

Bermuda Reinsurance 2015 Celebrating 10 years Reinsurance Reshaped



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Arthur Wightman, PwC Bermuda territory leader

Conference summary



Bermuda Reinsurance 2015

Reinsurance Reshaped

PwC Bermuda and Standard & Poor's Ratings Services' 10th annual Bermuda Reinsurance conference took place on November 12, 2015, attended by some 200 people in the industry.

The theme, **“Reinsurance Reshaped,”** reflects the game-changing nature of the activities taking place in the reinsurance sector. While alternative capital continues to enter the market and current soft market conditions persist, the industry has also seen changes in the form of a somewhat expected wave of consolidation,

adoption of new business models, and increased demand from government and quasi-government buyers. At the same time, cedents are adopting new practices and purchasing strategies as they take advantage of low reinsurance pricing and new ways to cede their risk. They are also off-loading some risks and coverage in the face of looming changes in regulatory capital requirements.

Brokers and underwriters are reexamining relationships as they look to work together to facilitate reinsurers' coverage of risk. This

includes emerging risks such as cyber, mortgage reinsurance, and a continued expansion of the perils, durations, and models in insurance-linked securitizations.

Leading executives, industry stakeholders, and thought leaders offered their viewpoints and perspectives on these issues in the following panel discussions.

You may view videos of each of the panels at www.pwc.com/bm or click on the links for each section.



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View From the Top:

A panel of chairmen and CEOs provides perspectives on the current challenging reinsurance environment including consolidation, new entrants and owners, and capital flows. The panel also gave insight into broader perspectives around sustainability, resilience, relevance, underinsurance, and talent.

Arthur Wightman, PwC Bermuda territory leader, opened with the following comments: “These have been testing times. As I reflect on this period and in particular the role of the Bermuda insurance market, various words spring to mind; Firstly resilience. This industry and specifically the companies operating in Bermuda have provided certainty to customers through a period of event volatility and severity like no other. Innovation. Bermuda is the world’s leading domicile for ILS. Many potentially more mature markets are currently developing ‘me too’ strategies to try and catch up. Leadership. There are many examples, but a principal one relates to the way Bermuda provides sophisticated global regulation in a way that still fosters much needed innovation in the industry. It rather feels to me that Bermuda is as attractive a domicile today as it was ten years ago and arguably more so.”

Mr Wightman added: “This industry also plays a huge role in sustainability. A role that it takes very seriously and one where it delivers enormous value to society and contributes to the efficient and effective functioning of markets.”

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Michael A. Butt, chairman, AXIS Capital Holdings, said: “I think we have enormous potential to contribute more to the development of the world economy. Risks are growing inordinately in every part of world. We have capital to take those risks. We have our basic skills of underwriting, pricing and assessment and pooling of risk. I see huge opportunities for us. If we can market it correctly, there’s large amounts of risk that are not currently insured. I therefore, think we have a tremendous opportunity as an industry to play a larger role and also in the climate debate where we have huge expertise to transfer as long as we are willing to do so.”

Kevin J. O’Donnell, president and CEO, RenaissanceRe Holdings, agreed with Mr. Butt on the future of the industry, saying, “There’s things we can control and things we can’t.

“I see tremendous innovation beginning to take place where people are thinking about different ways they can provide insurance or insurance-like products.

“On the pricing of risk, I think over time we will become a lot smarter about thinking about where risk enters the chain and where capital enters the chain and the ways in which we have traditionally traded risk and capital I think will change over time and to me that is an exceptionally exciting period.

“What we have seen over the last ten years was nothing compared to what we will see over the next ten years. I think we are in a uniquely exciting time because there’s so many more tools that we can bring to bear to the risk that we are taking and there’s so much more capital in accepting the risk that we are underwriting.”

Weighing in, **Brian Duperreault, CEO, Hamilton Insurance Group** said: “We’re trying to reform ourselves and I think we should really think about what the insurance company of the future actually looks like. These mergers are trying to find their way through this terrible time when everything is good, but where are they going? That’s an issue for the industry to sort out - what should we be look like going forward?”

Likening the industry to being between two worlds - digital and analogue, he said: “We’ve got alternative capital basically chasing old risks. New money chasing old ideas. We need new money chasing new ideas.”

Amid the sea of regulation, he said Bermuda was “the one shining light out there”.

