



# PLUS

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PROFESSIONAL LIABILITY UNDERWRITING SOCIETY

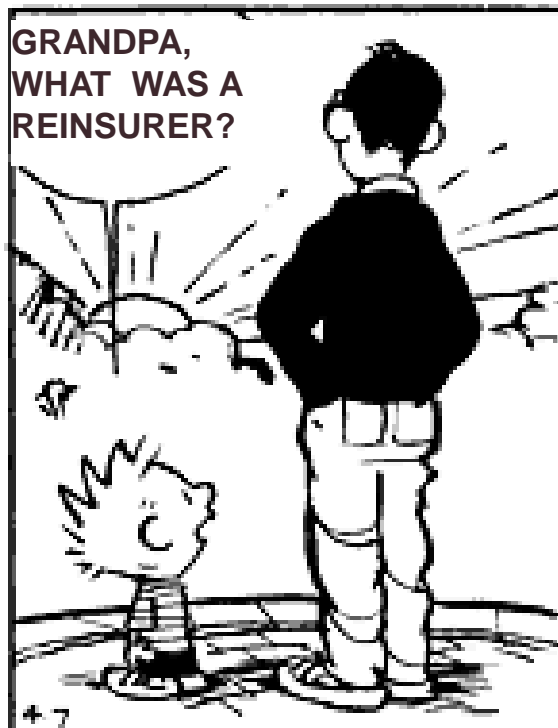


# TransRe

*We value risk.*



*Your source for professional liability education and networking.*



**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.**



**MIKE SAPNAR**

**PLUS Eastern Chapter Industry Leaders' Luncheon**

**February 25, 2015**



# *LET'S TALK.....and takeaway*

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**Industry Economics.....Secular & Cyclical**

**(Re) Insurance Issues.....Gordon Gekko**

**Alternative Capital.....Music to My Ears**

**Impact of M&A.....All of the above**

# It Isn't Rocket Science

Wharton/Guy  
Carpenter

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

↓
↓
↓
↓
↓
↓

UW margin      Retention rate      Non-UW margin      Asset turnover      Asset leverage      Reserves gearing

