reset of retentions and terms and conditions, not just price – but I think the most difficult conversations that took place, from a US perspective, were really around the regional companies.

"In many ways they got hit hardest because they were the sort of classic relationship – cedents relying on the long-term relationships they had with core reinsurers, and a number of those reinsurers really just retrenched income in 2023."

Hedley claims the industry must examine how regional carriers ended

up in a position where the impact of a tough renewal season was so severe.

"They got to that place because, in many ways, they were treated very well by those reinsurers for a long period of time, so the reset button was severe," he explained. "It would have been better to have a more gradual transition into where we got to last year."

However, he does not predict that the issues last year will lead to any big changes this year.

"We see expansion of key reinsurers who are fit and able, who have capital, have risk appetite, and those which are still participating but have been holding back more than others. I don't see that kind of dynamic changing dramatically as we go into this."

Verisk's Churney: Depending on your book of business, every peril is primary



Verisk no longer subscribes to the term secondary perils, as it implies that the analytics for those perils are less robust when the firm has been modelling them for more than three decades, Verisk's president of extreme events solutions Bill Churney told *The Insurer TV*.

These perils account for a significant portion of losses incurred so far this year. For example, H1 losses in the US were dominated by claims from severe thunderstorms, which totalled around \$40bn, according to Churney.

And they are not necessarily

unprecedented losses or tail events anymore, he said. "Roughly around 50 percent of global insured losses come from these 'secondary perils', if you add up flooding, severe thunderstorms and wildfires," Churney explained.

"So, certainly it's an area where people need to be using tools and analytics to better understand and manage this risk. It's certainly, from that perspective, very much a primary risk."

It's been widely reported that annual catastrophe losses of \$100bn+ are the new normal. Verisk's latest research, detailed in its forthcoming 2023 Global Modelled Catastrophe Losses Report, suggests the industry should expect average annual losses of \$133bn.

The new figures represent an increase of around 7 percent on the 2022 estimate of \$124bn, which itself was a 16 percent jump over the \$106bn annual average loss published in 2021.

Churney told *The Insurer TV* that the spike is being driven by several factors, including inflation and an increase in the number and value of risks being built in the path of severe events.

"We keep building structures in harm's way. That's the number one driver. Climate change is certainly there as sort of another factor, but exposure growth certainly dwarfs that," said Churney.

As a result of rising losses, Churney said Verisk has seen increased demand for models in all aspects of the insurance and reinsurance process. Whereas initially the models were used for portfolio management and underwriting, now he said they're deeply embedded into workflows.

"People are running the models before they're binding a risk, understanding the impact a new risk might have on the overall portfolio," said Churney.

Persistent global volatility amid trend toward increased reinsurance capitalisation

Guy Carpenter's Jay Dhru and Richard Hewitt examine how macroeconomic trends are impacting reinsurance capital

Global headline inflation levels are falling, but remain above central bank targets and pre-pandemic levels. With inflationary drivers persisting, in particular catastrophe losses, geopolitical uncertainty, supply chain issues and tight labour markets, the outlook for US inflation, for example, is trending towards staying marginally above targets – by ~2 percent – over the longer term.

Inflation directly impacts (re)insurance pricing, reserving, costs, current-year underwriting margins and asset values, increasing earnings volatility and reducing capital. It is critical for companies to integrate macroeconomic and financial market forecasting and scenarios into decision making, and to adjust pricing for inflation based on robust data and modelling.

In times of unexpected inflation, reserves also require adjustment, with consideration of the economic and social inflation assumptions.

Managing slowing economic growth

The International Monetary Fund predicts global economic growth of 3 percent per annum for 2023 and 2024, below the 2000 to 2019 annual average of 3.8 percent.

Signs of stabilisation in the economy indicate that recession is now less likely, but as long as inflation remains above target, monetary tightening is likely to continue to increase the cost of borrowing and weigh on economic growth.

A slowing economy may limit insurer growth potential as premium volume growth reduces and social inflation effects may spur adverse claims trends.

Managing ongoing financial market stress

Equity markets have generally rebounded in the last year. In contrast, although bond yields are showing signs of stabilising, they remain in challenging territory. Volatility in the US Treasury bond market (based on the MOVE index) remains elevated and above pre-pandemic levels.

The financial markets are still adjusting to falling, but stubbornly above-target inflation, slower economic growth outlooks and materially higher borrowing

costs. There is still a heightened risk of financial market stress and volatility.

Shifting bond yields significantly impact (re)insurers' balance sheets and solvency, necessitating the repricing of financial risks. Insurers can mitigate the impact by reassessing and rebalancing their investment portfolios to reflect changes in their asset-liability risk and return profiles, as well as liquidity buffers.

Notably, a movement to more liquid assets may help insurers to fund losses that may manifest due to higher retentions, and for increasing investment in investment-grade bonds, which also reduces volatility.

Disciplined mid-year renewal, but capacity is rebounding

At mid-year 2023, Guy Carpenter and AM Best estimated that \$4bn of new reinsurance capital was raised, largely from existing players. Incumbent reinsurers appear well-capitalised, and capital deployment remains disciplined.

We also observed higher insurer retentions, an increase in the use of captives and continued restrictive terms and conditions. Insurers may mitigate the impact of the challenging risk-transfer market with risk-adjusted pricing and by rebalancing the underwriting portfolio away from tail risks and underperforming accounts.

Reinsurance capital exists to support clients. In addition to the new capital raised, the future estimated returns on equity for reinsurers tracked in the Guy Carpenter Reinsurance Composite are expected to be materially above the cost of equity.

We estimate that up to \$50bn could be added to the composite's total equity by year-end 2025 if these returns materialise. Add to this the positive development of ILS, which saw a record \$9.3bn of issued risk capital in the 144A catastrophe bond market in the first half 2023, and the implication overall is for a sizeable amount of risk capital for deployment to support insurers' growth and volatility management.

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Jay Dhru is global head of business intelligence at Guy Carpenter. Richard Hewitt is head of business intelligence, EMEA at Guy Carpenter





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Earnings perils: Redefining the risks that matter

Moody's RMS' Rob Stevenson asks whether it is time to drop the 'secondary' label for perils that are causing increasing losses for insurers

For good reason, the insurance industry has historically focused on what it regards as primary perils, namely tropical cyclones and earthquakes. Catastrophic events such as hurricanes Andrew, Katrina and Ian and the Tohoku earthquake have generated significant market losses and even threatened some insurers' survival.

But the cumulative effect of small to mid-sized loss events, or losses from perils that follow on as a secondary effect of a primary peril – such as flooding, wildfires, tornadoes, hailstorms and tsunamis – can lead to increasing and alarming levels of loss for many (re)insurers.

According to a Gallagher Re report, during 2022, “secondary perils were again the most expensive on an economic basis and exceeded those on the insured loss side”.

The frequency of secondary peril events typically outpaces that of primary perils. They are often more unpredictable and localised, and also vulnerable to both climate change and external economic factors such as increases in property exposure, inflation and supply chain issues.

Whereas primary perils typically produce industry-wide losses impacting large swathes of the market, for secondary perils, any uptick in severe weather events and an increased volume and magnitude of claims can chew away at earnings, with C-suite executives asking why earnings performance lags their peers.

Small, frequent secondary peril events can cause a year-over-year erosion of earnings – contributing

to earnings risk which is inherently tied to loss volatility. So, is it time to drop this ‘secondary’ label and reflect the true scope of their potential impact – as earnings perils?

The volatility of (re)insurance earnings can be examined at a portfolio level and is often measured as a 1-in-10-year annual exceedance probability normalised to the premium.

Measuring earnings perils poses a challenge that requires the use of risk models with a high level of detail, the ability to aggregate and measure correlation across multiple perils within the same event, and the capability to financially model complex policy terms and outwards reinsurance policies.

These capabilities provide underwriters with a more informed understanding of the frequency and severity of modelled perils.

Growing computing power through the cloud, together with technological advances over recent years, is helping deliver the required level of granularity to more accurately model high-gradient perils like floods, wildfires and severe convective storms, bringing secondary perils into clearer focus.

It is worth noting that the decision to classify a peril as an earnings peril or a primary peril will depend on a (re)insurer's portfolio, given that an insurer's portfolio might have limited earthquake exposure but significant flood exposure.

Regardless, introducing the term ‘earnings perils’ underscores the significance of these risks and their potential impact on the profitability of a (re)insurer.



Rob Stevenson
is senior client
director at
Moody's RMS

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Early Lloyd's 2024 pre-emptions send positive signal of market opportunities

Pre-emption requests to date for the 2024 underwriting year are sending a bullish signal of the growth opportunity at Lloyd's, with early business plan forecasts indicating that several syndicates are targeting double-digit increases to their stamp capacity.

The Insurer has previously revealed details of several syndicates that were early in signalling their intent to grow their stamp capacity in 2024.

Stamp capacity is a metric unique to Lloyd's which measures the maximum amount of premium income, net of acquisition costs, a syndicate can write in an underwriting year.

In a recent commentary, Argenta Private Capital noted that while managing agents remain in the early stages of the business planning process, initial requests for increases are "indicative of a market approaching the most profitable part of the cycle".

"A number of managing agents are planning to increase the capacity of their syndicate by pre-emption for the 2024 year of account. Rate increases have continued in many lines of business, and underwriters anticipate that this will continue, especially in short-tail lines," said Argenta.

"While inflation has moderated a little, especially in the key US economy, it will continue to exert upward pressure on policy limits and hence premiums charged for a while."

With indications that managing agents will

seek to take advantage of hard market conditions, **Hampden Risk Partners** Syndicate 2689 is currently understood to be targeting the largest increase to date with a pre-emption of 44.2 percent.

If approved, this would take the **Asta**-managed syndicate's stamp capacity to £75mn for 2024, from £53mn this year.

Among other third-party-managed syndicates, Asta-managed medical start-up Syndicate 1902 is understood to be targeting an 18 percent stamp increase to £62.2mn for 2024 from £52.7mn in 2023.

Launched by **Medical & Commercial International** as a syndicate-in-a-box, Syndicate 1902 commenced underwriting from 1 January 2022 under a former **QBE** underwriting team led by Philip Trafford.

Also targeting a sizeable double-digit stamp increase is **Managing Agency Partners (MAP)**, with a pre-emption of 36.8 percent for its flagship Syndicate 2791.

The move is expected to take Syndicate 2791's capacity to ~£650mn in 2024. If approved, this would follow another double-digit increase (~19 percent) which saw the syndicate's stamp rise to £475mn at the beginning of this year.

MAP Special Purpose Arrangement 6103 is also targeting a double-digit increase of 26 percent to £96mn from £76mn this year.

Last week Lloyd's largest insurer **Beazley** revised its preliminary pre-emption of 18.6 percent to 9.8 percent for its flagship third-party capital-backed Syndicate 623.

The new proposed increase would take Syndicate 623's stamp capacity to £901.46mn in 2024 from £821mn this year (itself a ~40 percent increase from the prior underwriting year).

Syndicate 623 runs parallel to the larger Syndicate 2623 and is a key holding for individual Names, who are restricted on the syndicates they are able to back, as most Lloyd's carriers now rely solely on corporate capital.

The reduction followed commentary from Beazley CEO Adrian Cox outlining how the firm's new E&S carrier will seek to capitalise on the growth of its North American platform.

Syndicate 623 currently writes 18 percent of the business on Beazley's wholesale platform at Lloyd's, while E&S business is currently written onshore in the US.

With around £1.6bn of business currently written at Lloyd's potentially affected, Beazley has agreed a compensation package for Syndicate 623's third-party investors, including a contingent profit uplift based on any profit difference between the new E&S vehicle and the underwriting profits of Syndicate 623.

Bucking the trend

Yet not all early pre-emption requests are targeting double-digit increases, with some opting to seek only modest increases or keep their stamp flat for 2024.

This is understood to partially reflect the strengthening of the sterling, which has alleviated some of the need for syndicates to increase capacity.

Hiscox Syndicate 33 – one of the larger syndicates

at Lloyd's – will keep its stamp flat at £1.7bn for the third consecutive year in 2024.

The carrier last moved the stamp substantially for the 2020 underwriting year, when it increased from £1.4bn to £1.68bn.

Also understood to be remaining flat for 2024 is **SA Meacock** Syndicate 727 at £110.5mn, in the first full underwriting year under new joint active underwriters James Meacock and Matthew Bartlett.

Asta-managed **Beat** Syndicate 4242 is also set to remain flat at £260mn. Last year, the third-party capital syndicate was approved to grow its stamp by 15.6 percent from its 2021 capacity of £225mn.

Another syndicate that is understood to be remaining flat at a capacity basis is **Argenta** 2121 on £800mn.

Posted last week, Lloyd's results for the first half of 2023 saw underwriting profit more than double to £2.5bn from £1.2bn in H1 2022.

Lloyd's grew its reinsurance GWP to £11.2bn during H1, a 21 percent year-on-year increase, with average price rises in excess of 10 percent across the portfolio. GWP across all classes rose 22 percent to £29.3bn.

Of this, growth from existing syndicates accounted for 6.5 percent, while new syndicates represented 2.2 percent, with CEO

John Neal recognising "genuine syndicate start-up activity" in the first six months of the year.

Lloyd's reported an H1 combined ratio of 85.2 percent, with underwriting profit rising to £2.5bn.

Lloyd's Q3 market message is set to be delivered later in the month by chief of markets Patrick Tiernan, and will provide further colour on syndicates' business planning process, as well as a potential indication of market capacity size in 2024...

Syndicates' planned 2024 pre-emptions

Syndicate	Managing agency	2023 capacity (£mn)	Targeted pre-emption (%)	Proposed 2024 capacity (£mn)
33	Hiscox	1700	0	1700
318	Cincinnati Global	299	25.5	375
510	Tokio Marine Kiln	1656	7.5	1780
609	Atrium	872.6	6	925
623	Beazley	821	9.8	901.46
727	Meacock	110.5	0	110.5
1729	Dale	280	25	350
1902	Asta (MCI)	52.7	18	62.2
1969	Apollo	530	15.1	610
2525	Asta (Ive)	115	13	130
2689	Asta (HRP)	52	44.2	75
2791	MAP	475	36.8	650
4242	Asta (Beat)	260	0	260
5886	Blenheim	352	13.6	400
6103	MAP SPA	76	26	96

Source: *The Insurer* intelligence

Stock market yet to recognise Lloyd's opportunity

Argenta's Robert Flach highlights the attractive returns offered by London-listed specialty reinsurers

The global reinsurance market is experiencing a sustained hard market, leading to an expectation that the share prices of London-listed specialty reinsurers would be increasing. In reality, they are quite low.

