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The people, companies and issues
shaping the industry in 2016

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Michael Faulkner
Editor

Eastern promise

The Power50 is *Insurance Day's* take on the insurance industry's most influential individuals, top-performing companies and the key issues that will drive and challenge the industry in the year ahead.

At the heart of the Power50 is our list of the sector's most influential: the power-brokers, the opinion-formers, the innovators. These are the 50 individuals we believe will shape the industry in 2016. And there have been some changes since last year.

The past 12 months have seen Asia's influence on the international re/insurance industry grow; such as Mitsui Sumitomo's £3.5bn (\$5.39bn) acquisition of Lloyd's giant Amlin, and investment firm China Minsheng's \$2.2bn deal to buy White Mountains' reinsurance subsidiary, Sirius International Insurance Group.

This year's Power50 is a reflection of the growing influence of Asian companies.

As was the case last year, a number of our top influencers have also shared their views on the challenges and opportunities for year ahead, covering topics such as technology, diversity and the protection gap.

We have also taken a deep look at re/insurance company performance using *Insurance Day's* in-depth database of financial information in order to provide our assessment of the industry's top performers.

Lastly, we present a series of articles examining some of the most pressing issues for the insurance industry in 2016, covering topics such as the evolution of the reinsurance market, mergers and acquisitions, and emerging markets.

Enjoy! ■

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Market news, data and insight all day, everyday
Insurance Day is the world's only daily newspaper for the international insurance and reinsurance and risk industries. Its primary focus is on the London market and what affects it, concentrating on the key areas of catastrophe, property and marine, aviation and transportation. It is available in print, PDF, mobile and online versions and is read by more than 10,000 people in more than 70 countries worldwide.

First published in 1995, *Insurance Day* has become the favourite publication for the London market, which relies on its mix of news, analysis and data to keep in touch with this fast-moving and vitally important sector. Its experienced and highly skilled insurance writers are well known and respected in the market and their insight is both compelling and valuable.

Insurance Day also produces a number of must-attend annual events to complement its daily output. The *Insurance Day* London Market Awards recognise and celebrate the very best in the industry, while the Insurance Technology Congress provides a unique focus on how IT is helping to transform the London market.

For more detail on *Insurance Day* and how to subscribe or attend its events, go to subscribe.insuranceday.com

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POWER50: PROFILES

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Who are the most influential people in the insurance industry? The Power50 presents *Insurance Day's* view on the 50 people we believe will shape – even transform – the industry in the year ahead.

These are the power brokers, the opinion-formers, the innovators. Some are influential because of the power they wield – such as regulators – others possess a combination of these qualities.

Not surprisingly, the chief executives of some of the world's biggest re/insurance companies are present. Financial clout goes a long way to securing a seat at the top table – and this was one of the factors we considered when drawing up the list.

Other considerations were the individual's profile and the extent to which they are challenging ingrained practices and leading the industry's development.

It is important to stress that this is a subjective exercise. The list is also presented in alphabetical order – it is not a ranking!

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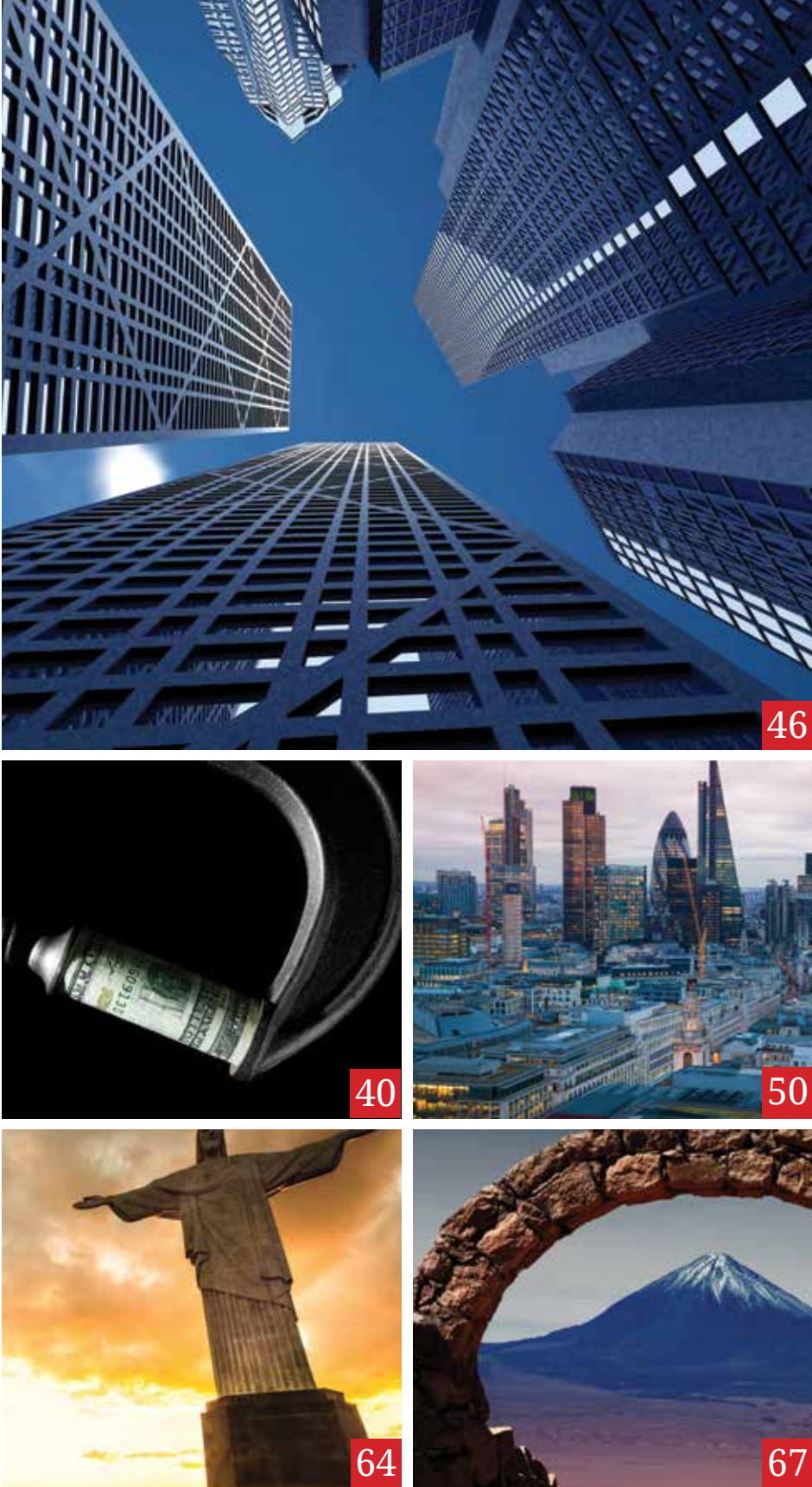
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Latin America has lured the international re/insurance community with its promise of strong economic growth and growing demand for insurance products. But recently, the prospects for some of the region's economies look a little less appetising. **Rodrigo Amaral** examines the outlook for Latin America's main insurance markets