TR = Technical result

NPE = Net premiums earned

GPE = Gross premiums earned

NTI = Non-technical income

A = Assets

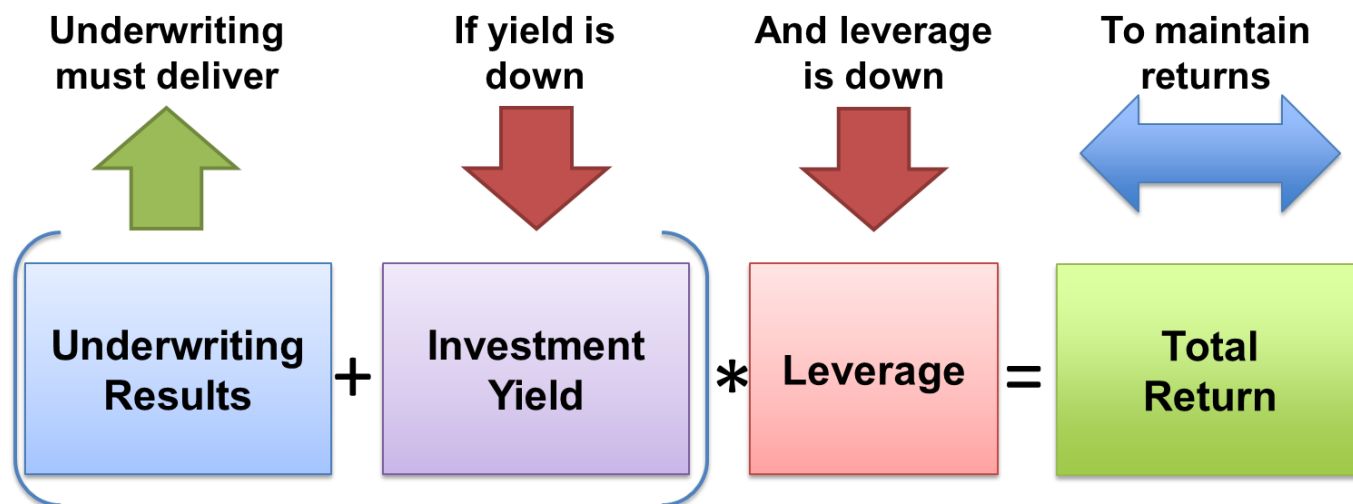
NTR = Net technical reserves

E = Equity

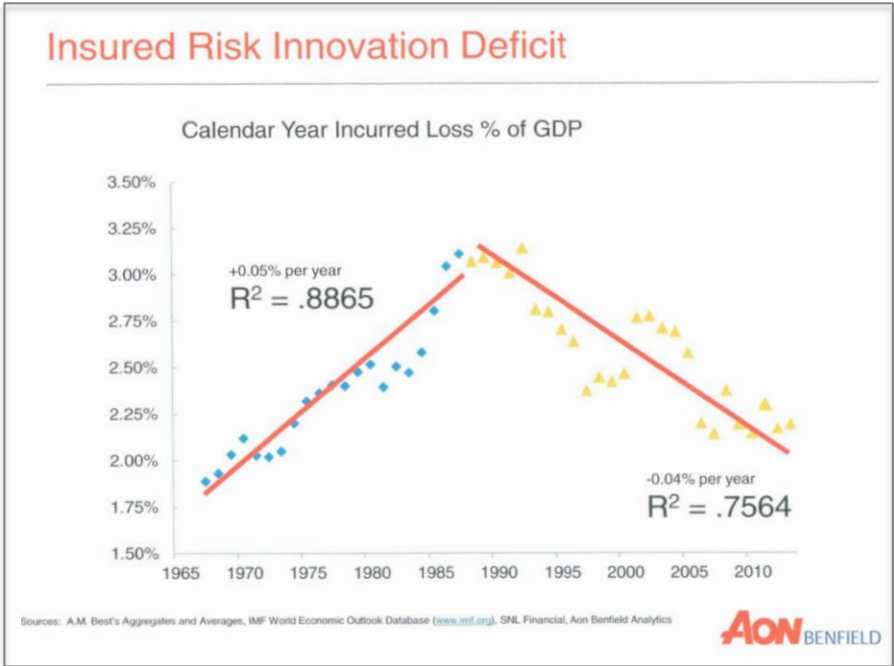
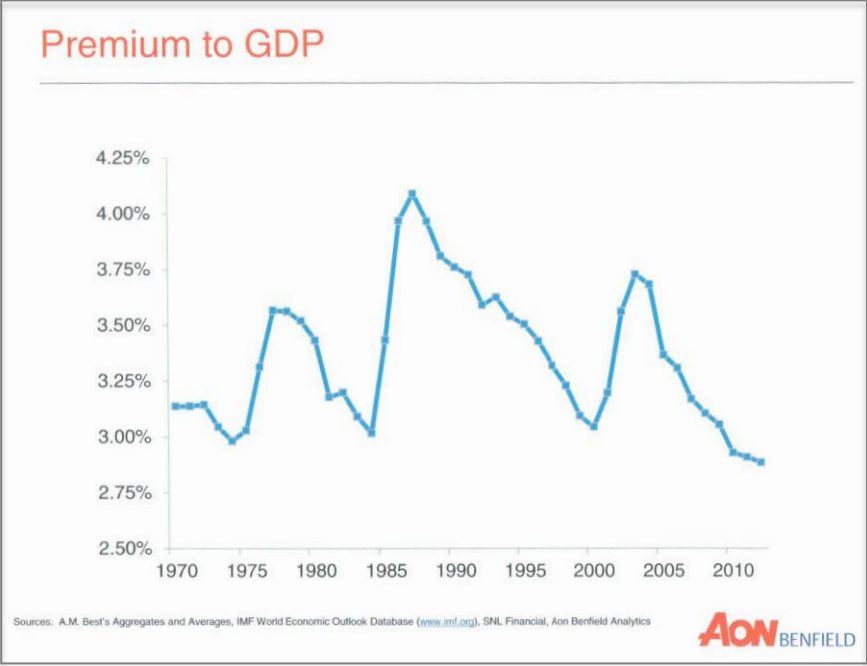
(1-t) =