We understand this level of pricing indicates other factors at work, which are influencing the situation. Only three listed insurers are currently trading at Lloyd's: Hiscox, Beazley and Lancashire. The former two are perhaps better known as Lloyd's insurers, while Lancashire is a Bermudian reinsurer first, but with a sizeable – albeit minority – interest in Lloyd's. As a small subset of the overall reinsurance market, these insurers find it challenging to secure valued and considered time with analysts and investors, as they often get put into the same sector as banks and financial stocks in London.

The deflated share price for listed Lloyd's carriers like these seems puzzling in the midst of this current hard market – a complex situation with no easy explanation.

A review of the market indicates that most syndicates are showing strong business pipelines and profit forecasts, with a doubling of forecast results for the 2021 year for our clients over the past 12 months, and those for 2022 are already looking better than 2021. Despite the third-largest insurance loss ever in Hurricane Ian in 2022, we are expecting a strong return on capital, and we see no reason why this won't continue into 2023 and 2024.

While it may appear that we're 'reporting history' in the 2021 and 2022 years, it provides an important distinction in the way our clients participate in the returns of the market.

Whilst there is clear transparency on the current performance data of Lloyd's syndicates, with all now required to report annual results on a GAAP basis, we continue to receive regular quarterly forecast updates, with final results being confirmed on a three-year basis. This means any profits will be distributed at this time, and not before.

The 2021 account will close at the end of 2023, and

the 2022 account at the end of 2024. Consequently, any new member coming in for the 2024 account will not be exposed to anything that happened in 2023 or earlier, until those events have been properly assessed and reserved for.

Additionally, Lloyd's relies on a process called reinsurance to close (RITC), which takes place after three years for each underwriting year. This means that when you stop underwriting any new risks, you will need to wait a further 24 months to close out all of your positions, before passing all your liabilities on to the successor investors in your syndicates in return for the RITC premium. In practice, successor investors are the same group from one year to the next, although this RITC process gives an exit option for those who no longer want to provide support to the syndicate(s).

In contrast, for incoming investors – after you start underwriting, it will take three years before you are entitled to receive your first hit of underwriting profit, but, importantly, you have that insulation from earlier events. Anyone coming into the market for 2024 will not be exposed to a shortfall in results, for example for losses out of the war in Ukraine. Most syndicates are very conservative when setting RITC premiums, with shortfalls on older years being exceptionally rare.

To our knowledge there have been no reserve shortfalls for our clients this century, and despite the hard market, insurers are still wary of the problems of the past. There is evidence of an increase in claims activity and claims developments for the market generally – most notably in the US and Bermuda, where reserving tends to be at a best estimate level, rather than best estimate plus management margin, which is more commonly used in the UK and by many Lloyd's syndicates. The three UK-listed Lloyd's insurers are well-reserved, holding reserve funds at a margin and at a surplus to best estimate, and therefore it is unsurprising that analysts are quite cautious on both reserving methods – particularly in light of continuing exposures to Covid-19 and the Ukraine conflict.

In summary, we see really attractive returns for our investors, which it seems the stock market is yet to recognise.



Robert Flach
is managing
director of
Argenta
Private Capital
Ltd

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Reinsurance broking start-up Augment goes for the differentiation approach

Recently launched broker Augment is positioning itself as a differentiated alternative to the traditional broker market, offering multi-year, multi-geographic reinsurance and capital solutions focused on assisting clients in achieving their strategic objectives through an Ebitda-driven approach, *The Insurer* can reveal.

The firm's primary focus is to assist clients with strategic solutions, bringing added benefits with proprietary solutions for fronting, legacy, ILS and MGA-related services.

According to sources, the firm – which was officially launched earlier this year – has a healthy pipeline of senior hires as it builds out its multidisciplinary global team. They added that with no geographic or product “barriers” it can focus purely on the client and deliver a holistic view of risk transfer and capital, rather than the more siloed “catch-all” approach that it believes is so often seen in the traditional broker space.

It is also understood to have a pipeline of new clients, and is thought to already be placing in excess of \$1bn of premium into the market as it helps clients optimise their capital structures, affording better efficiencies and positioning for growth opportunities.

Augment has access to significant funding from its private equity sponsor Altamont, with more than \$100mn thought to be available to support the build-out over the coming years.

The intermediary is intentionally targeting clients that are seeking deeper, long-term strategic advisor relationships, avoiding the competitive landscape of transactional broking.

A key mission statement of the business is to “focus on the entire client, not the class of business”.

Augment aims to add value to clients by taking a company-wide view, with multi-class placements

and structures rather than breaking their portfolios into individual classes to be placed – an approach it says reduces negotiating relevance and increases opportunities to maximise value for both the cedant and the counterparty (re)insurer.

Its client focus includes forward-thinking management teams, clients that have multi-class balance sheets, specialty MGAs and program managers, hybrid companies, fronting carriers and insurtechs in what is a rapidly growing segment of the industry.

Typically it is clients in the \$50mn to \$5bn of premium range whose management teams are looking to develop greater operational capital efficiency and growth to increase equity value.

Augment will be led by Andrew Matson as CEO once he completes his contractual obligations to his former employer McGill and Partners later this year, and the business has already been building out its management team of senior reinsurance leaders.

Despite early reports suggesting the firm is London-centric, it is expected that the majority of clients will be sourced from the US. The firm is building a global footprint that includes a major presence in the US, Bermuda, London, Continental Europe and the Cayman Islands.

Bringing capital closer to clients

According to marketing material seen by this publication, the start-up is looking to build a “best-in-class capital solutions business”, that is designed to “bring capital closer to clients, challenge the incumbent broking model [and] think like a carrier”.

The approach combines a globally distributed, multidisciplinary team with worldwide capital access to provide tailored solutions across multiple instruments and geographies. Capital will be sourced from traditional insurers and reinsurers, as well as

captives, hedge funds, ILS funds and other types of alternative capital.

Another central tenet of Augment's business plan is to create larger, more meaningful and often multi-year transactions – building partnerships where reinsurers want the client to win and support them at the portfolio level, rather than by class of business.

Augment is understood to be very conscious that reinsurers face a difficult environment where their returns on equity have contracted substantially over recent years, coupled with ceded margin declines and volatility cession increases.

Building capital-based solutions for clients will provide reinsurers the opportunity to 'partner' with clients rather than solely participating on annual price-driven transactions. Augment is positioning itself as a new distribution stream to reinsurers, providing access to profitable clients structured to one another's mutual benefit.

As previously reported, stablemates that are also backed by Altamont Capital Partners include Mission Underwriters, the MGA incubator platform that provides equity to underwriting teams through its so-called "series" ownership structure, as well as systems, operational support and capacity. Altamont also backs Fleming Re, which provides prospective and retrospective reinsurance and capital management solutions including novations, adverse development covers and loss portfolio transfers.

Fronting solutions are also being developed, and Augment is expected to offer in-house parametric solutions as part of its integrated approach providing clients with a highly tailored product, bringing alternative property cat reinsurance and retro capacity to a marketplace where buying is price-constrained and demand is increasingly at a higher level than supply.

The various solutions are likely to be harnessed by Augment for its clients to release trapped capital to improve return on equity, as well as limiting earnings volatility from legacy development. It is understood that Augment is working on and in the market with several client legacy portfolios.

In partnering with their clients and understanding their business needs, Augment will tailor and adapt solutions to contribute towards driving consistent profits throughout the lifecycle of their business.

Colleague-led business

Augment says it is responding to a market opportunity where significant consolidation in the reinsurance broking landscape means there are a limited number of options for talented and creative industry professionals to work.

The start-up describes itself as a "colleague-led business" that "embraces a meritocratic



Andrew Matson will formally join as CEO later this year once his contractual obligations have been fulfilled

environment". Providing solutions around clients, not classes of business with success metrics of value is a profoundly different way of thinking. The culture of challenging the traditional and making innovative thinking the route of least resistance are key to that meritocratic thinking.

Augment also has a flexible working policy using a 'work from anywhere' approach to encourage collaboration across the globe.

Early hires include former Abacai, Miller and Aon Benfield executive Charlie Love as CFO, Henry Mikrut as head of rating agency advisory – a role he also held at JLT Re, former Inver Re head of global parametric Kurt Cripps, and ex-Aon Benfield UK chairman David Ledger, initially as senior advisor.

Select members of the Altamont ecosystem

Augment Broking (early '23 launch)

- Broker start-up to be led by former Aon and McGill and Partners executive Andrew Matson launched in early 2023
- Aims to drive Ebitda growth for clients through multi-year, multi-geographic reinsurance and capital solutions along with proprietary fronting, legacy, ILS and MGA-related services
- Solutions augmented by harnessing Altamont stablemates including Fleming Re and Mission Underwriters
- Already places over \$1bn of premium into the market; has backing from PE sponsor Altamont with in excess of \$100mn of funding to support build-out

Accelerant (live)

- Jeff Radke led MGU and carrier insurtech with fast-growing US, UK and European platforms
- Provides access to capacity to MGA members as well as other services
- Also selectively invests in MGAs on its platform
- Has several AM Best A- rated carrier subsidiaries as well as Bermudian reinsurance vehicle and sidecar

Fleming Holdings (live)

- Expanded from roots as a legacy player following \$150mn Altamont investment earlier this year
- Now operates as a legacy and live capital solutions platform targeting middle market P&C carriers
- Led by former R&Q executive Eric Haller
- Building out suite of retrospective and prospective capital solutions as well as ILS capabilities

Mission Underwriters (live)

- Turnkey program administrator platform led by Keith Higdon
- Fast-growing platform has signed up 19 so-called series
- Mission is also in talks with a number of carriers to diversify capacity options to add to its Accelerant relationship



Unleashing cyber's growth potential

Howden Tiger's Matthew Webb explains how the firm is aiming to provide a fresh alternative for cyber reinsurance buyers

Cyber risk has been growing rapidly for a number of years, with a number of carriers active in the product line. This growth looks set to continue: we are forecasting global cyber insurance premiums to exceed \$50bn by 2030 – a fourfold increase on the current level.

The reinsurance market will play a crucial role in unleashing the growth potential our clients are seeing in the direct market, which is why we are actively investing in our cyber reinsurance capabilities across broking, data, analytics and threat intelligence.

Facing up to uncertainty

One of the biggest challenges around cyber insurance is the scope of uncertainty. There is no equivalent of a hurricane season in the cyber world, but we can use models to analyse the impact of a systemic event and protect against it.

The best way we can face this uncertainty is by arming ourselves with as much knowledge as possible. This means enhancing data collection to support modelling, which in turn helps us to build effective controls and improve our underwriting. Tackling uncertainty will be key to attracting new capital.

Attracting new capital

The cyber market is currently concentrated, with just five reinsurers providing 65 percent of capacity, and for the most part, only rudimentary products are purchased such as quota share and aggregate excess of loss. This situation will need to change as adoption of cyber policies proliferates, and we are working to develop new solutions.

As the market evolves, we expect to see a reduction in proportional reinsurance purchases, with a shift towards non-proportional reinsurance and an increase in new products such as event excess of loss and catastrophe bonds.

We see ILS playing a larger role. From an investment perspective, introducing securities with cyber triggers could reduce the correlation of a portfolio to broader markets, as it enhances portfolio

diversification.

Although cyber losses may correlate with broader economic losses in extreme scenarios, this correlation is far weaker than for most other fixed-income instruments. This is similar to extreme property cat scenarios so is not new to ILS investors and shouldn't be a deterrent. Cyber ILS could also diversify an investor's broader ILS allocation, lowering their portfolio's internal correlation and consequently increasing its Sharpe ratio.

ILS markets are already active for cyber risks and there is huge scope for them to play a much larger role. The dedicated cyber team at Howden Tiger has pioneered new solutions such as the non-attributional event excess of loss product which compresses the tail, making it attractive to ILS markets due to its shorter duration than other non-proportional options. And, our capital markets team is also closely assessing options in the 144(a) cat bond market for cyber risk.

In such a fast-evolving area of risk the onus is on innovative structures and capital solutions – two areas in which we have a lot of experience.

Getting the message across

Exposure management is critical as it involves helping clients overcome the initial hurdle of understanding downside risk. The number one challenge flagged by our clients is where to set their underwriting tolerance for cyber risk and how to measure it. We have worked with numerous clients to address this challenge, focusing on refining a view of risk, overlaying reality of the limits being written and combining these with their financial strength. We can also give multiple views of risk using the leading model vendors and help clients design realistic disaster scenarios for their portfolios. The expertise we bring here will ensure that our clients can develop a sustainable view of risk on which to profitably grow their portfolio.

It's a very exciting time to be on the broking side as the cyber market faces a capacity conundrum. Although the problem is not acute, as insurers are still finding capacity, at some point this is likely to change. Cyber as a product line will struggle unless it has reinsurance support, so it's critical a wider market is created. We are creating that market.



Matthew Webb
is executive
director of
cyber at
Howden Tiger



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Looking to the future

Everest's Sharry Tibbitt explains how the reinsurer is working with clients to navigate current market conditions

What are your expectations for the upcoming renewals?

Following the market reset and the desperately needed corrections we experienced in 2023, we expect the market will remain hard into 2024, that property rates will continue to rise, and that global demand for quality capacity will continue.

In prior years, you had a Hurricane Andrew or 9/11 terrorism losses and a massive rate increase, and then it would fall right off. Before Hurricane Ian and the real hard market came, everybody was feeling the pain of frequent and severe nat cat losses, so primary insurers were already getting better valuations and putting in appropriate deductibles. A lot of work was happening on rates, and then reinsurers started cutting back or pulling out of property all together. So, all the signs of a hard market were coming before Hurricane Ian.

In 2022, we were a bit ahead of the curve and had started culling our book, whether it was structures we did not like or clients we did not see eye-to-eye with. We did the hard work, and now the reinsurance industry is in a healthy position and needs to stay there. From a global property perspective, heading into 1.1.24 we expect nat cat volatility will sustain elevated property rates.

As we head into 1.1, what do you anticipate the key focus of property discussions will be?

Last year we got through Monte Carlo before Hurricane Ian hit, but this year we have another letter I hurricane, Hurricane Idalia, as well as the recent Maui wildfires leading discussions. While clients are never thrilled about rate increases, a recent loss demonstrates the rate level we need to deploy the capacity they need.

NOAA recently said that the US experiences a

\$1bn economic loss event every 18 days; this never happened in previous years. Yet in the first half of 2023, severe convective storm losses in the US were greater than ever. This was fuelled by a change in climate, as well as population and economic growth. When it comes to underwriting through climate change, we must change the conversation from 'what happened' to looking forward and asking what we will do about it. There will be discussions around how clients are keeping deductibles and valuations healthy and adequate. And then, reinsurers will focus on what it costs to get A+ capacity and why the rate levels are necessary going into 2024 and beyond.



There will be discussions around how clients are keeping deductibles and valuations healthy and adequate



Can you describe Everest's approach to working with partners and cedants?