CORY ANGER

GC Securities, global head of insurance-linked securities structuring



GC Securities has been at the forefront of innovation in the insurance-linked securities (ILS) sector.

Anger's team at the investment banking arm of Guy Carpenter completed numerous pioneering ILS deals and attracted new sponsors in 2014 and 2015 – and will be one to watch this year.

One example was the Panda Re bond, which was the first catastrophe bond covering Chinese risks. The bond provided sponsor China Property & Casualty

Reinsurance Company and China Reinsurance (Group) Corporation with a \$50m three-year source of protection against losses from earthquakes in China.

GC Securities acted as sole structuring agent and bookrunner for the Panda Re cat bond transaction, which was hailed as paving the way for more Chinese risks to come to the capital markets.

Chinese reinsurers have been evaluating transferring risk to the capital markets for a number of years. The Chinese regulator has taken time to become comfortable with cat bond structures, which has delayed cedants coming to market.

"We would expect there will be those that have previously monitored the market who will seriously consider this as a form of risk-transfer capacity," Anger says.

Another significant transaction by Anger's team was the Lion I Re transaction, in 2014. Sponsored by Italian insurer Generali, Lion 1 Re was the first indemnity-triggered European windstorm bond issued under a Rule 144A securities format.

The bond was seen as a key development in the marketplace for European insurers to be able to access indemnity cover. "It demonstrates investors are comfortable with the disclosure and definition of what an event is. It has paved the path for other sponsors to obtain indemnity cover," Anger says.

The Rule 144A format enabled Lion I Re to issue €190m (\$263.3m) of notes, in contrast to the earlier Windmill I Re's €40m issuance, which was a private placement.

The success of Lion I Re's Rule 144A format showed ILS investors were becoming comfortable with less granular data available for European wind risk.

Other pioneering bonds GC Securities has worked on included the first catastrophe bond issued by the World Bank for the Caribbean Catastrophe Risk Insurance Facility; and Cranberry Re, the first to support a residual market insurer protecting against multiple natural perils.

GC Securities also completed the largest Rule 144A catastrophe bond (as at August 17) – Alamo Re, sponsored by the Texas Windstorm Insurance Association (TWIA), the state's last-resort coastal wind and hail insurer, which completed at \$700m. ■

OLIVER BÄTE

Allianz, group chief executive

Allianz has seen its net profits climb 3.9% to €5.2bn (\$5.6bn) for the first nine months of 2015, thanks to a combination of a steady level of operating profit and reduced drag from non-operating items. The group is now looking to the upper end of its target operating profit for the year, which is also the first full year of Oliver Bäte's tenure as group chief executive of Allianz, of about €10.8bn.

The level of expectation within Allianz in terms of the group's performance over the course of last year suggests Bäte and his team have managed to successfully negotiate a number of tough challenges, not least in Europe, with low interest rates and an economic recovery which is far from assured in western Europe and the threat of political instability in eastern Europe. For Allianz, economic recovery has been a particular concern in Italy, its second-biggest market, where the group has significant exposure to Italian government bonds.

But Bäte, the former "crisis-time" chief financial officer (CFO) of Allianz, is no stranger to steering businesses through choppy waters. Before taking on the top job he had been in charge of the group's insurance businesses in France, Benelux, Italy, Greece and Turkey (as well as its global property/casualty operations). In this capacity, Bäte is credited with turning around the fortunes of Allianz's struggling Greek subsidiary and for his handling of a number of very successful acquisitions in France, Turkey and Belgium.

The highly polished and capable Bäte joined Allianz in 2008 from McKinsey at the direct request of Michael Diekmann, his predecessor as group chief executive. He significantly raised his profile within the group as CFO during the challenging years of the global financial crisis and rapidly acquired the air of the prodigy destined for great things at one of the great German companies. Indeed, for the three or four years before his appointment as chief executive of Allianz, Bäte was the closest thing German corporate culture, notoriously secretive about matters of succession, had to a crown prince. ■



INGA BEALE

Lloyd's, chief executive

More so than in the 12 months of 2014, the past year has allowed Lloyd's chief executive, Inga Beale, and chairman, John Nelson, to really stretch the legs of their partnership as they steer the corporation forward.