Bermuda is at least a place where if you have an idea there’s a willingness to listen to it, he said, for example, the ILS market: “Where would that have occurred otherwise?”

On the industry’s critical role to play in society, Mr Butt said: “Industry has been shy about talking about what it is good at and how it can contribute. We need to do better at explaining what it is we can bring to this increasingly important subject.” He urged brokers, as the industry’s production arm, to take note.

On the UN’s 17 Sustainable Development Goals (SDGs), Mr O’Donnell said: “It is a collaboration where each of us can contribute something. I am a believer that we should commit to those that we can be the most impactful for. By collaborating with others in your industry or outside,



Moderator: Arthur Wightman, Territory Leader and Insurance Leader, PwC Bermuda
Michael A. Butt, Chairman, AXIS Capital Holdings Ltd.
Brian Duperreault, Chief Executive Officer, Hamilton Insurance Group Ltd.
Kevin J. O'Donnell, President and Chief Executive Officer, RenaissanceRe Holdings Ltd.

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perhaps we can get a lot closer to achieving all 17 than each of us trying to be good at 17 things."

Turning to technology, Mr O'Donnell said, "I think there is a second wave that is emerging, which is, how to think about using technology to better protect risks that are emerging around the world. How do you protect someone using an Uber car? Do you have a cellphone app that allows them to obtain an instantaneous insurance policy for a ride? I think technology is going to emerge not only in the way we model risk but in the way in which we acquire risk."

Mr Duperreault, noting the risks being created in the digital world ranged from Uber and Airbnb, to hacking and cyber risk, said: "It's not just hacking – it's what

will drones do to us ultimately? I can't even scratch the surface of what all this means to us. It is very exciting as it's going to change the landscape we insure and we are going to have to change the way we look at the same time - two daunting tasks."

Concluding the discussion, Mr Butt said: "I think the greatest challenge I would like to put down to the industry is to increase the role we can play in a world where risk is getting greater - where the demands on a population growing to 9 billion and the concentrations of values and people risks are greater - we have a significantly greater role to play than we currently are. How do we achieve that?"

Mr O'Donnell said: "I think we should work hard to continue to facilitate investment.

I think if we look at ourselves as facilitating people to take risk and invest in their futures then I think we've got a bright future to make the pie bigger."

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Mr Duperreault said: "We need to continue to evolve and adapt and adjust. The challenge is to move as rapidly as possible without breaking the structure."

[Click here for video of this panel](#)



Moderator: Taoufik Gharib, Director, Standard & Poor's Ratings Services
William (Bill) O'Farrell, Chief Reinsurance Officer, ACE Ltd.
Samir Shah, Head of Insurance Capital Markets, AIG Inc.
James Slaughter, Senior Vice President, Global Reinsurance Strategy, Liberty Mutual Holding Company Inc.

C Sharp – Cedents' Role In Reshaping Reinsurance Coverage

As in previous soft cycles, reinsurance buyers are positioned to take advantage of lower pricing and demand more tailored solutions. However, the current environment also affords further capital options when evaluating the most cost-effective and efficient manner to reinsure risk. Along with these topics, our panel of primary insurers looks at how placement strategies are aligning risk with these capital options, and how reinsurers may be key to insurers' entering new products and markets.

William (Bill) O'Farrell, chief reinsurance officer, ACE, said: "I think what's really changed is there probably was a time where the reinsurers and the capital sold what they wanted to sell. There's now more of a balance on this ... and we are trying to be more responsive to that."

Samir Shah, head of insurance capital markets, AIG, said: "We're not trying to limit the number of reinsurance counterparties. (But) we have been redefining what the relationship is."

"What makes it strategic for us is the willingness to be much more transparent in terms of information. We respect the need for each side to be profitable and we try to become a lot more transparent."

James Slaughter, senior vice president, Global Reinsurance Strategy, Liberty Mutual Holding Company, said, "The cedent has become as smart as, or in certain cases more smart than (some) reinsurers and that's a massive change. And what that does is that allows us to have more leverage and allows us to do much more with the reinsurance product than we did before and I think that's fundamentally a change that's occurred behind the scenes over the last ten years at large insurance companies."