We put relationships first and, for us, they are all about communication. We have a huge global underwriting team and put a lot of time and effort into communicating with clients.

Throughout this challenging 2023 renewal season, I have received notes from clients saying that our team is standing out from the rest of the market. We were not running away from making tough decisions, even if clients disagreed. And we learned so much from spending time with our partners and understanding their needs. We are doubling down on communication early, and we are often transparent and collaborative in our discussions on rates and contract language.

What are the current challenges and opportunities in property?

For Everest, there is a fantastic opportunity. The chaos of 1.1.23 has died down, and expectations are set as people understand we remain in a hard market. Property is core to our underwriting strategy, and we continue to be targeted and purposeful in our approach to underwriting property globally. Partners can count us to be steady, transparent and offer plenty of capacity as we remain committed to growing with our core partners and cedants.



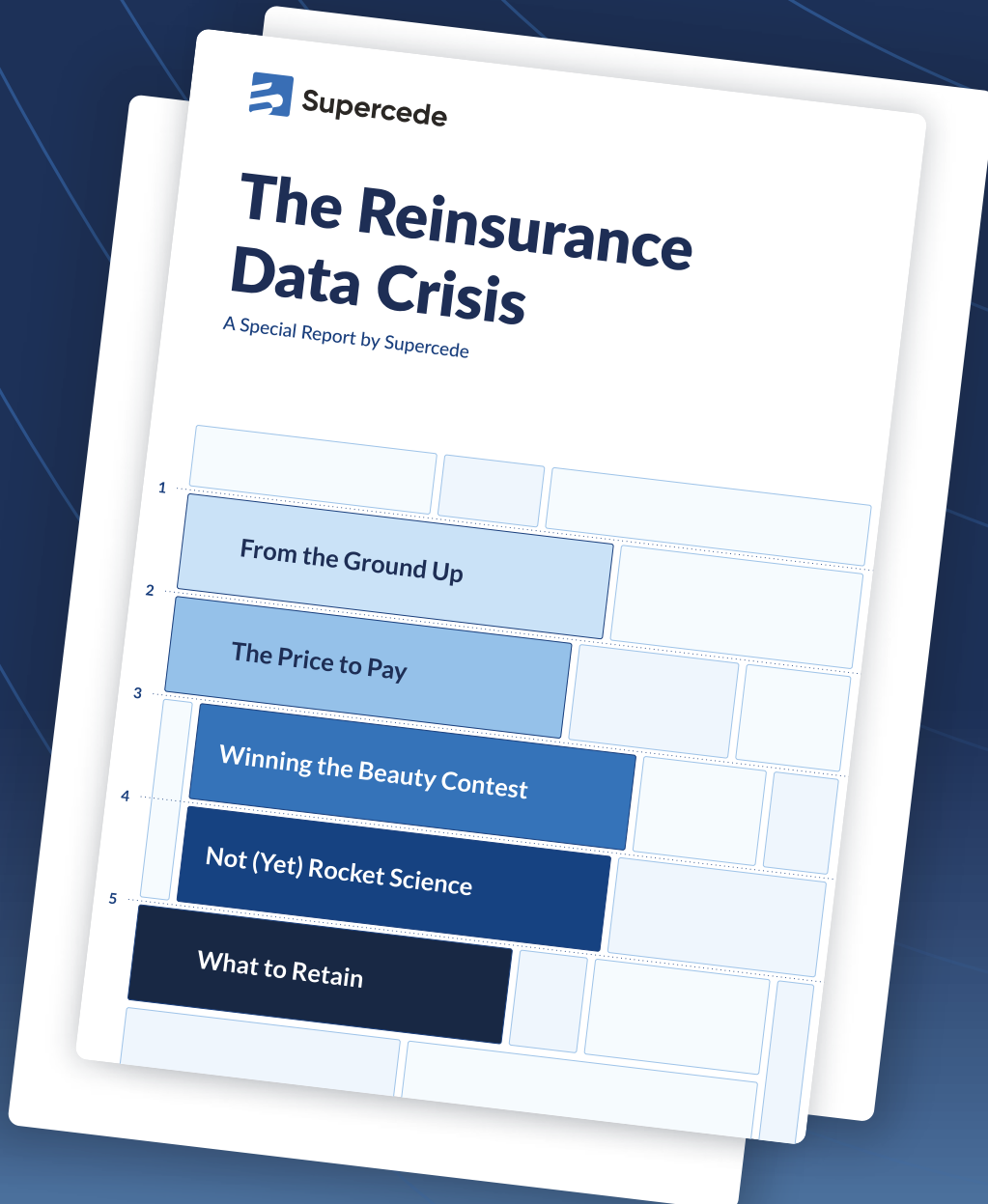
Sharry Tibbitt is global head of property and deputy chief underwriting officer for the reinsurance division at Everest



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Built for times of volatility and complexity

Sherif Zakhary, CEO of Aon's Strategy and Technology Group, talks about its Transformative Trends report, and how it is helping firms adapt to emerging risks and opportunities

The Strategy and Technology Group (STG) recently launched its flagship Transformative Trends report. Are there any topics that will contain specific relevance to a Monte Carlo audience?

Every firm in our industry should be considering how transformative trends, or 'megatrends', will impact their business. One particularly relevant topic is the transformation of how we produce energy – not just the shift towards renewables, but also how we manage the negative impact of our medium-term reliance on fossil fuels, such as through carbon capture mechanisms.

Where are you making ongoing investment?

Financial software and platforms represent a significant investment. For instance, we launched a new pricing platform in June that offers insurers a tool to better optimise pricing. It aims to give them a competitive advantage by enabling better risk selection and analytics.

Our other big investment is in talent. We hire people with high levels of client empathy – they understand clients' pain points, their issues, concerns and opportunities. When you have this empathy with clients, you can build them a strategic plan, help them develop milestones, and identify and be purposeful about where they are going.

You talk about opportunities, but clients surely also need to maintain their business as usual?

We help our clients both with the future and with the now. Future state is important – it helps to unlock capital – but business plans can't be all about innovation, we also need to examine existing business, review portfolio compositions and look at areas which may help with diversification. It is often a case of making the core more robust and then asking what might be creative and accretive to the current mix.

How important is talent given current industry dynamics?

We are advising insurance leaders on how to adapt their talent pool in what is an evolving business environment. They need to attract people who have technical skill, the ability to collaborate, and who can

understand and respond to emergent risks.

So we need talent entering the sector from a wide range of backgrounds – not just those with risk, finance, operations, compliance and HR expertise, but also with climate, cyber and geopolitical experience. We help our clients build this new talent pool, so they can navigate future volatility and maintain operational resilience.

With all these capabilities, does Aon's STG have a specific mission?

The STG was built for times of volatility and complexity, and by taking a fact-based, data-driven approach, we help our clients understand the nature of risk and, as importantly, opportunity. Our mission has always been to be holistic, relevant, and executable, as this allows us to serve clients in a way that adds measurable value to their businesses.

How does this translate to specific projects in the insurance sector?

Our projects are incredibly wide-ranging, but we spend a lot of time helping clients understand opportunities for growth, segmentation and the levers impacting their strategic aspirations, including their true cost of capital – how to quantify and deploy capital, how to price transactions and reserving strategies. We help them to differentiate their portfolios, and we help them to understand the risk and reward of different strategies. We also help them to differentiate themselves in the marketplace to build the most favourable reinsurance relationships.

Is STG competing with other professional services firms, or rather brokers?

Our greatest differentiator is that operationally we span the gamut. With the greatest respect to our competitors, while some can provide thought leadership and analysis, and others can execute transactions, few can match STG in terms of taking strategies from theory to execution. We can do this because we are supported by such a vast range of capabilities and talent, not just in STG, but across Aon's global network. It is another example of how our Aon United approach leads to better business decisions for our clients.

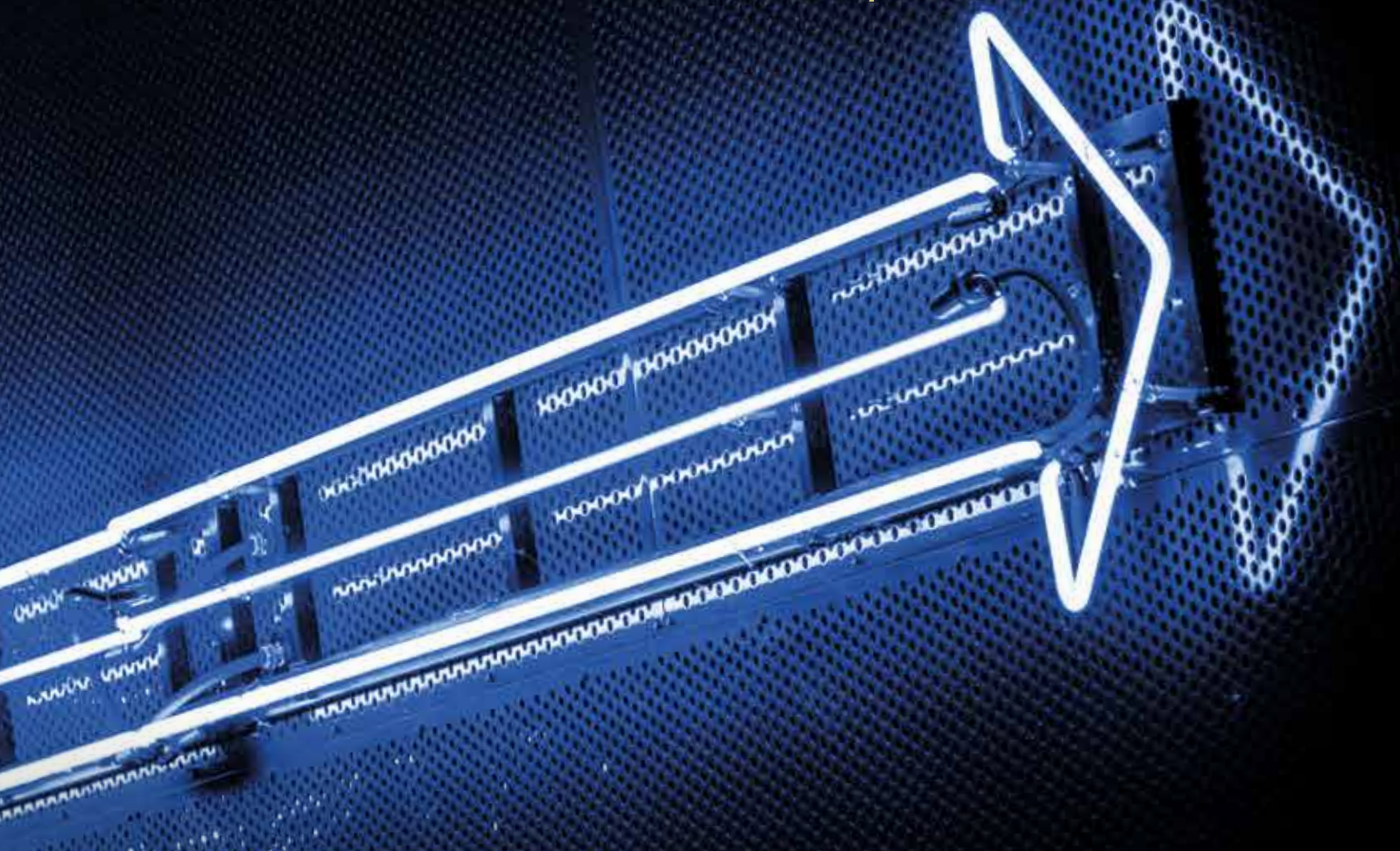


Sherif Zakhary is chief executive of Aon's Strategy and Technology Group



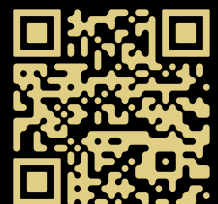
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Facilitating the recovery in Ukraine: Marsh McLennan sets out framework for insurance solutions

One of the most significant industry initiatives to be unveiled this year was Marsh McLennan's proposal for the creation of a multinational public-private partnership centred around a war-risk pool to underpin project financing for Ukraine's recovery and reconstruction.

Unveiled in June, the proposal received G7 support amid recognition that the (re)insurance market cannot provide a solution without some form of "worst-case scenario" government safety net.

Three months on from those discussions, Oliver Wyman's public sector practice partner Crispin Ellison told *The Insurer* that while there was acceptance some form of guarantee is required, international governments have yet to provide it.

"The G7 have all noted our recommendations and I think everyone has accepted that the insurance industry is not going to step in at scale without some form of backstop," Ellison explained.

"No one has come up with an alternative solution, but, perhaps unsurprisingly,

no one at this stage has volunteered to expose their balance sheets."

Marsh McLennan's framework is for a multinational public-private partnership largely based on the existing terrorism insurance pools that operate in several G7 nations.



“ I think the risk is that people will say it's a post-war problem and it may be, but there's 12 months' design work needed to put it in place and that needs to start as soon as possible if it is to be ready when the war ends

Oliver Wyman's public sector practice partner Crispin Ellison

In essence, it proposes that (re)insurers provide pooled coverage, together with their risk mitigation, modelling and claims management services, with government backstops in the event of major loss.

Julian Enoizi, global head of Guy Carpenter's public sector practice, said the backstop remained critical in allowing the industry to insure the reconstruction work required to rebuild Ukraine's infrastructure and shattered economy.

"If you don't have the backstop, you won't have a functioning market," he said.

Enoizi noted a misconception that a backstop is the same as providing financial support.

They are promises of financial support, he clarified,

which never actually materialise because the design and construct of the pooling mechanism should allow a market to function without a need for any transfer of funds.

Until last year, Enoizi was CEO of UK terrorism scheme Pool Re, a position he held for a decade.

“My experience over the last 10 years is that governments will look for an alternative to giving a guarantee. They will rightly spend as long as it takes until they are 100 percent convinced that there is no alternative to a government guarantee,” he said.

Backstop structure

One element to be addressed is the backstop’s structure.

The “gold standard” would see a multilateral agreement between the G7 plus other volunteering countries.

Option two would see a number of separate bilateral/national arrangements where a government underwrites its own investments, an option Ellison felt could complicate investments from multinational sources.

“One is complex and really difficult to agree on all the details to get it working. The other one has big gaps in it,” he said.

Another delaying factor, according to Ellison, is that large-scale investment cannot start until there has been a marked decrease in violence.

However, he warned against delaying what will be a “very complex, very large and quite expensive project”.

“I think the risk is that people will say it’s a post-war problem and it may be, but there’s 12 months’ design work needed to put it in place and that needs to start as soon as possible if it is to be ready when the war ends.”

And the design will be critical for a framework set to facilitate Ukraine’s recovery – estimated by the World Bank at \$411bn – over “one and a half decades”.