Both prominent ambassadors behind the dynamic strategy that is Vision 2025, they are conscious and alert to the competitive pressures bearing down on the global marketplace and the steps the market needs to take for Lloyd's to maintain its relevance.

The London Matters report, published at the tail end of 2014, provided Beale and Nelson with focused, evidence-based messaging on the need to engaging growth market opportunities and, perhaps more pressingly, the necessity for the market to modernise.

Beale sees great opportunity for Lloyd's in all major overseas territories, including emerging markets, through its growing global licence network. In 2015, Lloyd's secured branch licences in Beijing and Colombia; applied for an onshore licence in Malaysia; and has expressed consistent interest in India.

Beale's emphasis has been on making Lloyd's easier to do business with. "It's still too hard and it just can't be," she told *Insurance Day*. Part of this struggle is intrinsically linked with the necessity to modernise the process of doing business with Lloyd's. The Target Operating Model (TOM) initiative is making progress.

It has not been lost on the 327-year-old establishment that technology is a fundamental aspect of reaching this goal. Recently, Nelson opened a seminar on exploring fintech opportunities in Lloyd's, saying "modernisation is not optional, it's compulsory".

Both Beale and Nelson are keen proponents of innovation in the way the market develops products and improves its processes, championing its successes and embracing new entrants from other forms of capital and other regions. In 2015 Beale championed the market's first diversity event, the Dive In Festival, demonstrating her commitment to increase the number of women in senior positions in the market and also signalling the importance of a diverse workforce. ■



GABRIEL BERNARDINO

European Insurance and Occupational Pensions Authority, chairman



Gabriel Bernardino, chairman of European financial regulatory body Eiopa, wields considerable power in the insurance sector.

And with the extension of his term of office for a further five years to 2021, Bernardino's influence is set to persist for some time.

This year will be an important one for Bernardino and Eiopa. New rules governing Europe's insurance industry, Solvency II, which were originally expected to be implemented by January 2014, are now due to come into force on January 1, 2016 delayed by the tortuous

European legislative process and arguments over technical elements of the rules.

Over the coming year Eiopa will be placing a huge emphasis on the promotion of supervisory convergence as the firms and national supervisors implement the new regime.

"Solvency II brings a new risk culture and enhanced consumer protection while using the latest international developments in risk-based supervision, actuarial science and risk management. It encourages companies to explicitly identify their own risk appetite and risk profile, and asks executive boards to take business decisions recognising their economic capital consequences.

"Thanks to Solvency II we will be in a position to initiate a journey towards convergent supervisory practices in the EU," he said in a recent speech.

"Solvency II is a new and complex regime and guidelines provide some important outcomes – they limit the risk of divergent interpretations by national supervisors and help limit implementation costs by making it clearer what supervisors' expectations are," he said.

Bernardino will be using all the tools at Eiopa's disposal to ensure Solvency II is implemented in a consistent way throughout the EU, issuing technical standards and guidelines to deliver on this objective.

And as the implementation of Solvency II gets under way Eiopa will be "very attentive to any material unintended consequences" of the new regime, especially if they have a negative impact on consumers, he says.

Areas such as the impact of Solvency II on insurers' investment behaviour will be closely watched, particularly with regards to long-term investments such as infrastructure projects.

Bernardino will also be paying close attention to the impact of Solvency II on risk culture and governance within insurance companies.

One of the core principles of Solvency II is to look at risks and capital in an integrated way, with the own risk and solvency assessment (Orsa) being an important management tool that brings together risk and capital management.

Eiopa will closely monitor the way the Solvency II system of governance is implemented in the different member states, including the use of due proportionality, Bernardino says. ■

TOM BOLT

Lloyd's, franchise performance director



If there was ever the expectation Tom Bolt, an urbane American and Rolf Tolle's successor as director of performance management at Lloyd's, would adopt a more relaxed approach to the regulation of the world's most famous insurance market (then enjoying a level of financial stability it had not seen in ages), that expectation was dispelled as soon as he walked through the revolving doors at 1 Lime Street in 2009.

True to form, at the beginning of last year, just as the market was getting excited about cyber insurance, Bolt was scrutinising the potential of an aggregation of losses associated with cyber attacks, reminding managing agents to monitor and price their cyber exposures properly.

Similarly, while the Corporation of Lloyd's is keen to harness the potential of alternative capital such as pension funds and other capital markets investors, Bolt has voiced his concern about increasing the risk to the market or jeopardising Lloyd's reputation.

One aspect of concern is the redemption provisions in the investment funds, as Lloyd's wants to minimise the risk of investors exiting following a loss event. While a mass redemption would not threaten a fund-backed syndicate's ability to pay claims, given the syndicate's funds at Lloyd's it could threaten the market's reputation, he said.

But for Bolt it is not just all about the security of Lloyd's. He has been hugely supportive of the market's newest initiative, whereby eight Lloyd's insurers commit capacity of \$400m in a joint effort to create new solutions to help developing countries address natural catastrophe risks.

Syndicates managed by companies including Amlin, Beazley and Hiscox are the initial participants in the facility, which plans to engage with governments, municipalities and non-governmental organisations in developing solutions. The economic cost of natural catastrophes has grown considerably over the past few decades, increasing from about \$30bn a year in the 1980s to \$182bn a year in the past 10 years, according to Swiss Re.

"This collective initiative means the Lloyd's market can help provide the insurance solutions needed to build resilience to natural hazards and promote risk awareness around the world. We are keen to work closely with organisations across the globe to help protect economic growth in developing countries," Bolt says.

Bolt is due to retire in the middle of 2016, but his influence on the Lloyd's market will continue to be felt. ■

RICHARD BRINDLE

Fidelis, chairman and chief executive

Richard Brindle returned to the market in 2015 with his new Fidelis start-up in Bermuda, unveiling a business model which he believes could help reshape the industry.