He added: "We actually look for resilience in our reinsurers - the ability to sustain the financial losses that could occur and be there to support us across a wide spectrum of classes and geography - we look for the skill, the resilience the capital - but we also look for other things."

Those include specialists and a balanced approach, he said.

He said: "We are not a price-driven reinsurance decision team. One of the things we don't decide on in reinsurance is prices. It's the last metric in any decision."

Of AIG, Mr Shah said, "There's no advantage in trading with somebody who is offering a low price because they don't understand the risk. In fact I find the opposite that if the counterparty is somebody who has the organizational capability to understand complex risk that price actually goes down because it removes a lot of the uncertainty that a more naïve underwriter might add on."

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Mr O'Farrell said he felt the issue that reinsurers are struggling with now is: "How do they move from a 'this is what I want to sell' to 'this is what my client wants to buy' atmosphere that we have in the market today."

Turning to alternative capital, Mr Shah said: "Using the capital markets to lower that cost of capital through diversification is something the reinsurance industry will never be able to provide."

"The capital markets is a once in a lifetime or once in a career unique opportunity and from our perspective it could fundamentally change our strategy on how to lower the cost of capital and how to increase capacity in the insurance market."

Mr Slaughter: "I think in the long term this is a fundamental opportunity for the insurance industry to distribute its risk in a lower cost fashion, the hurdle is how do we transmit risk from the customer all the way through. There's just too many layers of hierarchy in the whole risk to capital structure."

Mr O'Farrell said: "I think you will see more - like a Hamilton Re, Third Point ... certainly those hybrid structures are out there and they will morph into new structures...that will take on more longterm risk."

But one of the issues was how to put longer tail liabilities into a tradable format.

And he added: "Secondly, I am old fashioned and I certainly do like to know who is on the other side of the trade. So I get the theory of the efficiency of tradable securities. What I don't like as much is not knowing who that guy is - at the end you are still buying promises to pay. Collateral or not that's what you have, so it's important to me at some level to have an understanding of who that counterparty is and how they will react."

[Click here for video of this panel](#)



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Moderator: Matthew Britten, Managing Director, Insurance, PwC Bermuda
Christopher S. Coleman, Chief Financial Officer, Third Point Reinsurance Ltd.
Joseph W. Roberts, Chief Financial Officer, Ironshore Inc.
Laura Taylor, Managing Principal and Chief Financial Officer, Nephila Capital Ltd.

Batten Down the Hatches or All Hands on Deck?

Historically low loss activity coupled with strong balance sheets and ongoing reserve releases have softened the impact of current market conditions that continue to exert significant downward pressure on margins. How do CFOs balance investing and positioning their companies for the future with maintaining appropriate risk-adjusted returns in the face of changing regulatory capital requirements? Our panel of chief financial officers discusses this question and offers perspectives on the opportunities and risks in the market and the CFO's role in navigating these waters.

On the topic of alternative capital, **Joseph W. Roberts, CFO, Ironshore:** “I think it just has been a difficult investing environment in general and our business is viewed as being pretty stable and that is what's attracted people to our business.

“We haven't seen how it will play out entirely because we haven't had many alternatives and we haven't had many losses which have frightened people a little bit. I know people say they know what they are getting into, but it is one thing knowing in writing and another thing having a loss where you lose your capital.

“That being said, the products being offered are very clever. We have an improvement - it is making all traditional reinsurance players have to rethink their business model. From a buyer of reinsurance perspective we obviously like it - we want to see more competition. But it doesn't mean that we don't value what the traditional reinsurer does.”

Turning to the topic of M&A activity, **Laura Taylor, managing principal and CFO, Nephila Capital,** “Generally if you to speak to people in the market we expect more. Being a big player matters more and more in the property cat space at least. There are still some small players out there who are

developing different strategies and others who are looking to merge.”

Christopher S. Coleman, CFO, Third Point Reinsurance, commented: “In terms of how recent M&A impacts our organization, it's really a mixed view ... Certainly consolidation among the primary insurance companies is removing our customers from the market so clearly that's a negative, as well as there's lots of discussion around as these companies become bigger then they retain risk – and again that's a net negative. However consolidation on the reinsurance side is removing other competitors, so in theory that should be a positive over time.”

On size and scale, he said, having size as a strategy in and of itself is probably a poor strategy.