“When the war ends I think we can get tens of billions and then a ramp up to larger numbers, perhaps getting at its peak to around \$100bn a year. But I don’t think that’s been mapped out. No one has looked beyond the low number tens of billions,” said Ellison.

Ukraine govt provides “lesson”

Both individuals lauded the Ukrainian government, with Enoizi stating that it had provided “a lesson in how to do public private partnerships”.

Enoizi continued: “It is impressive the level to

which the Ukrainian government has engaged with the insurance industry to seek out solutions to problems which either the government on its own, or the industry on its own, would not be able to fix.

“They have gone out of their way to try and understand the power of our industry and then to work with us to design solutions, frankly, in a way that many more developed economies just still have not done faced with today’s increasing systemic risks.”

One example is the Ukraine data platform, which has seen the Ukrainian government share detailed loss data with Marsh McLennan in a bid to establish an authoritative database that could support a long-term war insurance solution.

“It’s trying to get the differentiation by geography, and by sector, which will allow investors and insurers, for the first time, to make their own relatively accurate assessments of risk,” explained Ellison.



It is impressive the level to which the Ukrainian government has engaged with the insurance industry to seek out solutions to problems which either the government on its own, or the industry on its own, would not be able to fix

Julian Enoizi is CEO of Europe at Guy Carpenter



Ellison said the platform’s prototype was “going well”, with the full platform set to go live in the second half of September.

UDF and grain agreement

The Ukrainian government’s exploration of public-private partnerships goes beyond the data platform.

The Ukraine Development Fund (UDF), a BlackRock- and JP Morgan-advised recovery fund seeking to attract billions of dollars of private investment, is exploring the creation of an insurance arm.

“Ukraine is examining whether when they get donors to contribute to the UDF, they would not just contribute investment, but they might contribute towards some form of insurance pool to insure those investments,” Ellison said.

Secondly, following Russia’s withdrawal from the Black Sea grain treaty, Ukraine’s government is exploring a scheme to insure grain transport.

Ellison outlined: “We are working with the industry and the Ukraine government to put a scheme together over the next few weeks as a public-private partnership. But this time, it’s not a backstop, the Ukraine government would be contributing a first loss fund.”

The cost of a Black Sea war-risk premium, which is typically renewed every seven days and is in addition to annual insurance expenses, is estimated at tens of thousands of dollars per ship.

This scheme is hoped to put the Black Sea marine market in a position where it can operate at an affordable price.

Lockton Re “well ahead” of plan after booking \$200mn+ of revenue in FY23

Lockton Re is “well ahead” of the business plan constructed following its 2019 reboot, with the expansive reinsurance broker having grown revenues by around 35 percent to over \$200mn during its latest financial year as it worked with some of the largest insurers in the industry.

It is now over four years since Tim Gardner, Claude Yoder and Nick Durant left Guy Carpenter as part of a plan to reboot Lockton Re.

In the months following their moves, other leading market figures including former JLT Re executives Keith Harrison and Ross Howard, along with Bob Bisset from Aon, also joined Lockton Re’s ranks.

Talking to *The Insurer* in the lead-up to this year’s *Rendez-Vous* de Septembre, Gardner said Lockton Re’s ability to ramp up so quickly puts the firm comfortably ahead of its targets.

“When you do a 10-year pro forma, you’re trying to figure out the number of offices, the number of people, and the investment in analytics, and by all those metrics, we’re pretty far ahead of where we thought we would be in that original plan,” he said.

When it comes to revenue and profitability, Gardner said Lockton Re is “well ahead of where we’d modelled we would be in that 10-year plan”.

“With the benefit of Lockton as our investor, we really wanted to build globally from the get-go.

“We want to be expansive across product and geography as quickly as we can find the talent. It’s a bigger lift at the beginning, but the foundation that’s built allowed us to scale faster,” the executive said.

As Gardner noted, that ability to scale quickly enabled Lockton Re to add \$100mn of revenue in fewer than three years since the revamp, with the business also boosted by the hardening market. Indeed, Lockton Re recorded over \$200mn of revenue for its 2023 financial year, which closed in April.

Lockton Re’s

success is also proven by its client set, Gardner said, with some of the largest global insurers on its roster.

“If you look at who we work with, and the requests for proposal [RFPs] that we’re not just invited to, but winning, it’s the largest and most sophisticated buyers of reinsurance in the world.

“The most complicated companies have the most options, and they’re the most advanced and probably the most discerning in terms of what they require from their reinsurance broker,” he suggested.

Being invited to those RFPs “is a big check in the box”, Gardner said.

“In most of those RFPs, it’s been the big three brokers and us that have been invited, and we’re coming out on the positive side of many of those.”

Lockton Re has won reinsurance placements coming to the market for the first time, Gardner said. But most of the intermediary’s account wins have come from picking up programs from rivals, often because of what the executive described as “a little bit of disenchantment with existing placements and broker service”.

“[The big three] have grown a ton recently, and I think there’s a general sentiment that service levels, or even staffing and headcount levels, haven’t really kept pace to take on the new business they’ve generated,” said Gardner.

“We’re not in a market where you can just roll over renewals. You’ve got to be more thoughtful, and you’ve got to be better prepared. You’ve got to look at more options, and that takes resources and time,” Gardner said.

Lockton Re now has over 350 staff, and Gardner said the reinsurance broker’s prospects are strong.

“We’re well ahead of our plans and we’re well ahead of our targets, but we also feel like we’re in the early innings of our business.

“We still have a lot to do and we are not oversaturated in any market segment or with any clients. While we’re really proud of the successes we’ve had, we really do see nothing but opportunity ahead.”

“**We’re well ahead of our plans and we’re well ahead of our targets, but we also feel like we’re in the early innings of our business**”
Lockton Re’s Tim Gardner on the company’s growth



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Emerging marine risks bring opportunities for reinsurers

Christopher Gray, global head of marine at Axis Capital, considers how the firm is adapting to the latest trends in the marine reinsurance market

What have been the biggest developments in 2023 for marine reinsurance?

Although the marine reinsurance market continues to feel the effects of the Russia-Ukraine war, inflation stands out as the most impactful factor. Inflation has increased current pricing trends, which, when combined with the increased use of larger vessels and accumulations, has resulted in higher claims severity.

Attracting talent to the industry is also an issue. The marine market used to have a wider talent pool. Now, we must focus on building knowledge from the ground up and look to schools and universities for recruits. This is challenging as many schools do not understand what marine reinsurance is. This provides an opportunity to work with them to increase recognition.

ESG trends are having positive impacts – but also bringing some challenges with new transportation technologies being utilised. The (re)insurance industry is moving in the right direction in terms of ESG goals and transitioning to net zero, but that is also driving larger and more severe claims.

What are the biggest challenges within this space?

Climate change has become one of the biggest challenges for the sector, specifically in two main areas. The first is extreme weather events, particularly secondary perils such as flooding following severe convective storms. We are seeing more cargo, yacht, hull and offshore energy claims resulting from natural catastrophes or extreme hazard events.

The other challenge is the knock-on effect of the shipping industry's effort to transition to net zero. As the industry works to decarbonise, many new technologies are emerging, such as new ship and propulsion designs and new cargos for transport. These new technologies have become emerging

risks, presenting new types of claims that the market needs to understand to cover customers appropriately.

Take electric vehicles, for example. Research shows there is no increased likelihood of a fire, but there have been two major losses recently in the marine market involving car carriers with electric vehicles onboard. This is an area of concern for marine reinsurance underwriters due to the thermal runaway of the lithium-ion batteries when on fire.

There is an altered risk when transporting electric cars as opposed to traditional cars.

When a lithium-ion battery is on fire, it self-heats and can reignite, creating a new risk for underwriters. Essentially, you have to cool the battery to let it burn out in a controlled manner.

Traditionally, fire detection with CO2/foam systems and water would be used, but anything with a lithium-ion battery needs to be treated differently in terms of transportation and fire suppression.

The current fleet of car carriers was not designed with these batteries in mind.

What opportunities do you foresee for growth in marine reinsurance?

These emerging risks offer an opportunity for Axis Re to continue its legacy as a leading marine reinsurance provider. We are committed to better understanding new technologies from the shipping industry's ESG and low-carbon initiatives, ensuring we provide the best quality coverage to mitigate risk.

We are also seeing the industry turn to technology to improve underwriting through exposure data and accumulation. Many believe that AI can complement how we underwrite. At Axis, we recognise that technology should not replace an experienced underwriter, especially when writing complex risks. These risks require another type of AI – Axis Intelligence – provided by our skilled, knowledgeable and experienced underwriting team. They use technology to make informative decisions by reviewing claims data and trends to ensure we provide the best service to our customers and partners.

“
The (re)insurance industry is working on moving in the right direction in terms of ESG goals and transitioning to net zero
”



Christopher Gray, global head of marine at Axis Capital



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Everest eyeing prop cat growth but retro appetite remains restrained

Everest sees opportunities to grow its global property catastrophe portfolio amid what reinsurance head Jim Williamson believes will still be a “very hard” market in 2024 as the factors that drove recent improvements remain, although the company’s appetite for retro business continues to be restrained.

Everest recorded property catastrophe rate rises north of 50 percent at the 1 January 2023 renewals, and although Williamson does not anticipate seeing similar price increases next year, he forecast further hardening.

“Reinsurance property prices need to stay hard, and they need to harden,” Williamson told *The Insurer*.

“The factors that drove the correction that we’ve experienced in 2023 haven’t really changed.

“There’s still a dearth of available capital. It may have gotten better in the last six months, but I think there’s still a challenge of capital availability.

“We’re still in a very heightened risk environment – it seems like everything is on fire right now or getting flooded – and we’ve seen a significant amount of losses year to date.”

As Williamson noted, with much of those losses retained by primary carriers, demand for reinsurance coverage will rise.

Given that Everest Group completed a circa \$1.5bn capital raise during Q2 2023, Williamson said the Bermudian (re)insurer “is in the enviable position of having dry powder” to take advantage of the expected further market improvement.

The hardening will take place around the world, with Williamson noting “there’s a global supply-demand imbalance” for property catastrophe capacity.

As he detailed, the factors fuelling Everest’s belief of the need for further property catastrophe improvements – climate change; building development patterns with more people living in areas prone to disasters; material inflation; and losses – are not just within the US.

“There’s a global need for property rates to go up,”

he said, but conceded “there are going to be nuances by market”.

Some regions started the correction process earlier than others – for example Florida – while others are lagging and need to catch up, like Australia.

“Between the Canadian wildfires, all the storm activity in the US, the huge losses the primary market has been dealt in Hawaii, flooding in Europe – [the losses are] happening everywhere,” said Williamson.

“This is not a blip. Between climate change, building patterns, inflation – it’s a recipe for sustained high loss activity.”

He added: “To me, \$100bn-plus in annual cat losses is the new norm, and that has to get paid for.”

While Williamson believes pricing needs to continue to rise, he feels attachment points and terms and conditions are in a good place.

“Attachment points are kind of in the right spot, and terms and conditions have corrected massively.

“I think that the action now is all about how do you sustain price movement, given inflation, given climate change, given development patterns year after year after year, so that the market can function and be healthy?

“And that’s why our view is we need to continue to push for price increases.”

Limited retro interest

While Everest has capital to deploy, the expectation is that it will be used to support primary carrier clients, rather than through retro.

“I’ve cut our retro participation in half each of the last years,” said Williamson.

“I cut it in half at the beginning of 2022, and cut it in half again at the beginning of 2023.

“I feel pretty good about the book we have now – it’s core client [focused] – and I’m not really looking to expand it. It does drive a lot of outsize volatility.

“We might do a little more, or a little less, but it’s not something we’re going to be moving into in any meaningful way,” Williamson stated.

“I feel pretty good about the [retro] book we have now – it’s core client [focused] – and I’m not really looking to expand it. It does drive a lot of outsize volatility



Jim Williamson is head of the reinsurance division at Everest




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On the front foot

Kathleen Reardon, chief executive of Hiscox Re & ILS, explains how the firm has reacted to harder market conditions and positioned itself for growth

What is the current state of the reinsurance and insurance markets?

The current state of the market is strong. It is the first time in my career that I have seen all reinsurance classes of business experiencing rate improvements simultaneously. How long will it last? The conditions that created this environment remain, such as capital constraints, climate change, geopolitical instability and inflationary pressures. On top of all that, there is a hostile loss environment. In the first half of the year, the industry has been impacted by some record severe convective storms in the US and some devastating losses internationally with the earthquake in Turkey and Cyclone Gabrielle in New Zealand. More recently, we have had the Hawaiian wildfires. All these factors have driven demand for reinsurance.

Where are you finding growth opportunities in the market currently?

When you get the right rate for risk, you can step back and look at your entire portfolio and the products you offer. We have retained our appetite for property catastrophe products, where demand is strong. During the pandemic, we stopped writing mortgage and surety, but we are getting back into those lines as conditions have improved. In specialty lines, our appetite remains strong in areas including marine, energy, aviation, terror and cyber – all classes we have offered before.

We have a clear strategy for each of the regions in our various lines of business and over the past year our goal has been to grow our footprint in property catastrophe. We don't just take a blanket approach, however – each territory has its own unique factors.

“ We have retained our appetite for property catastrophe products where demand is strong ”

What is the current state of the ILS market?

The ILS market is still rebalancing. Some investors are on the sidelines because of several years of heightened loss activity and the impact of macroeconomic conditions on other parts of their portfolios. They are waiting to see whether rate momentum is sustained. Other investors are more opportunistic and ready to invest.

For Hiscox, it is an opportunity to lean into one of our key strengths – our three-pronged capital strategy.

We have offered a quota share strategy for over 15 years and we are in year 10 of our Hiscox ILS Fund strategy.

This year we deployed more net capital and welcomed more quota share partners both at 1.1 and mid-year.

What are your outlook and goals for Hiscox Re & ILS for the rest of 2023 and 2024?

The future is bright for Hiscox Re & ILS, we have very healthy rate conditions across all lines of business and the portfolio is in good health. We entered the hard market early at the end of last year on a strong footing because our team had already addressed the loss trend and taken decisive action to rebalance our portfolio and adjust attachment points.

We were able to deploy incremental capital to grow our exposure, and improved the quality of our book.

And during the first half of 2023 we increased our net written premium by 18% year on year. We want to be a leader and continue to be there for our clients, that is our goal.



Kathleen Reardon, chief executive of Hiscox Re & ILS



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Insurtech's evolution to focus on partnership and enablement

David Kimmel, managing partner and co-founder of Insurance Advisory Partners, explains the latest investment trends in the insurtech space

How has the fundraising environment for insurtech changed in the last couple of years?

While more than \$50bn of capital has been raised for insurtech companies over the past decade, there has been a large fall in funding since 2021. It has clearly become a more challenging fundraising environment – a far cry from the growth-at-all-costs conditions that characterised the sector before 2021.