With capital still plentiful and competition continuing to put pressure on the rating environment, the industry is also facing headwinds on the investment side of the business.

Brindle believes the model he and the team at Fidelis have devised will provide a template for the future to help overcome these challenges.

Fidelis' model is based on a hedge-fund-based investment portfolio that is not a single fund, and is carefully diversified and very heavily analysed. Key to that portfolio is overnight liquidity, which Brindle says gives the business all the flexibility needed to underwrite the next day in the event of a broad-based or regional market dislocation.

In a recent interview with *Insurance Day*, Brindle said he hoped the launch of Fidelis would serve as an example to others and help stop some of the "irresponsible underwriting" taking place in the market at present.

"The industry needs a new business model, as has been evidenced by the irresponsible behaviour in the market in the past 36 months. I think the industry is set for a shock when the next large loss occurs. When the tide has gone out I think there will be a lot of detritus left on the beach," he said.

"I believe, if we can pull this off and others take note, if a significant chunk of the market has the ability to de-risk during a soft market, it will behave a lot more responsibly."

Brindle's previous start-up, Lancashire Holdings, continues to deliver an underwriting performance which outperforms its peers.

Having begun underwriting in 2015, Fidelis is expected to grow its industry presence in the year ahead.

Alongside Brindle, the group's management team also includes Neil McConachie, his co-founder at Lancashire, who serves as group chief financial officer.

Brindle says Fidelis will be looking for a high single-digit return on the investment portfolio, while the underwriting portfolio will focus on specialty insurance and reinsurance.

If Brindle and Fidelis are successful in their endeavours, others may follow a similar business model and tactically shift capital between underwriting and investments to match opportunities. ■



DOMINIC BURKE

JLT Group, chief executive



In 2014 JLT Group's chief executive, Dominic Burke, got the market talking with his aggressive expansion plans to build a US specialty business. Last year he followed through with that plan as he looked to take on the global broking "big three".

The fledgling JLT USA, which launched in August 2014, now has more than 150 staff across 12 offices. It is aiming to generate revenues of around \$50m, of which around \$20m to \$25m would be new business, Burke said earlier in 2015.

The US investment looks like it is begin-

ning to pay off. The business is now achieving good levels of client wins and a "strong" new business pipeline, according to Burke. He described the momentum of the US business as "pleasing".

He insisted while the group could "travel at a much greater speed" in developing the US business, the focus was on "building depth".

"It is more important to recruit the right people," he said. "JLT USA has made a very encouraging start. We have been encouraged by the quality of people we have been able to hire, the response of insurers and reinsurers, which have been very supportive of the group's plans, and early indication of traction with clients."

Burke hired two senior Aon executives – Michael Rice and Pat Donnelly – to spearhead the expansion and he plans to invest £50m (\$83m) over the next two years to grow the business in the US, targeting specialty areas including energy, construction, financial lines and aviation.

Since then Burke has been busy hiring from JLT's rivals, including Jim Pierce as chairman of its US specialty business. Pierce was most recently chairman of Marsh's global industry practices, leading the aviation, construction, energy, infrastructure, marine, mining, power and rail practices.

The broker's reinsurance arm JLT Re has also been motoring, achieving an enviable organic revenue growth of 7% in 2014.

The unit booked revenues of £159.6m in 2014, an increase of 108% on the previous year, as this included the first full-year contribution from the Towers Watson reinsurance broking business acquired in November 2013.

JLT Re's trading margin remained at 15%, but this could hit 20% by the end of 2016 on the back of new business and increases in efficiency.

Overall, the group's revenues increased 13% to more than £1.1bn in 2014.

Expect JLT to continue its growth in the year ahead under Burke's leadership. ■

MARK CARNEY

Bank of England, governor



Bank of England governor, Mark Carney, got the London market executives thinking recently when he warned of the risks posed by climate change to insurers.

Speaking at the Lloyd's City Dinner, Carney called on insurers to improve their risk modelling, saying increasing levels of physical risk as a result of climate change could present significant challenges to general insurance business models.

Insurers, he said, needed to be wary of "cognitive dissonance" within their organisations whereby "prudent decisions" by underwriters such as repricing or withdrawing cover as climate change progresses lead to falls in the value of properties held by the firm's asset managers.

UK insurance regulator the Prudential Regulation Authority (PRA), which Carney oversees, plans to increase its focus on resilience to climate change as part of its supervision of the insurance industry.

Beyond climate change, 2016 is set to be an important year for the PRA with the implementation of Solvency II, the pan-European risk-based capital regime, which has been many years in gestation.

While UK regulated insurers should be ready for the new rules, given the PRA's existing risk-based regime, Solvency II will increase the compliance burden on firms, not least from a reporting perspective.

Insurance executives will also need to grapple with the new accountability rules that come into force in March 2016. The new rules mean senior managers and non-executive directors will be held individually accountable for the areas of the business they are responsible for.

While the threat of potential criminal sanctions and the "presumption of responsibility" will not apply to senior insurance managers, lawyers warn managers will need to provide evidence to regulators as to how they meet the requirements.

There are also expectations the regime will become "more intrusive" and fines will be heavier.

Carney's influence stretches beyond the UK. He is also chairman of the Financial Stability Board, which is charged with protecting the stability of the international financial system. Part of this work has involved designating – with the International Association of Insurance Supervisors (IAIS) – insurance and potentially reinsurance companies that are systemically important.

The insurance industry has been lobbying hard to persuade policymakers that traditional re/insurance activities do not pose a systemic risk. Despite this, nine insurance companies have already been designated systemically important.