One minus the tax rate

Insurance For  
Dummies

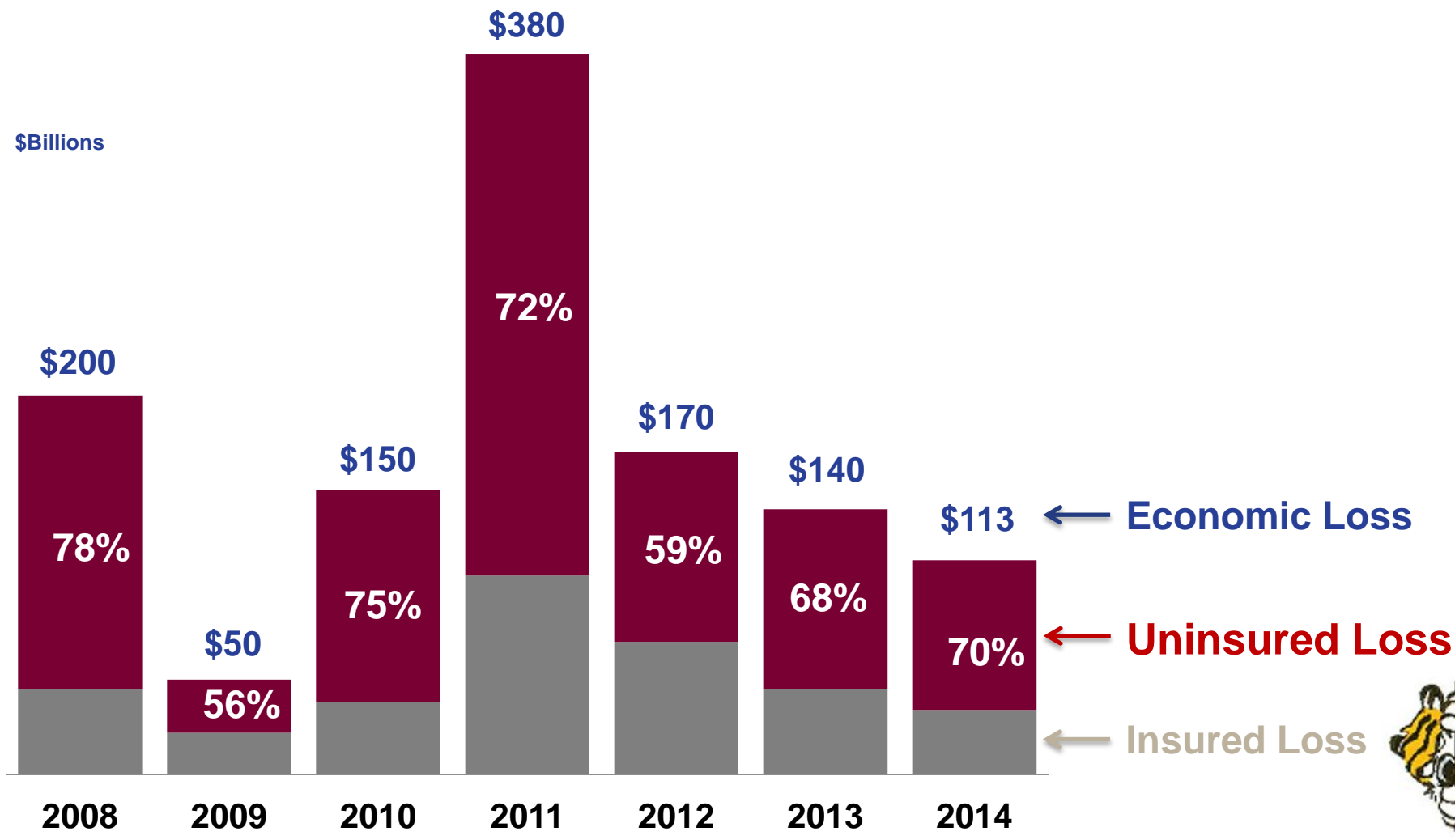


# Why Aren't People Buying?



**We Can't Exclude Our Way To Relevance**

# Is This Relevance As We Know It?



Sources: (2008-2012) Munich Re Nat Cat Service in constant \$ (unadjusted for inflation); (2013-14) Swiss Re sigma