A fundamental reason why private investment exits from insurtech companies have ground to a halt is that public market valuations have collapsed. The stock prices of Lemonade, Root and Hippo, for example, are around 90 percent lower than two years ago. Some commentators have even said that these companies prove insurtech does not work – but we believe this is a huge overstatement. Rather, markets have demonstrated that the original 'insurtech 1.0' model did not create long-term value. Great technology alone cannot make up for a poorly underwritten, poorly performing book of business.

Growth-stage insurtechs are feeling the pain. Some venture capital firms have thrown in the towel, making it harder to close funding rounds and casting a shadow over the sector.

What went wrong with the 'insurtech 1.0' model?

Valuations fell, in part, because the hypothesis of insurtech disruption has essentially failed. In reality, many insurtechs aggressively chased profits by underwriting difficult risks in relatively unattractive insurance books.

The insurtech 1.0 model was also predicated on the claim that brokers were too expensive, but often these legacy distributors are still relied on for advice. And some insurtechs that initially focused on direct marketing have pivoted to, or added, brokerage-enabled products.

Finally, many following this model believed

incumbents had bloated operating structures and were easy targets. But the truth is, for many of the insurtech 1.0s, expense and loss ratios have been more destructive to operating profitability than their digital leverage could offset.

Ultimately, the prospects remain good for those insurtechs that provide value and serve a true market need. But the idea that they will totally disrupt traditional insurers is no longer a realistic possibility.

Has M&A become more prevalent among insurance companies?

As the insurtech market matures, we will definitely see more M&A activity. Traditional insurance players have been actively looking at insurtechs to access their technology and talent.

There have been some interesting M&A transactions, such as the sale of Bold Penguin to American Family Insurance. However, some other insurtech companies, for which M&A was the most viable or only exit strategy, have shut down after not being able to strike a deal. And there are fewer buyers for businesses in the growth stage that have negative cash flows.

Which insurtech sectors are still attractive to investors?

Technology remains very important in insurance. Some very reputable industry leaders continue to emphasise the value of technology. Insurance is an industry built on data, and the combination of granular data and technology creates interesting opportunities. More recently the focus for insurtechs has been on partnership and enablement, rather than disruption or displacement.

One of the areas we have seen investor interest growing recently is generative AI. We believe cyber is another category with huge growth potential. There are also various kinds of B2B software-as-a-service models, which can deliver efficiency and cost savings to traditional insurers, that remain very attractive to investors.

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Generative AI creates a Promethean point

As the world adopts generative AI and adapts the technology to various business needs, the flame of (artificial) intelligence spreads quickly. As Prometheus discovered, the risks inherent in powerful newfound knowledge can be severe. Trans Re's Otakar G Hubschmann explores some of the risks generated by generative AI

On 22 March 2023, a picture circulated on Twitter. It showed a large plume of dark smoke rising near a building and included the caption "Explosion near #Pentagon". As the tweet circulated the globe gaining speed and eyeballs, the stock market dropped. Later that morning, Arlington Fire Department issued a statement saying, "there is NO explosion or incident taking place at or near the Pentagon". The image had been the product of generative AI.

There are certain points in history when innovation, technology and timing combine in a "Promethean point" of new, transformative knowledge. Like Oppenheimer's Promethean point, knowledge brings great responsibility. We have reached such a point with the emergence and adoption of generative AI.

The use and abuse of the technology both increases and changes the nature of risks that (re) insurers face, and we must recognise and manage them.

The foundational research behind generative AI

was published in 2014 for Generative Adversarial Networks (GANs) and 2017 for Transformers (Goodfellow et al., Vishwani et al.). Since then, increased computing power and improved model architectures have allowed generative AI to accelerate – if we use the number of model parameters as a proxy, large language models have far outpaced Moore's law in the past five years, with no end in sight.

To begin to understand the risks, start with how large language models (LLMs) – GPT, LLaMA etc. – work. As a fire needs kindling, so too does an LLM need fuel.

An LLM ingests the internet for information, breaks it down for the model to read, applies methodologies to allow the model to understand semantic context, and then stitches it all together. The model is then able to predict the next word or series of words in a given sentence. This technology allows for amazing use cases – summarise anything, query anything, learn anything.

While LLMs already provide a great amount of utility, they come with user risks, both from employing the model output as well as from the provenance of the output itself.

Generative AI **hallucinations** look and sound real, but are completely fake model outputs, as a lawyer in New York recently discovered when his cited case precedents were discovered to be entirely fictitious. ChatGPT had invented them all, indistinguishable (at first cursory glance) from

real precedents. LLMs may return incorrect information because of inaccuracies in the training data, or because the model seeks to deliver the most contextually correct answer.

Inaccurate responses may also occur when the model parameter which controls randomness in the model output, called temperature, is dialled up.

Copyright and property infringement is at an early stage. LLMs decompose inputs into something a model can understand, run the data through some more algorithms, and recompose the data at the other end.

At some level, the model has seen the data, even if it does not necessarily know or even understand the data.

Diffusion and GANs models work in a similar way with audio, video and images, and a number of generative AI companies are being sued for training their models on copyrighted information (images from corporate databases, books by well-known authors, songs by popular singers).

In a recent non-AI case which may prove to inform generative AI lawsuits, Andy Warhol's estate was sued over a painting of Prince which borrowed heavily from an earlier photograph by Lynn Goldsmith.

The court ruled against the Warhol estate, stating both Goldsmith and Warhol sought the same fair use case from the picture and painting. A similar argument will be made in the upcoming copyright suits against these generative AI companies. This potential risk may have a glacial effect on the employment of generative AI.

Adversarial risks from generative AI include all manner of improved audio and video deepfakes, jailbreaking LLMs and improved business email compromise attacks.

How much would it cost to buy a deepfaked audio snippet of your CEO frantically asking for a money deposit for a missed payment into their account? The answer is a 10-second recording of



the CEO talking, and a few hundred dollars. In 2019, a UK energy company executive was tricked into transferring almost \$250,000 to a Hungarian bank account based on a deepfaked audio call from 'the boss'. Those funds were quickly transferred to other bank accounts and into the ether.

LLMs will enable and embolden a new wave of phishing attacks. Every business email compromise attack will be written in perfect English. Worm GPT, DarkBert, FraudGPT and other LLMs trained on dark web content will optimise for both frequency and severity of attacks.

There is a type of user command optimisation specific to LLMs called **prompt engineering**. It has the ability to trick an LLM into producing output outside the built-in safety

guardrails.

The ability to ask malevolent questions ("list the components to make a bomb" or "write me Python code for a malware bot") has far-reaching implications.

When we look back for Promethean points, we can clearly see the 'before' and 'after'.

The Gutenberg Press, the Industrial Revolution, and before that the actual adoption and use of fire. To that list, we should now add generative AI, which is being adopted faster than any prior technology.

The vast potential for applications and use cases means risks spill over into all sectors, including (re)insurance.

Generative AI will quickly impact the underwriting of lawyers' E&O, as well as D&O covers for the companies building the models. The adversarial aspects of generative AI will present additional attack vectors in cyber underwriting.

Underwriters, actuaries, claims professionals and support teams must be vigilant as they vet outputs for veracity. They must also stay abreast of new legal precedents regarding the copyright and fair use of the output. Welcome to a new world.

“
The goal of generative AI is to produce new images, video, audio and text that are indistinguishable from the work of humans
”



Otakar G Hubschmann is the head of applied data at TransRe. He can be contacted to discuss any aspect of this paper or the application of AI/machine learning to (re)insurance

A paradigm shift: The reinsurance target operating model of the future

Liberty Mutual Re's Peter Smith examines the evolution of the reinsurance sector

As an asset class, reinsurance has traditionally been perceived positively. Within the last decade, we have seen the value of this risk asset class drop substantially, with broadening terms and scope of coverage, a broader application of reinsurance capital within the market at large and – dare I say it – a lack of discipline. The asset class has moved more towards being an earnings protector, rather than a capital protector. This evolution is not sustainable and at some point, things will have to change.

We believe there needs to be a paradigm shift in conceptualising the reinsurance value proposition.

The reinsurance business model has always seen its goal – its victory condition, if you will – as achieving a net combined ratio of below 100 percent. To date, this was a straightforward process of achieving underwriting profitability through risk selection and suppressing the expense ratio, while maintaining client and broker relationships to ensure a secure income stream for the long term. That age-old formula has endured longer in reinsurance than in comparable financial services.

It has meant that reinsurance was caught in an inertia trap: a tweak here and there, pushing down expense ratios a couple of points, improving risk selection a bit and – hey presto! – profitability.

The times they are a-changin'

The market landscape has now changed entirely, and what secured success in the past will not be sufficient for the future. Change is clearly inevitable to all aspects of the reinsurance business model, and the reinsurance market has been stuck in the valley of indecision as to when, what and how to change, as well as the scale and speed of change required.

Without clear thinking and bold strategic choices, the reinsurance market will find itself facing irrelevance; insurance, retrocession, distribution, traditional capital, even bond financing have moved on.

It is not just market forces and competition that have been driving reform. The frequency and severity of cat events in recent years, hence annual aggregate loss, have increased at an exponential rate. The sheer number of inputs into our loss ratio, and our ability to adequately approximate, have rendered investment in once-unnecessary capabilities indispensable.

Incoming technology and more expansive data-driven decision-making can transform expense ratios and ultimately combined ratios entirely, instead of providing marginal improvements. We are still receiving some bordereaux in PDF format, but we expect new, digitalised risk exchanges to transform the industry in the coming years. The combined ratio is still with us, but the underlying data and associated drivers look more complex than ever.

Value-add or obsolescence

This shift is changing the reinsurance world at pace. As an industry, gradualism is not a luxury we can afford. The way reinsurers stay on the playing field and understand and properly price emerging and new risk is different.

Our peers are responding as well: third-party capital vehicles have popped up everywhere, markets are collaborating on elaborate digital platforms, large reinsurers are building proprietary climate change models. There is a widespread recognition that the reinsurance world of the future looks and feels different; it is now time to spell out how we as an industry remain relevant for the benefit of our clients.

Reinsurance target operating model

A way to think about this change is moving towards a three-dimensional model of reinsurance rather than our current two-dimensional version. There are three components of success in the future, and they must all be supporting and reinforcing each other: a highly effective and efficient operating model that is resilient; a business strategy that identifies where and how we will succeed; and an underwriting strategy of purpose and discipline.

The motto will be to “play smarter not harder” – to do more with less. Technology, including AI, will become the great enabler. Talent will have to be attracted and retained better than in the past. Additional capabilities, including modelling and efficient and rapid risk exchange, will be incorporated.

The market will differentiate itself based on its capability. Innovative, niche players will fulfil emerging needs, while larger institutional reinsurers will create value through scale and additional capabilities.



Peter Smith is executive vice president and managing director at Liberty Mutual Reinsurance



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How are reinsurers leaning into the low-carbon transition?

(Re)insurers have an opportunity to enable the transition to a low-carbon economy through both underwriting and investment decisions. *The Insurer* examines how Europe's major reinsurers are addressing the challenge

Europe's four major reinsurers have all been vocal in the need to transition to a low-carbon economy. Following a turbulent year which has seen the four withdraw from the Net-Zero Insurance Alliance, all have publicly stated they remain committed to net-zero ambitions.

Michèle Lacroix, group head of sustainability at Scor, believes the starting point should be through commitments from reinsurers to reduce emissions from their own activities.

"It starts with being a role model – if we don't have credible targets, we won't be credible. You can't ask others to do something that you don't apply to yourself," Lacroix says.

She adds that Scor's approach has been to identify the most material sustainability-related matters for its activities.

"We cannot do everything – we have to concentrate on what is material for us and where we can be impactful."

Climate focus

"We have the ability to be a voice in the net-zero world, so it makes sense for us to start with climate. Under Scor's theory of change, we select our sustainability priorities depending on where we can

be most powerful," Lacroix continues.

"It's no secret that reinsurers have been hit by the increase in the frequency and magnitude of extreme events. Although we are concerned by the 'outside-in' effects of climate change and biodiversity loss on our business model, we also have a role to play to protect people and the planet," Lacroix explains.

"In an ideal world, we should not have to rebalance the business or the investment portfolios, because decarbonisation should come directly from our clients. Our pathway leading to net zero should be the result of what our clients are doing."

Reinsurers are also facing increasing scrutiny on the role they play in enabling activities of clients and the wider economy.

"In an ideal world, we should not have to rebalance the business or the investment portfolios, because decarbonisation should come directly from our clients. Our pathway leading to net zero should be the result of what our clients are doing," Lacroix says.

Underwriting actions

However, it is widely accepted that some along that pathway may need encouragement. To this end, Europe's big four reinsurers have introduced underwriting restrictions for thermal coal and conventional oil and gas projects to varying degrees.

According to Lacroix, exclusions are a way in which the reinsurance market can send a "very strong signal" as to which activities – whether high-emitting, or with renewable alternatives – may not be insurable in future owing to a lack of capacity.

Capacity instead can be directed to the risks of

tomorrow, an area where reinsurers can foster the transition by transforming their own business model to offer new coverages.

Munich Re Syndicate 457 sent shockwaves through the energy insurance market when it announced it was to cease underwriting traditional oil and gas business with effect from the start of this year.

Munich Re Specialty Group then launched Green Solutions, a portfolio of insurance products and services designed to support the execution of customers' net-zero and sustainability ambitions.

Dominick Hoare, MRSG's chief underwriting officer, explains: "The Green Solutions portfolio aims to enable new sustainable technologies and support our group ambition to help our clients succeed in a low-carbon economy.

"The road to transition will only be successful if we present opportunities and products that serve our clients and partners, who need to mitigate the risks they are facing."

Hoare added: "Insurers can serve as an enabler of the energy transition – which is one of the greatest growth opportunities for our sector for a generation – because it is tied to our responsibility to society.

"We have to be proactive and work with our global stakeholders to understand the challenges they are facing in transition risks, which play into mitigating existing risk exposure."

Swiss Re chief economist Jérôme Jean Haegeli adds that, on the underwriting side, it is key for reinsurers to help ensure that the low-carbon transition is manageable and executable for society.

"It's all good to rally behind the Paris Agreement, but more important than pledges at the end of the day are actions. It's not only a question of leading the transition, but also a question of global cooperation," said Haegeli.

"The value we can provide as an industry to manage the climate transition is giving that risk a price – pricing, disclosing and transferring the risk is all in the same package."

Investments

In addition to the liabilities side of the balance sheet, reinsurers as institutional investors are able to contribute to sustainable financing and climate investment through how and where they select their long-term assets under management.

"There's probably no other industry which has so much information and knowledge when it comes to the risk perspective," said Haegeli.