The IAIS is developing rules, which including capital loadings, for systemically risky firms. ■

DOMINIC CASSERLEY

Willis Group Holdings, chief executive

The future of Willis, the world's third-largest insurance broker, and of Dominic Casserley, its chief executive, are tied to the success of the broker's merger with advisory firm Towers Watson.

The merger, which will create a combined firm with annual revenues of \$8.2bn, will significantly enhance Willis's advisory and consultancy capabilities and give the firm access to Towers Watson's relationships in the critically important \$10bn-plus US large property/casualty corporate market.

The \$18bn amalgamation is being billed as a merger of equals, with Towers Watson's chairman and chief executive, John Haley, taking on the chief executive's role.

But it will fall to Casserley, who will be the deputy chief executive of the merged firm, who will be steering it through the treacherous waters of the international corporate broking market.

Scale, global reach and a firm foothold in the US are now just the minimum requirements for brokers of a certain size to get to the starting line in the race to compete with Marsh and Aon.

The proposed merger has faced criticism. Two proxy advisory firms – ISS and Glass Lewis – have recommended Towers Watson shareholders vote against the deal, telling them they would get the “less equal” side of the merger and were not being properly compensated for the additional risks they would be taking on.

The counter argument is that the transaction is set to deliver approximately \$4.7bn in total incremental value to stockholders through a combination of cost savings, revenue synergies and tax efficiencies.

The original terms of the merger agreement offer Towers Watson shareholder a special dividend of \$4.87 a share. But last month, Willis agreed to raise it to \$10 a share a day after Towers Watson shareholders balked at the original terms and forced the delay in the shareholder vote until December 11.

But if the opportunities for the combined firm are huge, so are the challenges, not least the process of integration. Casserley and Haley have proved themselves more than adapt at managing change. ■



JOHN CHARMAN

Endurance Specialty Holdings, chairman and chief executive



Following last year's failed attempt to acquire rival re/insurer Aspen, it wasn't long until Endurance Specialty Holdings chairman and chief executive John Charman was out in the market making another play.

In July, Endurance completed its acquisition of fellow Bermudian, Montpelier Re, for \$1.8bn. The transaction was described as a significant strategic step for Endurance adding scale, expanded distribution capabilities and a profitable in-force portfolio, by Charman.

The acquisition created a company with shareholder equity in excess of \$4bn, total capital of \$5.5bn, and total cash and invested assets of \$9.3bn. It also gave Endurance a Lloyd's platform, which will play a central role in Charman's plans to grow the carrier's global specialty business in the next two to three years.

Since taking the helm of Endurance in May 2013, Charman has led a major transformation of the business.

“Charman is no stranger to generating provocative headlines. In 2014, he became the object of considerable media attention following his attempted hostile takeover bid of Aspen”

With four decades of global experience in the insurance industry, holding senior underwriting positions since 1975 and a chief executive role since 1981, including his position as founder, chief executive and president of Axis Capital Holdings, Charman is clearly the man for the job.

Charman is no stranger to generating provocative headlines. In 2014, he became the object of considerable media attention following his attempted hostile takeover bid for Aspen.

A battle between financial strength, business strategies, shareholders and egos raged for several months, but finally, after Aspen shareholders rejected Endurance's \$3.2bn bid, it was put to bed.

Despite the disappointing outcome, Charman's reputation as a leading – and at times, controversial – industry figure remains undiminished. ■

WE MUST NOT LOSE SIGHT OF THE CUSTOMER

GRAHAME CHILTON

» Much attention is being paid to technology in our business, especially in London. This is a good thing, but amid all the talk – and thankfully action – about process, systems, modelling and efficiency, we must never forget people remain at the core of everything we do, no matter how digitally connected we get.

Since our people are central to how we deliver for customers, our collective performance depends on individual effort. As leaders, our role is to make sure each team member we have is constantly motivated. We must make them feel they are important, more than just cogs in a wheel.

We also need to think about training and development. Well-trained people simply deliver better results and training builds motivation, so the investment is always worthwhile. We can make all the electronic interconnections imaginable, but unless the people at the centre of our market are motivated and well trained, we will not succeed.

I am not trying to play down the importance of market modernisation and process reform. Our cost of doing business simply must be reduced. I am encouraged by the efforts of the London Market Group to make real change. The Lloyd's claims transformation process has been a huge win for market competitiveness. But for the circle to be squared, individual risk carriers and brokers have to make the effort.

If process improvement had been embraced by everyone in, say, 2001, we would now be replacing a second generation of legacy systems. Sadly, some organisations are still waiting to get rid of their original infrastructure. It has to change or our investors will put their cash behind properly efficient industries.

We need to grab hold of technology to change the way we transact business. That could be through web-based distribution platforms, paperless environments or straight-through systems. We need to consign the printed bordereaux to the dustbin and discover how we can harness technology to make processes more efficient and accurate. Market-wide work is under way, but in the meantime individual companies should be getting their own systems in order.

To that end, we should welcome regulation as an opportunity. Some new requirements may seem like burdens, but we need to turn that thinking around. Solvency II forces a level of reporting that can lead to new insights into our own business and identify growth opportunities. We should shout about our industry's unprecedented capital strength. With all the options customers have, we need to reposition our regulatory capital, approved managements and upgraded reporting systems as a competitive advantage. To achieve that,

we first need to change our own thinking.

Capital has flooded our sector and brought some real change. Capital leverage means the capacity available from the traditional reinsurance market is probably in the area of \$2trn. It would be wrong to announce the death of the cycle (or similar dramatics), but equally wrong to deny change is upon us. We can either watch our operations become irrelevant or embrace surplus capacity as an opportunity. How can we deploy capital profitably? Lloyd's is making the world think about this question and facilitating opportunities, but the answers will be different for every business.

