Your source for professional liability education and networking.
GRANDPA, WHAT WAS A REINSURER?

SOMEONE WHO SOLVES RISK TRANSFER NEEDS AT A REASONABLE PRICE, AND ALWAYS WANTS WHAT’S BEST FOR CLIENTS. THEY ARE STILL A THING, YOU KNOW.
Industry Economics

(Re) Insurance Issues

Alternative Capital

Impact of M&A

Secular & Cyclical

Gordon Gekko

Music to My Ears

All of the above
It Isn’t Rocket Science

\[
(1-t) \left( \frac{TR}{NPE} \times \frac{NPE}{GPE} + \frac{NTI}{GPE} \right) \times \frac{GPE}{A} \times \frac{A}{NTR} \times \frac{NTR}{E} = \text{RoE}
\]

- **TR** = Technical result
- **NPE** = Net premiums earned
- **GPE** = Gross premiums earned
- **NTI** = Non-technical income
- **A** = Assets
- **NTR** = Net technical reserves
- **E** = Equity
- \(1-t\) = One minus the tax rate

**Underwriting Results** + **Investment Yield** * **Leverage** = **Total Return**

Underwriting must deliver

If yield is down

And leverage is down

To maintain returns
Why Aren’t People Buying?

We Can’t Exclude Our Way To Relevance
Is This Relevance As We Know It?

$\text{Billions}$

<table>
<thead>
<tr>
<th>Year</th>
<th>Economic Loss</th>
<th>Uninsured Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$200$</td>
<td>$50$</td>
</tr>
<tr>
<td>2009</td>
<td>$150$</td>
<td>$56%$</td>
</tr>
<tr>
<td>2010</td>
<td>$150$</td>
<td>$75%$</td>
</tr>
<tr>
<td>2011</td>
<td>$380$</td>
<td>$72%$</td>
</tr>
<tr>
<td>2012</td>
<td>$170$</td>
<td>$59%$</td>
</tr>
<tr>
<td>2013</td>
<td>$140$</td>
<td>$68%$</td>
</tr>
<tr>
<td>2014</td>
<td>$113$</td>
<td>$70%$</td>
</tr>
</tbody>
</table>

Sources: (2008-2012) Munich Re Nat Cat Service in constant $\text{(unadjusted for inflation)}$; (2013-14) Swiss Re sigma
Is It A Fair Fight?

**Advantages**
- Good Leverage
  - Investments
  - People (reinsurance)
  - Balance sheet / risk
- Swift & cheap(ish)
- Element of Inelastic demand
  - Financing
  - Statutory
  - Wealth
  - Ratings

**Headwinds**
- Negative Utility
- Distribution
- Deflation
- Interest Rates
- Uncovered loss
- Rating agencies
- (Global) Regulation
- (too much) Capital at all levels
- Cocktails (reinsurance / JPM)
Capital Markets & (Re)insurance

$ 65 billion

$64.9 billion

Cat Bonds

HF REs

Sidecars

Collateralized Reinsurance

1978
Class of '85/86
Class of '93
Class of '01
Class of '05
2014

0
5
10
15
20
25
30
35
40
45
50
55
60

$48 million
$600 million
$2.9 billion
$8.7 billion
$5.0 billion

TransRe
Ace
XL
Centre Cat
Global Capital
IPC Re
LaSalle Re
Mid-Ocean
Partner Re
RenRe
Tempest
Allied World
Arch
Aspen
Axis
DaVinci
Endurance
Montpelier
Platinum
Ariel
Flagstone
Harbor Point
Lancashire
Quanta
Validus

Source: Aon Benfield Securities, Goldman Sachs, Guy Carpenter, TransRe
At Some Point, It Just Became Music...

**Cat**

- What? Cat bonds, funds (co v mgt), sidecars
- Why? Diversification / Modeled
- Who? Nephila, Aeolus, Alpha Cat, Elementum, Pillar, Fermat, Top Layer, Davinci, Pangaea, Mt Logan, Upsilon, etc
- How much? $50 B+ on way to $150?
- Impact? Mkt share, rates, ends cat only model, increase demand
- Issues – basis risk, collateral (when in / out), Fiduciary duty vs ability to pay, tail?

**Hedge Fund Re**

- What? New companies (sponsor v partner)
- Why? Permanent capital, taxes, fees, match return / cost of capital
- Who? Greenlight, Third Point, Hamilton, Watford now; 2 pulled, more to come (Ace-Black Rock)
- How much? ~$5B
- Impact? Discounting / content/ margins
- Issues? Value to cedant, PFIC, Tax changes, alignment, concentration, ratings
Global Property Catastrophe Rate On Line Index

1990-2014

-11% at 1/1

Source: Guy Carpenter
From 2005 Presentation

Reality:
- Insureds 1,000,000s
- Insurers 1000s
- Reinsurers 10's

Vision:
- Many Brokers
- Choice of Insurer
- Reinsurance Risk Syndication
A Puzzle?

Capital Markets
- Increased Supply
- Short Tail High Volatility/Margin Business

Broking Margins
- Increased Acquisition Costs
- Operating Expenses

Broker Analytics
- Decreased Information Leverage
- Information Edge

Traditional Reinsurance
- High Volume, Low Volatility Business
- Decreased Demand

Insurer Retentions/HF Re
Or A Rorschach Test?

(Re)Insurers
- Demand Pull
  - Passing On Cost Savings

Traditional Reinsurance

Reinsurers
- Leverage Our Experience
  - Pricing & Claims Benchmarking

Insured Exposures
- Government Withdrawal
  - Private Solutions

Uninsured Exposures
- Emerging Risks
  - Assisting Insurers To Adjust
When In Doubt, Merge

• Reinsurance = business not a sector
• Buys some time
• Valuations
• Herd mentality on “controlling the customer”
• What are we in high school?
• Broker impact
• More to come
• It’s personal
A View

- Few pure reinsurers
- Ins cos keep opportunistic reinsurance arms
- Big circle of risk trading rather than food chain paradigm
- Bundlers vs Sifters
- Private capital plays important role.
- Conflicts matter
- More deals on differential terms based on security, relationship, deficits, competition
- Will look more like banking community = loan syndication