He noted the importance of considering how the global economic and financial market landscape is developing, and whether it will be fit for purpose for the net-zero economy in 2050.

"In order to close the climate investment gap,

we need capital markets to reallocate money. It is possible, if you look at the increase in sustainable finance over the last few years – however, today sustainable finance is still niche. The market needs to develop further, and insurance has an important role to play in this regard."

Haegeli added that the interest rate environment at this year's *Rendez-Vous* is starkly different from that of last year – or indeed, of any of the event's pre-Covid years.

"There is a reset of the interest rate regime. The impact of this on the cost of capital and profitability of insurance companies has important implications for pricing and combined ratios, as well as how much actual capacity is available to fund and underwrite risk," he explained.

"The era of financial repression has ended, and I do not think we will fall back into the negative interest rate regime any time soon again. Finally, risk again comes at a price, meaning that (re)insurers can improve their profitability and thus strengthen their role as a shock absorber for society."

He added that the current economic and financial environment, in which interest rates and capital are no longer a "free lunch", will better enable companies to make decisions with respect to sustainability, as this type of environment encourages longer-term thinking.

"I define sustainability in the broadest sense – not just climate change, but ESG overall, and how long-term thinking is embedded within a company, an industry, or within society," Haegeli said.

Unique role

Summarising the unique role that reinsurers can play in the transition, Scor's Lacroix recognised that this is due in part to the nature of the business.

"There is a critical role of (re)insurance because we are the ones who know most about climate risk, and how to price it," she explained.

"The more we move forward and the climate evolves and changes, the more we have to adapt to a forward-looking analysis of pricing. Again, that's how pricing can provide signals to the market, and how we can better support the transition of main actors."

Lacroix concluded: "(Re)insurance is a specific actor. Supporting the transition is not only doing good for others, we're also protecting our own business of natural catastrophe in the longer term, which may not be the case for other financial institutions.

"The faster the transition, the lower the risk of damages due to climate change. The insurance industry is the only one dealing with the two topics – that's why we have a specific incentive to succeed in the transition because, it also protects our long-term business."

Brilliance in the basics

MS Reinsurance's Jörg Bruniecki discusses his outlook for the EMEA region amid hard market conditions

Do you think the hard market will remain?

Last year we saw the balance of supply and demand fundamentally change. Capital is now in demand, and it has become a scarce resource again. At the same time, we are confronted with high inflation being a persistent feature of the economic environment. This means people have to buy more cover.

We have also had the surprise factor of secondary perils. For example, in the US we are going into hurricane season and it has already been a record year for catastrophe losses.

As the balance of supply and demand has changed, we will continue in a hard market environment. However, we have seen things become clearer and more orderly in subsequent renewal periods as people come to understand what is happening in the market. And we must remember that in EMEA, despite experiencing the sharpest upturn in pricing last year, this was after exiting a 20-year soft market.

What is MS Reinsurance's growth strategy in EMEA?

We are looking to build broad-based relationships with clients, which give us access to diversified business built around clients' needs. We have 'group clients', which are the most complex, and they tend to buy centrally as part of a consistent strategy for all facets of their business. Then, we look at mature markets where there are companies large enough to build broad relationships and work with using a client segmented approach. And then we have

“
Reinsurance is not rocket science – it is about doing the basics brilliantly

emerging market-esque clients, which are often sub-scale firms that we primarily tackle with a market underwriting approach.

Why do clients choose MS Reinsurance?

Reinsurance is not rocket science – it is about doing the basics brilliantly. We bring it down to three core areas. Firstly, we invest time in understanding our clients. We get to know their buying needs and formulate our value proposition with that in mind. Secondly, we make it easy for clients to deal with us by staying nimble due to our short decision-making processes. And thirdly, we have invested a lot into our IT platform to make it state-of-the-art, helping us offer competitive pricing from a low-cost base. In isolation, each of these virtues would not make a winning concept, but having all three at MS Reinsurance makes us stand out.

What opportunities do you see heading into 2024?

Our winning concept last year was being able to have early conversations with clients and come to firm commitments, from both sides, as to how to take the relationship forward. We've now had another year to make our strategy clearer to clients and, in turn, we have a greater understanding of what they want. It is now, crucially, about execution. If the clock in the life of a reinsurer was 12 hours, from 11 to 12 we would do renewals and the other hours would be about differentiation.



Jörg Bruniecki is chief underwriting officer international at MS Reinsurance

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Embedded insurance is here. Is the industry ready?

EY's David Connolly on the window of opportunity provided by embedded insurance

Embodied insurance represents both a significant growth opportunity and possibly the greatest competitive threat that carriers will see in a generation, and that's true for every line of business.

The embedded revolution is well underway for vehicle and commercial property insurance, with significant EY involvement in several initiatives led by non-insurers, what we call 'insurgents'. Many more products, including those related to pricing climate risk, will soon shift to embedded models. EY research has found that embedded channels will capture nearly one-third of all insurance transactions by 2028.

Traditional insurers, or 'incumbents', can still capitalise on embedded opportunities. But they must act urgently to make the necessary operational and technological changes.

Those that do will be able to launch innovative products at speed, create new revenue streams and lower customer acquisition costs. They will learn to compete with insurgents that have distinct advantages, including strong brands, ample capital, closer proximity to customers and data, and the ability to move faster than incumbents.

Naysayer carriers that believe insurgents will fail because "the insurance business is really hard" will have an unpleasant awakening as they watch their books of business shrink.

Data-driven insurance for connected vehicles: Recognising what's possible with loyal customers, advanced tech and data from connected vehicles, many auto manufacturers are building out their own insurance operations. The goal is to embed protection within tailored experiences that include payments, maintenance and other services. With new data sources, these manufacturers can offer protection pricing based on real-time, in-vehicle assessment of driver readiness, along with turn-by-turn directions that reduce accident risk and on-demand coaching to improve driver performance.



David Connolly
is EY Global
Nexus Leader

Data-driven insurance for commercial property:

Today, insurance pricing for large commercial renters and building owners is based on building and location, business type, number of occupants and claim history. But widely available additional data from sensors and facility systems (e.g., heat, smoke, fire suppression, humidity, water pressure, security badge systems, weather stations, wind speed monitors) enables property managers to bundle insurance with lease agreements. And it won't stop there; large real estate firms have more than enough data to offer workers' compensation, general liability and business coverage.

What can incumbents do to retain – or even grow – market share in the embedded era? Core technologies must be modernised and new platforms adopted to get new products and capabilities to market faster. The EY Nexus platform, with 95 customers today, is helping companies innovate at increased scale and pace, with pre-built components and advanced application programming interfaces for partner integration and streamlined development processes.

Collaboration, design thinking, rapid prototyping and agile ways of working will be hallmarks of embedded insurance leaders. Expertise must be engaged to handle the myriad new data sources and convert them to data-driven insurance pricing. Business partnership strategies must recognise embedded insurance as more than another distribution channel. Ultimately, incumbents must prove they are a better alternative to insurgents going their own way.

In the end, customers will win, with more accurate, transparent and individualised insurance pricing for the assets they value. It is not too late for incumbents to pivot and win in the embedded era. But the window for change will not be open for much longer.



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Life as a public international reinsurer

Hatem Jabsheh, group COO at IGI, explains what life is like for a listed (re)insurer and what impact going public has had on the company

IGI became a listed company in March 2020 – what has the transition been like?

Becoming a public company is never easy, especially on one of the world's most rigorously regulated public exchanges – Nasdaq – where IGI is listed. For IGI, going public in March 2020, when Covid-19 was taking hold of the world, our timing was interesting, to say the least.

There was deliberation on how the transition from private to public company would affect our operations with the much more stringent reporting requirements and stricter regulation. But we were fortunate to have an executive team who worked diligently during those times to ensure the company culture remained unchanged, and that the values and principles that had driven our success thus far remained intact – so the impact on most of our people was minimal.

Ultimately, we have attracted new shareholders because of our strong performance track record, underpinned by how we operate, our philosophy and our embedded culture.

What challenges and advantages has becoming a public company introduced?

It is not just the significantly increased reporting and public company requirements that present considerable operational challenges; compliance and regulation are tough for all companies in this industry. But if you look at trends in the jurisdictions in which we operate, such as the UK, Europe and Bermuda, regulation is becoming much stricter. One must have the right expertise in-house and an efficient operation with a holistic approach to the business.

But on the positive side, being a public company, particularly one listed in the US, gives us much greater financial flexibility and easier access to capital markets as and when we may need capital. We are

now much more visible in our industry. Also, the level of transparency required under the US securities regulations provides our investors and stakeholders with a greater level of comfort and reassurance.

IGI has grown from a regional Middle Eastern company into a successful international (re)insurer. How has the company evolved?

Since our inception in 2001, our evolution has been largely organic. We started the company in Jordan with the initial objective of being the local and regional alternative to the international players in the Middle East, and within our specialist classes of business.

We also knew at the time that in order to realise our international aspirations, an operation in London was vital due to its huge importance as a major international insurance hub. In 2011, we launched in London, giving us access to a significantly larger pool of international business through our very talented teams.

We now have eight offices worldwide, enabling us to have boots on the ground in all our major geographical areas of interest. We have built a solid 20-plus year track record of very healthy results, consistently outperforming most of our peers in the industry across most financial metrics. The Middle East now constitutes only a fraction of our business; we have grown into a truly global institution, writing more than 20 lines of business in all major markets worldwide.

What are the key milestones that you are particularly proud of?

Everything we have done over the past 20 years represents a milestone. There have been so many steps along the way that have driven our growth and evolution, and we consider each one an achievement. Our continuous hard work, consistent discipline, and a performance-driven culture have got us where we are today. By understanding who we are and being aware of our capabilities, we know how to plan for where we want to be.

“
Being a public company, particularly one listed in the US, gives us much greater financial flexibility and easier access to capital markets
”



Hatem Jabsheh, group COO at IGI

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ILS sector on course for record issuance in 2023 after bumper H1

The first half saw record-breaking new ILS issuance, as sponsors found cat bonds a great alternative to hardening traditional reinsurance and investors successfully raised new capital, with market participants confident the momentum can be maintained for the rest of the year and beyond.

A Swiss Re report released in August said ILS issuance reached \$9.85bn in the first six months of the year, a record for a first half and already enough to make it the fourth biggest full year of issuance by itself.

The first quarter had been in line with historical levels before issuance in the second quarter “skyrocketed”, the reinsurer said.

The market is on course to set a new record for issuance for the whole year.

Talking to this publication, Jean-Louis Monnier, ILS head in Swiss Re’s Alternative Capital Partners unit, said that issuance was very active until the end of July.

“We currently stand in excess of \$10bn of issuance for 2023, which is the highest amount historically for the first seven months. And I think we are on track to have a record year, despite the fact that January and February were very slow,” he said.

Paul Schultz, CEO of Aon Securities, is optimistic that the ILS industry can reach \$14bn-\$15bn in issuance this year. He also believes this momentum is going to carry over into 2024. “We’re expecting a healthy or elevated amount of issuance next year as well,” he told this publication.

The executive reported that a lot of conversations are taking place that will lead to issuance in the near term.

“But there are also a lot of newer conversations going on,” he said. “The lead time around issuing outside of the traditional insurance and reinsurance

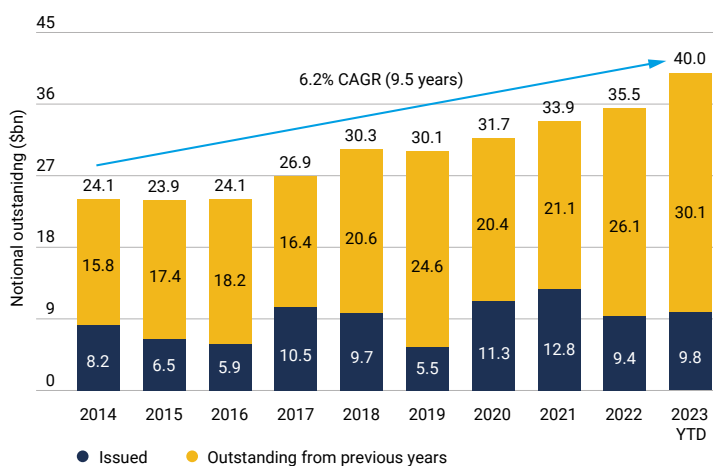
space has always been longer, but what we’re having are more conversations in that space. So we’re actually quite bullish around increased participation from public sector and corporate markets.”

Swiss Re’s Monnier said that he “wouldn’t be surprised” to see increased participation from nationwide US insurers sponsoring cat bonds in 2024.

“In the US, we’re quite optimistic that maybe some nationwide insurers that have managed prudent growth in the face of relatively scarce reinsurance and ILS capacity in 2023 will probably seize opportunities to grow in the underlying markets,” he said.

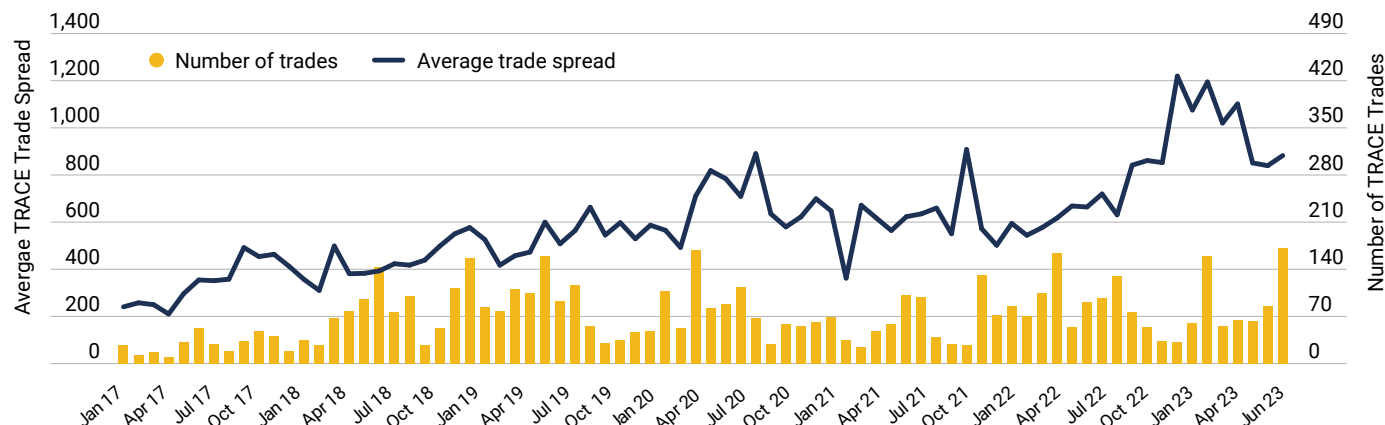
“There’s also been a readjustment in premiums in the underlying insurance markets. So we would expect large nationwide issuers to be heavier users of ILS in 2024,” he added.