“Obviously as a management team we have considered the full spectrum of strategic options for us, which a key part of that is M&A,” Mr Coleman said.

“You look at any quality operation out there probably has some element of a takeover premium already built into the share price so there is significant dilution considerations, especially given where our trading multiple is.

“We also look at given our investment strategy, anything we would look to do in either a regulated US company or potentially Lloyd's would significantly restrict what we can do on the assets, so it would mean a fundamental change to our business model.”

Discussing the protection gap and potential opportunities for the insurance industry, Ms Taylor said: “We're still very focused on the US and property specifically,” adding, “I think the industry, both insurance and reinsurance, needs to continue to become more efficient and that will open up the product. For us, we are concentrating on a weather strategy – rainfall, snowfall, heating...there's a lot of opportunity as well in crop - in the US and worldwide - where people are looking for cover.”

Mr Roberts said: “The industry are poor users of technology across the spectrum. We're a little bit better on the personal lines side. But overall we are in an age today where everybody is clicking on their iPads and they are looking for a quick product solution whatever it might be and there is just not enough innovation in our technology within the reinsurance industry.”

[Click here for video of this panel](#)

Redefining the Risk/Reward Relationship

Reinsurance buyer strategies and options continue to evolve and expand as emerging risks increase in importance and government plans look to de-risk. The need to develop solutions for uninsured risks calls for reinsurers and risk facilitators to offer tailored coverage to more sophisticated buyers. Our panel gives perspectives on these trends, the impact of relationship value and their business models, and market opportunities.

Bryon Ehrhart, CEO, Aon Benfield Americas and chairman, Aon Securities, said that one of their top four growth areas this year for them was US mortgage credit: “It’s the largest emergence of new demand for risk since Hurricane Andrew.”

Mr Ehrhart added: “There is plenty of uninsured risk. Uninsured risk continues to grow at a rate that we think is actually exceeding the insured risk. I think we need to work harder and we have to show we are capable of that success but it is going to be hard work.”

Charles Withers-Clarke, partner, JLT Re Bermuda, said: “Bermuda is at the strongest position it has ever been within the reinsurance and insurance market and that goes for traditional and alternative capital, which is a fantastic platform that we have. We have to take hold of the opportunities that we have and assist our clients and offer better products.”

On cyber risk, Withers-Clarke said: Cyber is the wild west out there, it’s a central focus of boards and directors globally where solutions are needed. On this island there are 11 insurance companies offering cyber insurance. The coverage they are offering is different from one company to another

and the capacity is limited, underwriters are cautious and they should be. When a 15-year-old boy can hack a mobile phone company in the UK and take 155,000 customers’ banking details there is reason to be cautious out there. It’s a difficult line of business.”

He said: “One professional lines insurance underwriter said to me recently that on their reinsurance casualty renewal, 80% of the questions from reinsurers came about cyber. Cyber accounted for 5% of the income. So accordingly there’s great concern from reinsurers out there.”

He added: “There are reinsurance solutions being offered, but they are not adequate really for what we are looking at here. This is a great opportunity (for Bermuda to come up with solutions)”.

Weighing in, **Greg Haft, head of Worldwide Catastrophe Reinsurance Business, PartnerRe**, said: “The island continues to evolve” and “is phenomenal at reinventing itself and transitioning.”

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He said flood was a market that was “ripe for reinsurance”, adding: “The California situation in my opinion is a bit of a travesty. I think the fact that something like eight out of nine remain uninsured for the peril of earthquake is just a problem waiting to happen. It’s one that there is some lobbying on but probably we need to be doing more to let the people of the US know it’s going to be a governmental problem at the end of day if it’s not handled in the private market, and I believe to a large extent it can be handled in the private market.”

On pricing pressure, Mr Haft said, “In 2015 we saw what I would say is a firming of the pricing, certainly not a hardening, but the derivative has been positive so the rate of decrease is decreasing, and I would hope and expect that to continue.”

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Moderator: Kevin Ahern, Managing Director and Analytical Manager, Standard & Poor's Ratings Services
Bryon Ehrhart, Chief Executive Officer, Aon Benfield Americas and Chairman, Aon Securities Inc.
Greg Haft, Head of Worldwide Catastrophe Reinsurance Business, PartnerRe Ltd.
Charles Withers-Clarke, Partner, JLT Re Bermuda Ltd.

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