# *Is It A Fair Fight?*

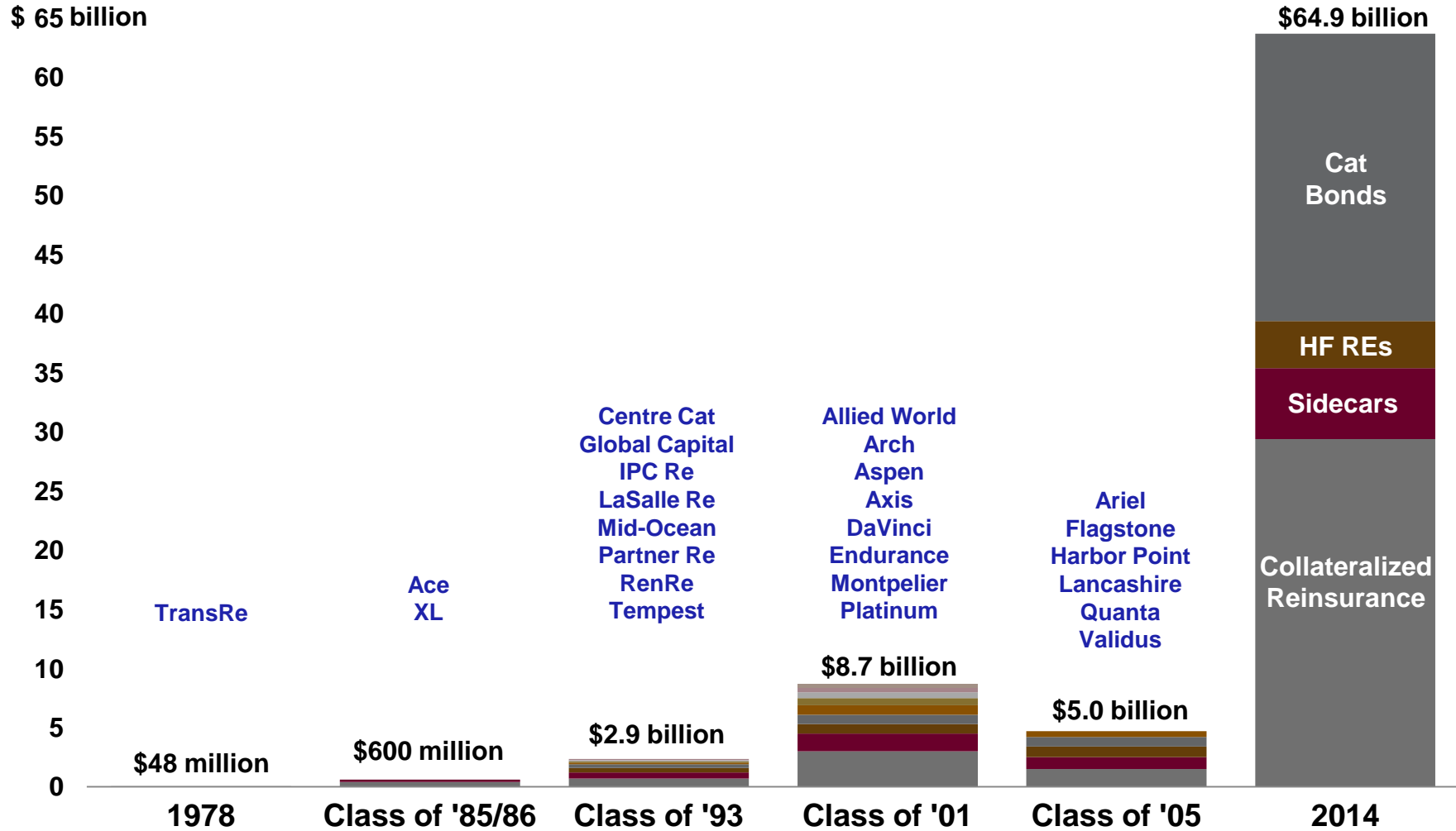
## Advantages

- 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



Source: Aon Benfield Securities, Goldman Sachs, Guy Carpenter, TransRe



# At Some Point, It Just Became Music...

## **Cat**

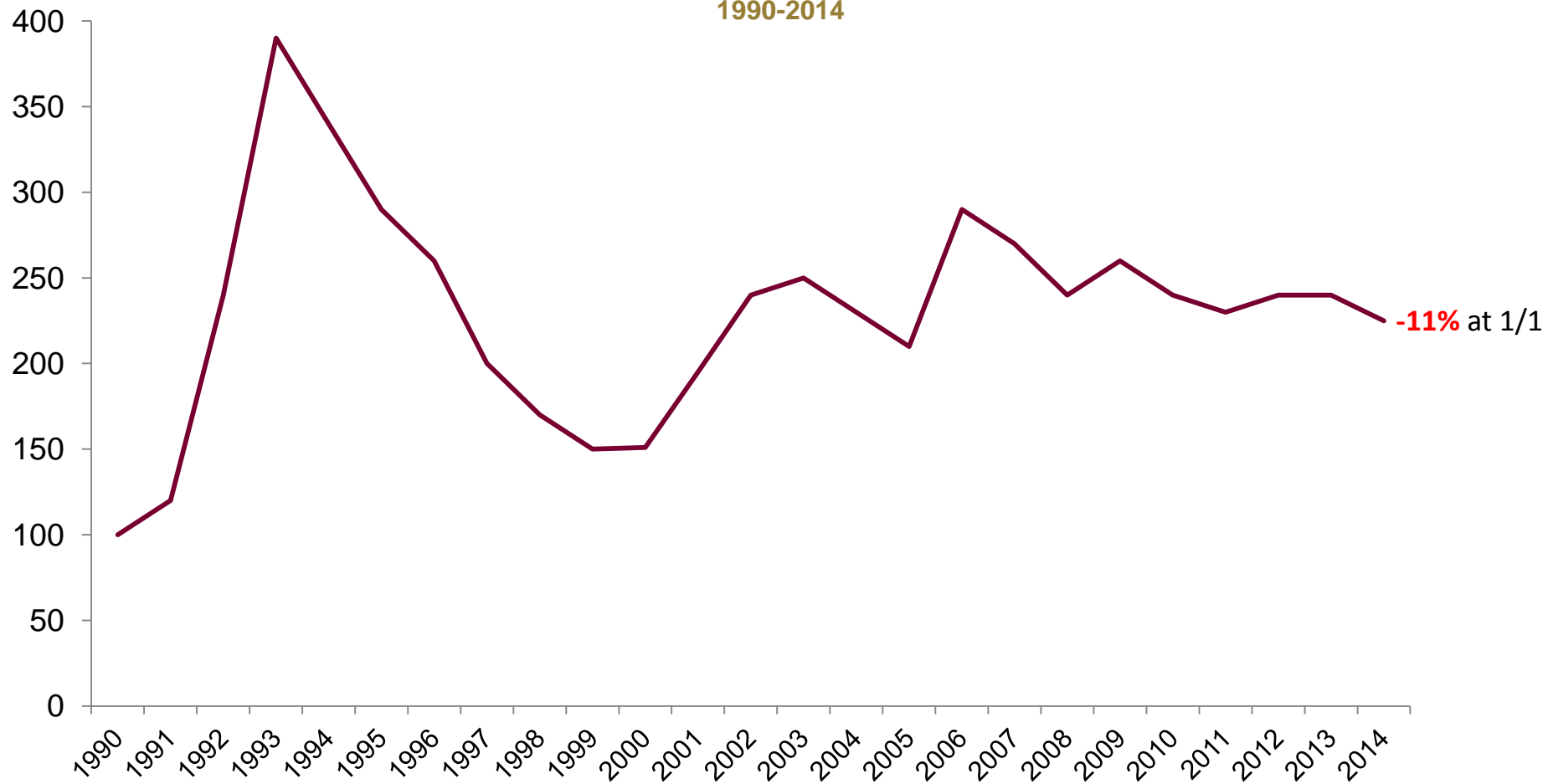
- What? Cat bonds, funds (co v mgt), sidecars
- Why? Diversification / Modeled
- Who? Nephila, Aeolus, Alpha Cat, Elementum, Pillar, Fermat, Top Layer, Davinci, Pangaea, Mt Logan, Upsilon, etc
- How much? \$50 B+ on way to \$150?
- Impact? Mkt share, rates, ends cat only model, increase demand
- Issues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