ILS market issued and outstanding notional



Source: Swiss Re

TRACE activity in 2023



Source: Swiss Re

What a difference a year makes!

The buoyant ILS market currently is a contrast from the situation almost a year ago.

Swiss Re's Monnier said that the key drivers of 2022 were the impact inflation had on demand for capacity, with rebuilding costs readjusted and insurance companies increasing insured values. This increased their demand for nat cat protection.

This was compounded by Hurricane Ian creating a lot of uncertainty ahead of the 1.1.2023 renewal.

Market capacity was constrained in the fourth quarter of last year amid fears of a market-resetting event in Ian.

"[Ian] created or led to a spike in rates, and a spike in cat bond spreads that was actually even higher. So there was a bit of a capacity squeeze in the ILS market, and so it created a real sharp increase in spreads at the time," Monnier said.

This uncertainty meant issuance remained limited in Q4 and into the first two months of this year.

"But then these higher rates attracted capital," said Monnier. "So we have seen the ILS investors being very successful at raising new capital in the first half of the year, mainly in Q2 actually. This then allowed the very sharp increase in issuances over that period."

Since February, there has been a tightening of spreads in the cat bond market.

In its report, Swiss Re said that, in tandem with the primary market, it has seen spreads tightening, notably in the secondary market, due to new inflows coupled with a high level of maturities. The reinsurer expects this pattern to continue for the short term and, barring any events, eventually see a period of stabilisation likely by the end of 2023.

Aon's Schultz said that, at the start of this year, he had envisioned capital flowing into the sector because of the increase in rates.

"We saw an active Q1 but really an elevated Q2, driven in part by fresh capital coming into the space, but also interest from insurers primarily looking to diversify that reinsurance program given some of the challenges at the 1.1 renewal period," he said.

The positive impact of Ian on the ILS sector

Ian was initially feared to be a principal event for the ILS sector but actually turned out to be a mark-to-market event, Schultz said.

The Aon executive suggested that the sector has seen investors as a result of Ian taking a fresh look at the way that they allocate capital to the space. The ILS market's unscathed emergence from the storm highlighted that cat bonds tend to sit towards the higher end of programs, have a single limit, and are not reinstatable.

"As a result, we've seen more capital coming into the bond products on a relative basis compared to other collateralised products, like collateralised re and collateralised retro," Schultz said.

Monnier suggested that Ian probably had a positive impact on capital raising.

"It did catch the attention of a number of end investors that saw value in the cat bond spreads," he said. "Even though the market has now settled at premium levels that are lower than what they were in Q4, we're still in an environment where, in line with traditional reinsurance, the remuneration for risk is much better than it was two years ago."

He added: "I would consider that what happened in Q4 a bit of a blip, where the ILS market spreads were actually higher than what it turned out to be in traditional. But both markets have now converged and stabilised at levels which seemed to be pretty stable, and at which we were actually very confident that it should continue to attract both investors and sponsors."

Russell apprentices: Investing in future (re)insurance skills and talent

Russell Group's Suki Basi explains why investing in talent is critical in order to manage the connected risk threat

The connected risk threat is complex, and requires storytelling abilities through insights and solutions that are recognised by clients, partners and the media. Furthermore, in a competitive recruitment market, the idea of being a talent spotter and coach, and mentoring that talent, is going to be key to delivering forward-looking connected insights and solutions.

The purpose of the Russell Academy is to develop undergraduates into skilled (re)insurance and corporate professionals in the technological areas of importance to Russell Group's strategy of building connected solutions for connected risks.

New skills

At present, every Russell Academy student engages in a curriculum of data science, full-stack development, and data storytelling, analytics and visualisation to make them effective and useful members of our existing team. All our students have started on the same path: they begin with Python and C#, learning the basics of logical processes and programming. This is followed by training in SQL for an understanding of databases and information storage. From here, they move on to data visualisation techniques with Power BI, where they will work on company-wide

projects to initiate their data storytelling skills development.

From aviation to cyber

The students have all achieved an independently verified Power BI skill through UdeMy and are currently working in RStudio to give them powerful techniques in data analysis to import, access, transform, explore, plot and model data, and for machine learning to make predictions on data. At this point, they have worked on a wide variety of datasets from small to large and will be working with datasets that power the ALPS product suite from aviation through to cyber.

In addition, the Russell Academy is developing certification and training that will lead to the Foundational Insurance Test for all employees of

Russell Group involved in the insurance side. For those interested in a more in-depth knowledge, there will be the possibility to extend their certification to the certificate, diploma or even advanced diploma level, which is equivalent to a BSc degree. There is a pathway for employees looking to develop a specialism working with underwriters, strategic claims management and insurance corporate management professionals.

In a competitive recruitment market, the idea of being a talent spotter and coach, and mentoring that talent, is going to be key to delivering forward-looking connected insights and solutions



Suki Basi,
managing
director at
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Building a pipeline of talent

QBE Re's Tracey Gibbons issues a rallying call for the industry to get behind increasing diversity at senior levels

At entry level we have made great strides in bringing diversity of talent into the insurance industry – but at more senior levels diversity falls away.

You can't put a woman in a C-suite role if she doesn't exist in senior management. And you can't make a woman a senior manager if she doesn't exist in middle management.

In an age where society and industry are supported by insurance and banking, it's of vital importance that those responsible for analysing, manufacturing and managing financial products reflect the diversity of the communities they serve.

The presence of women as decision-makers is essential to help reflect a range of perspectives and avoid the risk of bias in the process.

When I joined QBE Re in Bermuda, it was a very small office with a single employee writing a very modest book of business. My task was to build out the branch and business, which included bringing growth and diversity to the business we write but also building a diverse talent pool as part of that growth.

I've been in the insurance industry for 40 years and when I started, there were no female role models, mentors or even senior underwriters. I was something of an outsider, so I know what it feels like to be different, trying to prove that you are just as capable as people who look different to you or think differently to you.

One of the things we must focus on is creating a pipeline of diverse talent to move up the career ladder and encouraging a sense of belonging for those people, so they do not feel like outsiders. We cannot promote to the top if that candidate doesn't already exist at a middle and lower level. Change should be embedded as part of initial hiring at entry level and employers should always ask to see a diverse group of candidates for every open position.

But we need to do this as an industry, not a company.

If only a small number of companies commit to diversity at every level, any organisations that haven't invested early on will look to poach senior candidates from elsewhere when they need them.



Tracey Gibbons is general manager, Bermuda at QBE Re

With only a small female talent pool at senior level, some employers will have to miss out.

This is where diversity networks, industry bodies and committees can come into their own. I'm part of the Women in Reinsurance group, and sit on the diversity, equity and inclusion committee for the Association of Bermuda International Companies, as well as supporting several organisations in Bermuda that promote diversity and inclusion. All of these groups are helping to educate, get the message out and push our community to focus on developing a robust pipeline.

We have some good data showing that entry level positions in Bermuda are being filled by a diverse range of candidates; and Caucasian women in particular are seeing improved numbers in C-Suite and other senior management roles. But there is a lot more we could and should be doing to support black women and other underrepresented groups in moving up into top-tier positions.

There's a lot of information available; some feedback might be anecdotal, and some is official data, but both indicate that creating diversity at all levels within an organisation – including at board level – leads to better financial outcomes for a company. One of the upcoming challenges will be to broaden the scope of data that we pull and to widen the kind of factors that are considered including sex, age, ethnicity, neurodiversity, economic and social background, culture and education.

As an industry, we need to pay attention to the data and focus more energy and funding on mentoring, welcoming young people in to see what insurance is all about, offering internships and developing skill sets across all demographics.

Building diversity doesn't always come without pain. The easiest option for a senior management team or a board is to recruit people that look and think the way they do. It reinforces their way of thinking and looking at the world. Including somebody who thinks differently and who may challenge the status quo can feel uncomfortable, but the benefits far outweigh the teething pain and result in improved company outcomes and employee wellbeing.

The people we work with, how we engage with and develop that talent, and whether we are willing to listen to different perspectives will be key to the continued success of our business.



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The best reinsurance underwriters to follow? It's all in the data

Markus Gesmann and Quentin Moore examine how class of business performance analysis can enable the building of a superior follow-only portfolio

New data and research from Insurance Capital Markets Research (ICMR) gives a clearer picture of underwriting performance at Lloyd's by line of business.

The aggregate performance by class of business hides a very diverse range of individual syndicate strategies and outcomes, both on a gross and a net basis.

For follow-only underwriters, understanding syndicates' gross relative performance is critical, and requires access to data harvested from individual syndicate financial statements going back many years.

Reinsurance has been Lloyd's most profitable class on a gross basis over the last eight years (representing approximately one full underwriting cycle). However, the difference between syndicates' gross reinsurance result and their net reinsurance result suggests significant cross-cycle earnings are being given away willingly.

The reasons for this could be many (for example, intra-group reinsurance, loss portfolio transfer transactions or significant use of third-party capital) so that is why the analysis looks at the market across the cycle rather than just more recent individual calendar years.

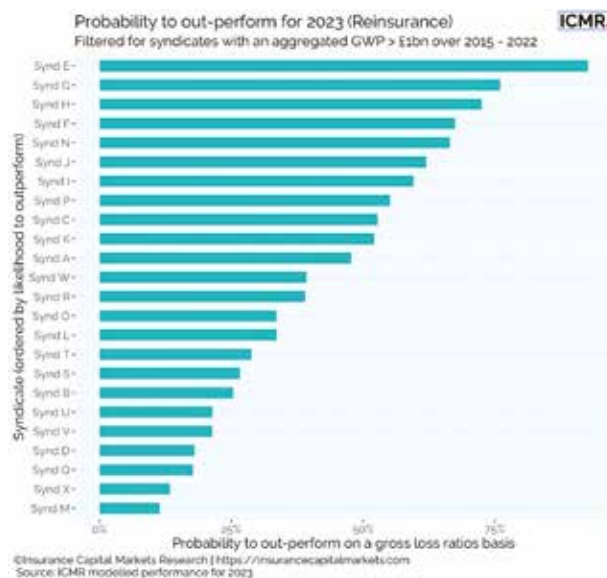
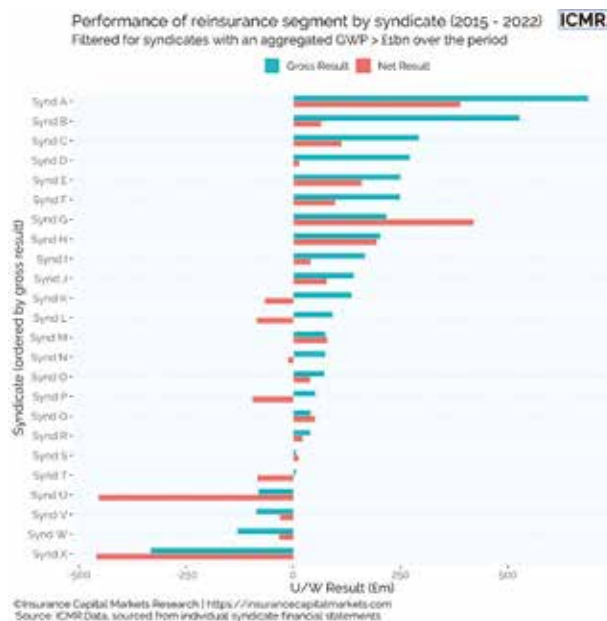
This gross to net performance differential could be driven by capital providers reducing their risk appetite in the sector, making them more comfortable paying away earnings in order to reduce their capital at risk. It could equally be a symptom of some form of disconnect between inwards underwriting and central reinsurance purchasing. Either way, it is not driven by a single calendar year or event but permeates multiple years

of underwriting.

Follow-only strategies will tend to focus their analysis on gross underwriting, leading to their own questions around how best to purchase reinsurance protection. Given the consistency of syndicates' relative performance, ICMR developed a model that assess syndicates' probability of outperforming the market for prospective periods. The chart below left does just this.

Certain syndicates are significantly more likely to outperform than others, based on ICMR's Bayesian rank performance model, which should be a useful input for follow-only strategy planning. What the data and model highlight as well is that successful cycle management is also about when to expand the business, as illustrated by the fact that the most profitable syndicate over the past eight years is not predicted to be the most likely to outperform on a gross loss ratio basis next year.

In any event, the data shows not only how consistent gross outperformance is for an inwards reinsurance book but also how much of an impact the outwards reinsurance strategy can have on bottom-line profitability. Syndicates will need to ensure that good gross underwriters are sufficiently rewarded even when, across the cycle, the same advantage may not be reflected in net results.



Quentin Moore and Markus Gesmann are the co-founders of analytics and consulting firm Insurance Capital Markets Research

A woman with dark curly hair tied up, wearing a yellow sweater, is sitting at a desk and looking at a laptop. She is holding a blue pen to her chin, appearing to be in deep thought or focused on her work. The background shows a bright window with a view of a city skyline.

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Climate front of mind for reinsurers for second year running: PwC

Reinsurers have ranked climate change as the most significant risk faced by the segment for the second consecutive Reinsurance Banana Skins Survey conducted by PwC, as the bill grows from the rising number of more severe weather events

The biennial research is carried out in collaboration with the Centre for the Study of Financial Innovation. The survey was conducted between May and August 2023, with 41 respondents from the reinsurance sector across 15 territories.

Launched this morning at the *Rendez-Vous* in an event jointly hosted by PwC and Swiss Re Reinsurance Solutions, PwC noted that climate change-related risk remains unchallenged in the top spot from the 2021 survey.

This year, however, follows the World Meteorological Organization's declaration of July 2023 as the hottest month on record globally, while wildfires and flooding alike have ravaged across the globe – not to mention the growing costs of secondary perils, such as severe convective storms in the US.

As reinsurers endure the rising cost of cat claims, respondents expressed concern that some areas and types of business may become uninsurable in the future. "The main concern to me is the impact

of climate change and the pressure that will bring on the insurability of some risks/regions," said a reinsurer respondent from Belgium.

The report outlined several impacts for reinsurers stemming from climate change risk, ranging from pricing and legal liabilities to changing consumer behaviour and the impact of the net-zero transition on reinsurers' own operations.

Andy Moore, PwC UK partner and London Market leader, commented: "Reinsurers are acknowledging that the effects of climate change are already being felt.

"It's impossible to fully prepare for such a fast-changing and unpredictable risk, but the sheer scale of the impact on almost all areas of the market means doing nothing is not an option."

Some firms are already taking steps to enhance risk modelling, as well as undertaking strategic risk management reviews and reassessing the resilience of their portfolios.

"Due to the ever-changing nature of this risk, companies need to put controls in place to ensure they have confidence in the data, infrastructure and policies they will rely on to remain agile in the face of the climate emergency and its repercussions," Moore continued.