One avenue is to continue the push into new markets. Our business has become thoroughly global and mergers are one response. I believe the trend will continue. Working with international customers means a parallel presence is essential, despite technological advances. The Far East and Latin America are increasingly important. The weight of global economic might is being redistributed and rebalanced and we must shift with it or be swept aside.

All the buzz about alternative capital feeds into the capacity question. It presents similar options: act or face obsolescence. First, money from the capital markets is making our products cheaper right down the value chain, which has to be good for our customers, which has to be good for us. Second, the product, when the terms and conditions are right, has the advantage of no credit risk. That is a big change for reinsurance and retrocession buyers and should not be underestimated.

We work every day with traditional insurers and reinsurers that have embraced alternative capital. Many of these companies create both options for clients and controlled opportunities for their parent companies to gain access to new, inexpensive capital. As brokers, we love this. For progressive carriers, such bold moves have sustained profitability during a cyclical pricing dip.

Integration is perhaps most important for our customers. My vision of our market in three years' time is one that is utterly customer-focused in terms of the variety and responsiveness of the products we offer, the places we offer them and the service we have in place to back them up. It is easy to lose sight of the customer, especially with our long chain. It is a bit of a cliché, but we need to remember they are far and away our most important asset. If we advocate on their behalf to the best of our best abilities they will be satisfied and remain loyal. Without them, we have nothing. ■

Grahame Chilton is chief executive of Arthur J Gallagher International

THE INSURANCE INDUSTRY NEEDS A ROBUST COMMITMENT TO DIVERSITY AND INCLUSION

DOMINIC CHRISTIAN

Recently I was at a meeting of young men and women tasked with looking to the future; indeed, their group was called 2045. In discussing their vision for what may be, we talked about the development of the “online life”, formal classroom education ceasing at 14 years old and the likelihood of global conflict arising between Asian powerhouses and conglomerates.

A recurring topic was the prospect of a world of increasingly significant “city-states”; a world in which London, for instance, would be perhaps more significant, from a brand perspective, to some audiences than the UK.

The meeting illustrated young people today are preparing for a world vastly different from that which their forebears contemplated 30 years earlier.

And the insurance industry is no different – our younger members offer a different perspective from the “veterans” on how the sector should adapt and change to remain relevant in the context of the evolving global landscape.

“Many in the insurance industry, Aon included, believe London offers a window on the world, not least because of the talent and training here”

In some enlightening meetings I have noticed their focus so often centres on how to develop the global “community”, with interest shown in the environment (be it natural or built), in matters internationally, in the inter-connectedness of our sector today and also on themes such as the consensual nature of contemporary leadership and advances in technology marketing.

In particular, they point to a world that embraces diversity and inclusion – an area in which we are beginning to make strides.

There have been encouraging appointments in our sector in recent years. As we know, the subject of diversity is not solely about women; it is about multi-culturalism, LGBT and our attitudes to workability, among other subjects.

In years past, when people have opined on the key challenges for our industry, they have pointed to matters including: insurance has had a bad press; our industry is going to die unless we embrace technology more effectively; e-placing is an inevitability; it is hard to recruit people to the industry; we need to look after our staff better; and client-centricity has to be at the heart of what we do.

All these concerns, rightly espoused by our predecessors and for which the generation of our new members of our industry refer, can be addressed if we meaningfully broaden our talent pool, ease the paths and entry points to our industry, improve the style and intensity of how we hire and expand the avenues and locations from where we recruit.

A genuine and robust commitment to the issue of diversity and inclusion will help solve many of these questions for us.

It should be remembered we work in one of the world’s most historic, capable and pioneering sectors. Many of us work in London – an excellent example of diversity in action. Those who live in London are part of a city with a greater GDP by purchasing power parity than Switzerland: A city in which 300 languages are spoken – more than any other – which contains 43 universities, comprising 378,000 students, and which last year greeted 14.5 million tourists. A city that accommodates the world’s most popular music venue, the O2 Arena, and the world’s most popular modern art gallery, the Tate Modern. A city which houses 100 of the largest 500 European companies, as well as, of course, one of the main centres of activity for the global insurance industry – the 22,500-strong Insurance Institute of London is itself testament to the power of our sector in our capital city.

Many in the insurance industry, Aon included, believe London offers a window on the world, not least because of the talent and training here. Akin to London, our industry needs to act as a magnet for culture and diversity and display openness to new ideas and new approaches.

The “city-states” of the future will be characterised as disparate pools of global talent, made possible and powerful by the movement of people, information and ideas. The most successful of these city-states will be those that adopt an ethos that not just goes with the flow but advances it. They will be welcoming locations, with diversity and inclusion at their forefront. ■

Dominic Christian is chief executive of Aon UK

GRAHAME CHILTON

Arthur J Gallagher International, chief executive, and Capsicum Re, founding partner

Grahame “Chily” Chilton was a high-profile name announcing his return to the market in 2013, through the new reinsurance broker firm Capsicum Re venture. But it was his appointment as the chief executive of broking group Arthur J Gallagher’s (AJG) international division in February 2015, following mounting controversy around his predecessor’s exit, which really exploded him back onto the re/insurance stage.

Chilton, one of the driving forces in the emergence of Benfield as one of the world’s most prominent reinsurance broking forces, had already linked up with AJG to launch Capsicum Re. The latter is now the treaty reinsurance broking operation of AJG, having absorbed the company’s reinsurance broking team.

Unsurprisingly, Chilton has big plans for AJG. He wants to position the global broker as either a top three or top five broker in each international territory and business class where it has a presence. As one of the most acquisitive groups out there, averaging one acquisition a month, he is confident this plan will prevail.