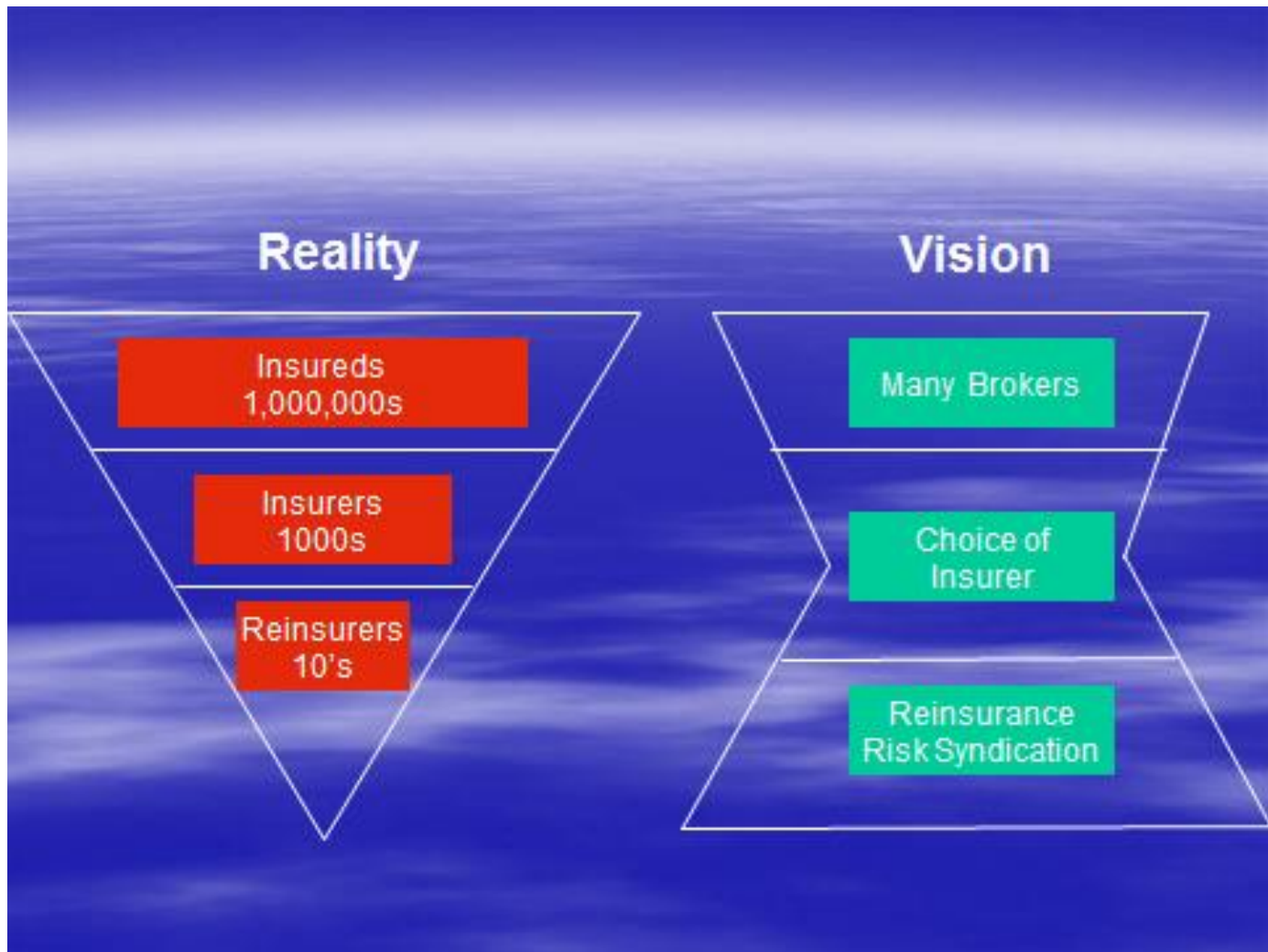
# Property Cat Pricing In Perspective

## Global Property Catastrophe Rate On Line