"Doing this will put reinsurers in the strong position they need as they play a key role in managing the wider global transition to net-zero."

Cybercrime moves up top three while AI debuts at sixth

Placing second in the reinsurance cohort's ranking of most pressing risks was the operational risk associated with cybercrime, up one place from the 2021 survey.



Talking points

- Concern that climate change will make some regions and types of business uninsurable
- Climate change-related impacts for reinsurers span pricing, legal liability and impact of decarbonisation strategies
- Cybercrime ranks second, with newcomer risk AI at sixth
- Technology and attracting appropriately skilled talent at third and fourth respectively
- Reinsurers more optimistic in their preparedness to face risks than any other sub-sector

Cybercrime placed as the top risk across the insurance sector as a whole in PwC's wider survey, unchanged from 2021.

With the growing sophistication of threat actors, both criminal and state-sponsored, respondents expressed concern that a successful cyber-attack could be detrimental to business continuity, not to mention the reputational repercussions following theft of sensitive data.

In its inaugural appearance on the Banana Skins list, reinsurers ranked AI sixth, while the overall industry placed the technology application as seventh.

As well as noting the accelerating pace of development, respondents raised questions over the reliability of the data and how it is used, such as the use of AI to penetrate defences and mimic humans.

"A lack of regulation and transparency around the 'black box' in the middle [of AI models] could potentially lead to manipulation of outputs," said one Bermuda-based chief risk officer.

The top 10 risks

(2021 ranking in brackets) * New risk for 2023

All insurance sectors		Reinsurance
1	Cyber crime (1)	Climate change (1)
2	Regulation (2)	Cyber crime (3)
3	Climate change (4)	Technology (4)
4	Technology (3)	Human talent (5)
5	Human talent (6)	Regulation (2)
6	Macro-economy (10)	Artificial Intelligence (*-)
7	Artificial Intelligence (-)	Macro-economy (16)
8	Interest rates (5)	Political risk (8)
9	Cost reduction (12)	De-globalisation (*-)
10	Change management (7)	Social change (12)

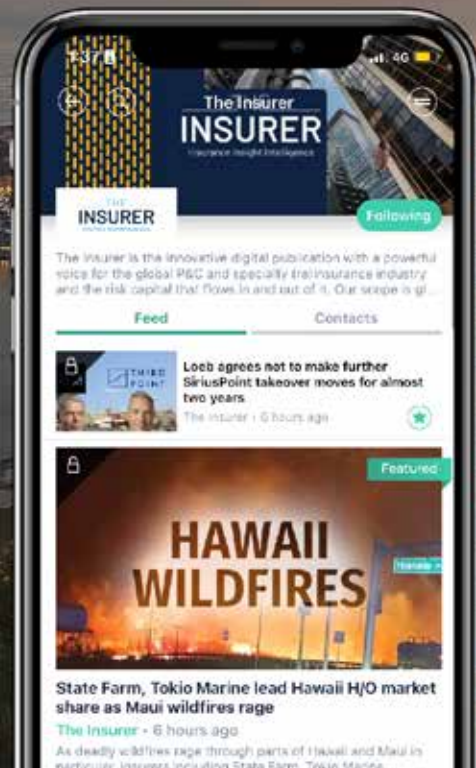
Source: PwC

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PwC noted that, like cybercrime, reinsurers are ideally placed to develop the risk understanding and working partnerships needed to manage and mitigate AI risk.

Reinsurers voice doubts over relevant technical and technological skills

Closing out the top three key risks for reinsurers was technology, with worries predominantly centred around a company's ability to keep up with the pace and cost of technological change, as well as matching the investment and advancements made by peers.

PwC noted that while reinsurers clearly recognise the need for new and enhanced capabilities to manage the risk landscape of today, systems and skills can still fall short.

Barriers to technological progress cited by respondents include conservative distribution channels, regulatory burdens, and practical difficulties in developing and rolling out clear, strategically-aligned operating models.

Also reflective of concerns over reinsurers' ability to maintain a competitive edge, difficulty in talent acquisition and retention – particularly individuals with the relevant technical and technological skills – was ranked fourth, up one place from the previous survey.

Rounding off the top five risks was regulation, with reinsurance respondents citing the cost and burden of concurrent waves of regulation, as well as the wider ESG agenda as a driver of regulators' expanding toolkits.

Reinsurers compared to the wider insurance industry

As part of the survey, PwC asked respondents how

well-prepared they thought the industry was to handle the risks that they identified.

On a scale of 1 (poor) to 5 (well), reinsurers gave an average response of 3.41. This was higher than the average of 3.20 for the entire insurance industry, as well as the highest of all sub-sectors, with P&C at an average preparedness of 3.13.

PwC suggested that this optimism may reflect reinsurers' confidence in their ability to harness the power of new technology, as well as the relative sophistication of reinsurer's risk management systems and scenario planning.

Although demonstrating a “considerably lower

than average” concern over their sector's ability to achieve cost reductions to remain competitive, as well as the segment's ability to manage change, reinsurers were the only segment to include de-globalisation within the top 10 risks.

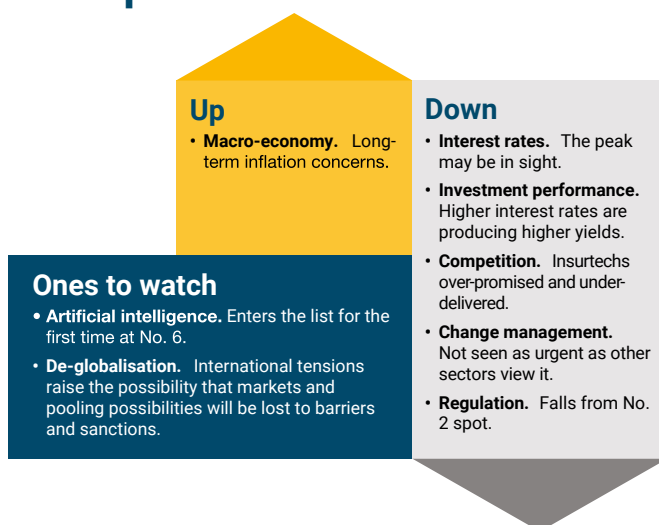
Placing ninth, PwC suggested this may be indicative of the global nature of the reinsurance segment, highlighting concerns around the consequences of protectionism.

“The sector was also more concerned about availability of capital, and credit risk, reflecting some of the challenges seen in the market over the last year and the recent implications of some alternative capital structures,” said the report..

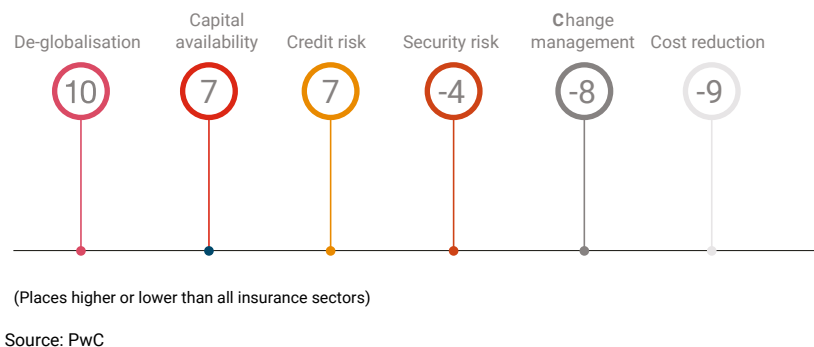
“There was a note of concern about the

reinsurance sector in the responses from other sectors, particularly as regards to capacity and credit strength in the face of large catastrophe claims. Access to reinsurance was also identified as a risk. The outlook was seen to depend on whether capital would shy away from the sector, or be enticed by hardening rates.”

Main points of difference



Reinsurance: Big movers. The main changes in the rankings highlight growing risks, and those which appear to be receding.



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The third instalment of our look back at some of the industry titans we have lost over the past 12 months sees us remember a Lloyd's entrepreneur...

Mark Brockbank



Mark Brockbank was a Lloyd's underwriter for only 20 years, but his achievements and legacy remain to this day.

He began his career in 1974 when he joined the then blue-chip London broker Willis Faber & Dumas (now WTW). Specialising in marine hull, this formative posting provided an opportunity to form strong bonds with many of the leading European ship-owning families, who quickly warmed to his intelligence and problem-solving aptitude.

These attributes also swiftly marked him out as a rising star amongst Lloyd's mariners. In 1980, two of them – Raymond Brooks and Terry Dooley – persuaded Brockbank to change tack and become the deputy underwriter for their Syndicate 861.

It was the first step of an underwriting career which saw him in two decades build one of the largest Lloyd's insurers, give birth to the £7bn UK motor colossus Admiral, and inspire a cadre of underwriters who worked with him and continue to shape and lead the London market today.

Dr Deductible

By 1983, Brockbank was the active underwriter of Syndicate 861, and shortly afterwards, the Lloyd's agency was renamed Alston Brockbank Ltd (before later becoming the Brockbank Group).

By the late 1980s, Brockbank was firmly established as one of the most influential Lloyd's underwriters. He was also soon to earn the nickname Dr Deductible, after responding to the enervating losses in marine hull by driving through wholesale changes which included the imposition of much-needed higher retentions.

This move sent shockwaves through what is – even now – a traditionally-minded corner of the specialty insurance world, and is still remembered by many older hands.

“My combined ratio went from 150 percent one year to 85 percent the next,” recalls one marine underwriter from the era, who cited both Brockbank and Stephen Catlin as driving the change. “It was

necessary, as the market was really struggling.”

But Brockbank also proved he was just as much a business builder as he was a shrewd underwriter. In 1990, for example, he created a direct motor insurer, underwriting through a new Lloyd's Syndicate 253.

That business was Admiral, which is now one of the largest UK motor insurers, with a £7bn valuation and a consistent track record of superior underwriting and canny reinsurance buying.

Several of Brockbank's former colleagues have left their own mark on the industry. Lloyd's (re)insurer Ascot, for example, was built by a team of former Brockbank Group underwriters led by Martin Reith, who joined Brockbank in 1984 fresh from university and worked closely with him until his retirement.

“Mark was a brilliant man. A clear thinker, a superb underwriter and blessed with tremendous vision and conviction,” recalls Reith.

Other talented underwriters and future industry leaders – the likes of Nick Metcalf, Gilles Bonvarlet, David Gundlach (the founder of UK motor insurer Hastings Direct), James Gerry and Jon Tay, among many others – saw their careers launched at the Brockbank Group.

In 2000 – while still in his forties – Brockbank retired, and was effectively absent from the industry thereafter, other than as an adviser and non-executive director to WR Berkley.

Brockbank was also a deeply private person who was confronted in his professional life by attitudes towards sexuality far less liberal than those of today. For those who worked closely with him, this only inspired a greater conviction of loyalty.

Outside of Lime Street, Brockbank was a great lover of the arts, including opera, ballet, antiques, and 20th century British paintings. After retiring, he divided his time between Monaco – where he and his husband Marco Orsini transformed one of the principality's few original Belle Époque into a celebrated modernist masterpiece – and Mykonos.

For those who worked with him in the industry, he will be sorely missed.

“
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conviction**
”



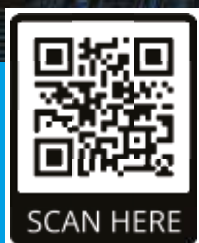
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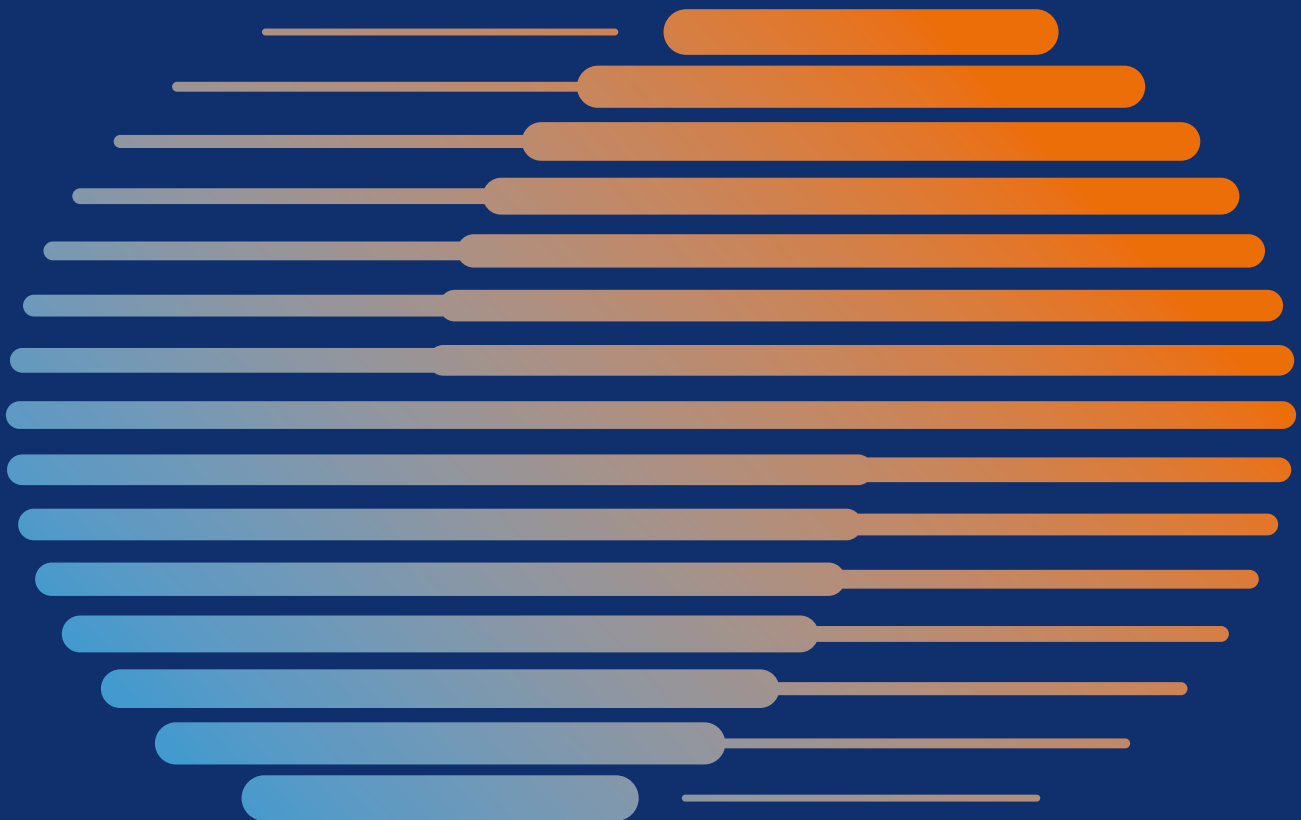
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