“There’s a limit to the organic growth you can put on an organisation,” he told *Insurance Day* recently. “Growth via acquisition is a big part of how we want to grow and how the group as a whole has grown.”

Chilton’s strategy is international. Over the course of 2016, AJG will continue its push in Latin America, having recently expanded its presence in Colombia and, earlier in 2015, Chile. Following the international division’s joint venture in China, the company will be looking at further opportunity in Asia.

Since he started his role in February, Chilton has spent much of his time working on a profitable growth strategy as well as rebuilding much of the executive team that departed with former chief executive David Ross.

“When I came in and I was looking for the strategy book, I couldn’t find one,” says Chilton. “The strategy that had been put in previously was too opportunistic. I’ve implemented something that is more strategic than opportunistic.” ■



DOMINIC CHRISTIAN

Aon UK, chief executive, and Aon Benfield International, executive chairman



Broking veteran Dominic Christian is an increasingly prominent industry figure whose significance to the market now extends far beyond his roles at Aon UK and Aon Benfield.

One of Christian’s many industry positions is as chair of the Inclusion@Lloyd’s group, which is taking a contemporary approach to tackling issues such as diversity in the workplace. Christian sees these factors as critical to the industry’s future

success, and he is now a regular speaker on ways in which the industry can develop a more inclusive workforce and use a broader range of skillsets.

Christian recognises the opportunities a London base brings in securing such a wide range of skills. “One of the reasons we moved our headquarters here is you can hire in pretty much any field successfully, which is very difficult to do in other cities,” Christian says.

He also serves as president of the Insurance Institute of London, where he has made attracting fresh talent to the industry the central theme of his presidency.

In his capacity as chief executive of Aon UK, Christian is also leading a company that is using apprenticeships to bring new blood into the sector. Through Aon’s apprenticeship scheme, Christian says the broker is trying to capture people with different experiences and stories to tell.

Much of his own career has been with Aon Benfield and its predecessor companies. Christian joined Greig Fester in 1989, becoming a director in 1994. He later served as group board director of Benfield Group, chief executive of its international division, and chief executive of Benfield Limited.

Following Benfield’s acquisition by Aon in 2008, he became co-chief executive and chief executive, international, before taking on his current role.

In February 2014, he was elected to a three-year term as a working member on the Council of Lloyd’s, the body responsible for the management and supervision of Lloyd’s.

In his leadership roles, Christian recognises the importance of creating the right culture in which people can flourish. He believes people need to be given every opportunity to express their talent. “If the culture isn’t right, talent won’t flourish to the best of its abilities,” he says.

Christian remains a prominent player in the London and international insurance markets, and will be at the forefront of helping to shape the talent base that will help drive the industry forward. ■

EMMANUEL CLARKE
PartnerRe, president



PartnerRe has certainly stolen some headlines in 2015. Now the tussle between Italian investment firm Exor and Bermuda-based re/insurer Axis Capital to acquire PartnerRe has been resolved, with Exor's \$6.9bn offer winning out, the challenge for Emmanuel Clarke and his team is to focus on building the business.

For Clarke, the acquisition by Exor – which is due to close early this year – has provided PartnerRe with the financial muscle to survive in a tough market. And PartnerRe's new owner has big plans, aiming to place the company in the top four reinsurers in terms of shareholder equity.

PartnerRe is the sixth-largest global reinsurer in terms of shareholder equity at present, with total shareholder equity of \$7.08bn as of June 30, 2015. To reach the top four it would need more than \$8.51bn, putting it above Everest Re and Hannover Re in terms of shareholder equity.

The deal with Exor also means the PartnerRe brand will continue and the company will operate as a standalone entity without the need for a complex integration process, which would have been the case in the event of amalgamation with Axis Capital.

Speaking at Monte Carlo earlier in 2015, Clarke said the company's growth is set to come organically rather than through acquisitions, but he added the reinsurer would consider growth that way if the right opportunity came along.

“PartnerRe’s new owner has big plans, aiming to place the company in the top four reinsurers in terms of shareholder equity”

He said there was stable demand for PartnerRe's products in mature markets but with shifting demand for specialty such as agriculture and also growth potential in east Asia.

“As we navigate through the times going forward, we'll see what opportunities come our way and whether they match. I think we are looking at our future with confidence for organic growth,” he said.

PartnerRe is searching for a new chief executive to take over from Costas Miranthis, who stepped down earlier in 2015. David Zwiener, interim chief executive since January 2015, will focus on bringing Exor's acquisition of PartnerRe to a close, at which point he will step down.

Clarke has been with the company since 1997 and was appointed president in September 2015.

The deal between Exor and PartnerRe is expected to close within the first quarter of 2016 after shareholders approved the deal on November 19. ■

GRAHAM CLARKE
Miller Insurance Services, chief executive

It has been a transformational year for Miller after the broker sold an 85% stake to Willis at the start of 2015.

The specialist wholesale broker, which operates internationally and at Lloyd's, is led by chief executive, Graham Clarke, who says he saw significant benefits if the company were to join forces with Willis.

The firm has seen significant growth over the past decade, but Clarke said he saw the partnership with Willis as a quantum leap forward in growth. “We could see clients' requirements demand greater scale and we needed to grow to continue to be relevant; size really does matter,” he told *Insurance Day* earlier in 2015.

Under the terms of the transaction, Willis has become a corporate member in Miller Insurance Services, taking an 85% interest in the partnership. Willis's investment in Miller was approved on June 1.

“By combining the strengths of our two firms we will be able to offer additional expertise, experience and product knowledge,” Clarke said.

“While we look back proudly on our long heritage, we are also looking forward to a new era of partnership,” he added.