Index 1990-2014

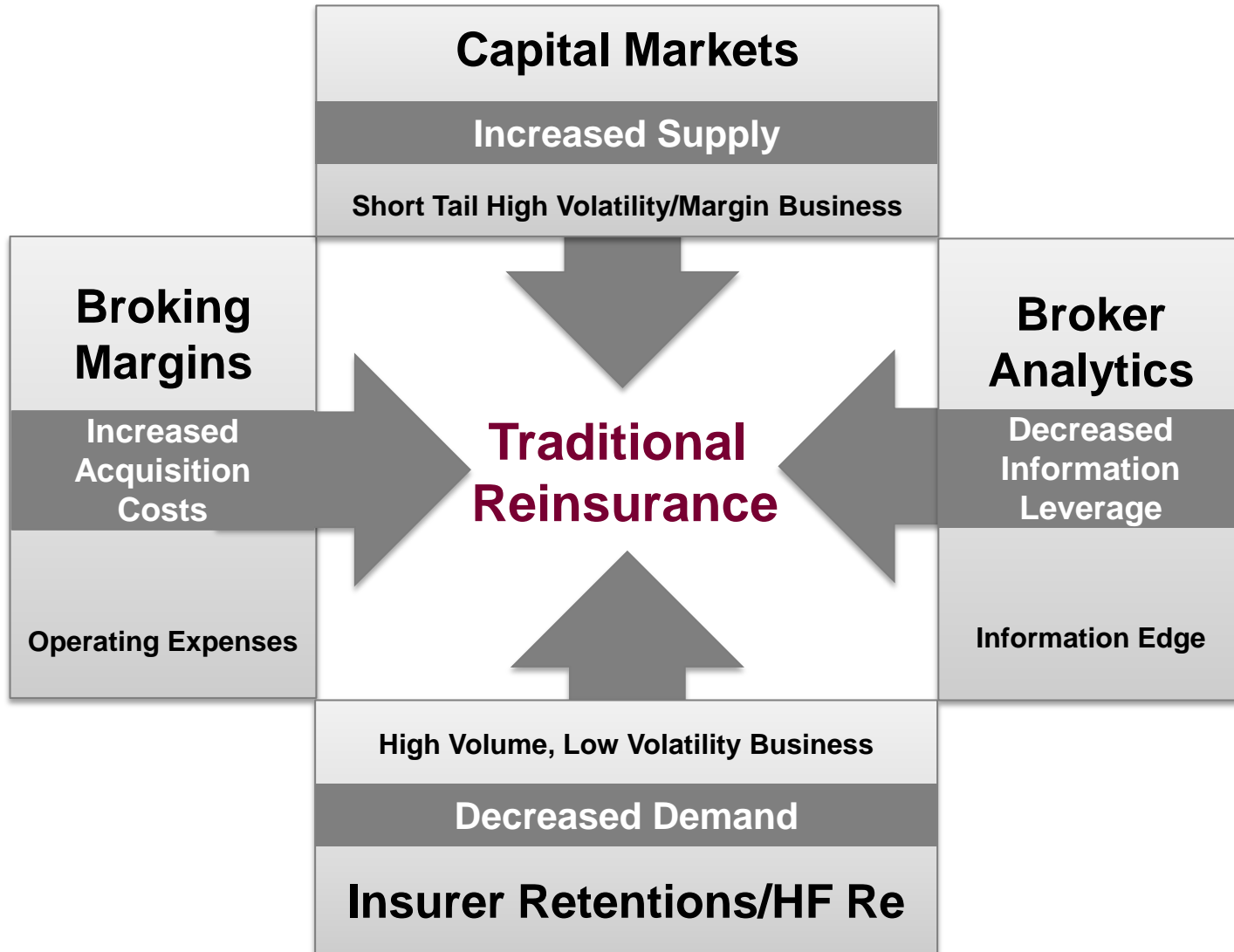


Source: Guy Carpenter

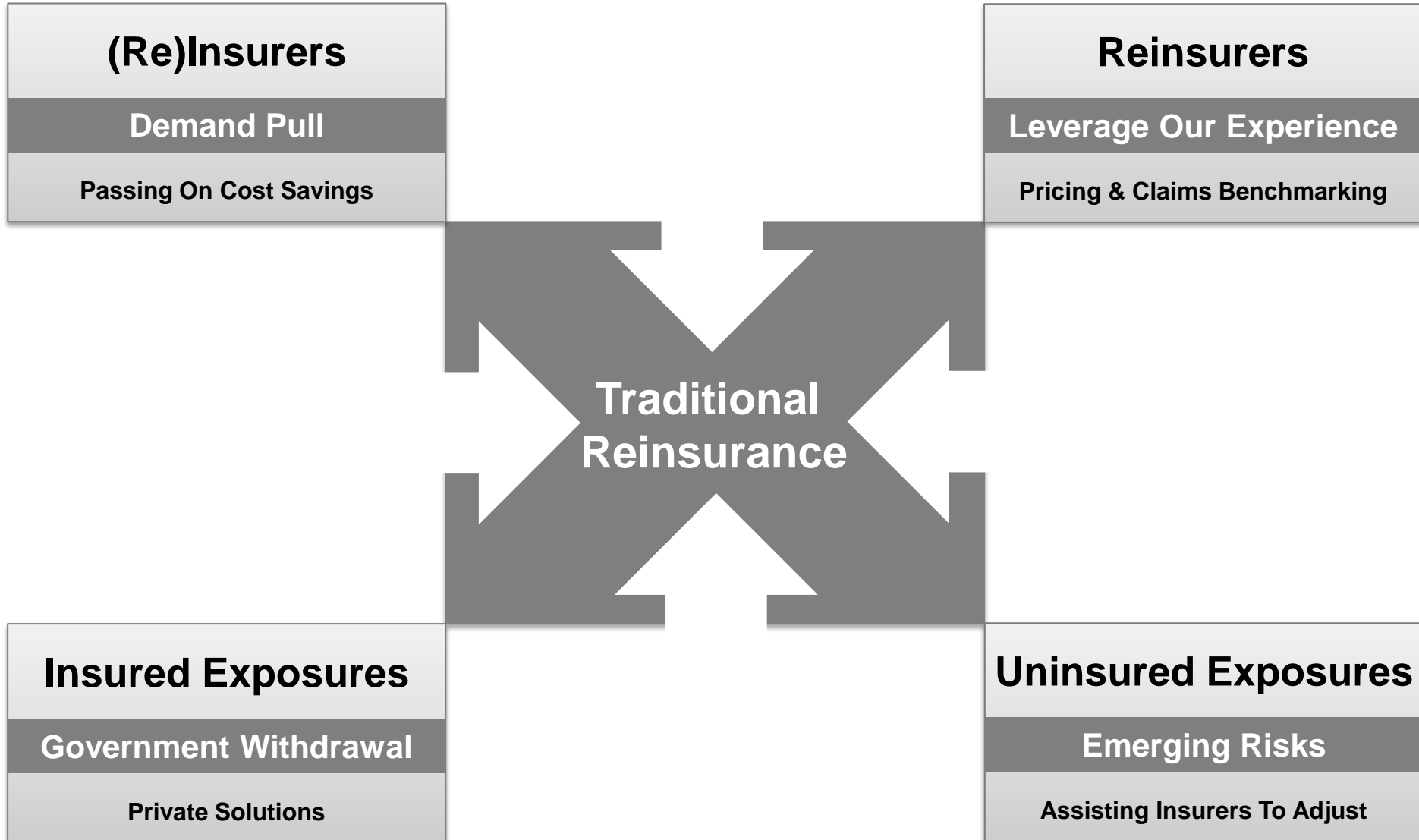
# From 2005 Presentation



# A Puzzle?



# Or A Rorschach Test?



- 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