The transaction saw the majority of Willis's wholesale broking units transferred to Miller, including its international professional lines business and its kidnap and ransom team.

Last year also saw BB&T IHC International, a subsidiary of BB&T Corporation, one of the largest financial services holding companies in the US, make a strategic investment in the firm.

“This investment further strengthens our leading position in our chosen markets and enshrines our independence. BB&T, along with Willis, was attracted to our established business model and the quality of our operations,” Miller said.

Clarke became chief executive of Miller in 2000. He has been with the broker since 1982. In addition to his role at Miller, he is also a member of the board of the London and International Insurance Brokers' Association, serving as chairman from 2012 to 2014.

One of his first moves as Miller's chief executive was to bring the eight autonomous broking units he inherited in 2000 under centralised management; through his term he has made significant investments to build out Miller's technology and back-office infrastructure.

Growth has been central to his plans, particularly after developing a roadmap for growth in 2011 called Vision 2020.

Under his leadership, the broker grew organically from £35m (\$54.7m) of gross annual revenue in 2000 to £113m in 2014. ■



HENRI DE CASTRIES
Axa, chief executive

There is not much going wrong at the moment for Axa's Henri de Castries who, having held the job since 2000, is easily one of one of the longest-serving chief executives of a major insurance company in the world.

Unveiling its interim results in August, Axa announced revenues had grown 2% to €55bn (\$60.36bn), with underlying earnings rising to a half-year record of €3.1bn.

The opening six months of the year saw Axa engage in a number of transactions to boost its international expansion. These included the completion of a deal to acquire a 7% stake in Africa Re and the acquisition of Poland's BRE Insurance.

In May Axa announced plans to acquire the property/casualty large commercial risks insurance subsidiary of SulAmerica in Brazil, while the company has also confirmed its intention to increase its stake in its Indian insurance joint ventures with Bharti Enterprises to 49% from 26%.

Axa is also expanding its life business and in July confirmed it is in exclusive negotiations for the potential acquisition of Genworth Lifestyle Protection in the UK for €475m.

More than any other chief executive of a major insurance group, de Castries appears to be on top of two key trends: first, that the focus of the world economy will change from the saturated markets of the developed world to emerging markets; second, that the digital revolution is causing major upheavals in business affairs.

On the emerging market front Axa has made clear its ambitions in Africa, a region it sees as an important area of growth for the group in the next 15 years. Axa is looking at opportunities in such countries as Nigeria, Egypt, Kenya and Ghana. It is already present in Algeria, Morocco, Senegal, Ivory Coast, Gabon, Cameroon and Tunisia through a minority stake in a local entity. The process is highly selective and carefully managed.

More significantly, de Castries appears to be personally leading the development of digital products and services for Axa Group which, for the past two years, has been working closely with top technology companies. A year ago Axa became the first international insurer to seal a co-operation agreement with social network Facebook. Facebook is monitoring and analysing the impact of Axa's communication campaigns on the network and training the insurer's marketing and digital teams. ■



RÉGIS DELAYAT
Scor Group, chief information officer,
and Rüşchlikon Initiative, chairman



Régis Delayat, chairman of the Rüşchlikon Initiative, is back on *Insurance Day's* Power50 list for 2016 as he prepares to embark on the second year of leading what must surely be one of the global re/insurance industry most low-profile technology projects, but one which, after an uncertain start, now appears to be delivering clear evidence of its value.

Its success can be measured not only by the number of companies that have signed up to the initiative over the past two years but also in terms of the delivery of tangible cost savings and process efficiencies for those involved in it.

Delayat, who assumed the chairmanship of the Rüşchlikon steering committee at the beginning of 2015, is also the chief information officer of Scor and has been the Rüşchlikon lead for French reinsurer since the initiative launched in 2009. Scor, along with Munich Re and Swiss Re, is both a founding member company and has been a staunch promoter of Rüşchlikon, particularly during its challenging first two years.

“In 2016 one challenge for Delayat and his committee will be to maintain the steady pace of broadening the Rüşchlikon user base”

Part of the reason for the shaky start was that, apart from a very small coterie of industry players, the purpose of the project often appeared unclear. Another challenge early on for Rüşchlikon's small group of promoters (Swiss Re, Munich Re, Scor, Aon Benfield and Willis) was to envision how such a manifestly global project would fit in with other similar developments in the various insurance centres.

In 2011 Rüşchlikon Lite was rolled out. This was a more easily accessible version of the initiative, which targeted cedants that were not yet ready to invest in electronic messaging infrastructure. It converted the spreadsheets used by those cedants and their brokers into Acord standard messages.

In 2016 one challenge for Delayat and his committee will be to maintain the steady pace of broadening the Rüşchlikon user base. The most recent statistics suggest Rüşchlikon members represent 60% of the worldwide reinsurance premiums, 75% of the reinsurance brokers' business and around 50% of the London market's insurance volume. But probably a more important challenge will be for Rüşchlikon to capitalise on the unique opportunity afforded by the launch last year of Xchanging's Netsett platform, which potentially will allow the initiative to move beyond its existing peer-to-peer operating environment into the Holy Grail of an exchange environment supported by the Xchanging infrastructure. ■

BRIAN DUPERREULT

Hamilton Insurance Group, chief executive



Brian Duperreault has been back in the industry for two years now as head of Bermuda's Hamilton Insurance Group and 2016 looks set to be the year he accelerates the growth of the business.

This is particularly the case in London, where Duperreault is looking to build out and diversify syndicate 3334 following the acquisition of the former Sportscover business in 2015.

While the syndicate previously stuck to its sports and leisure niche, Duperreault has already spoken of significantly extending its remit through diversification into other lines. Evidence of this has already been provided by moves into space and professional lines, and industry veteran Duperreault is expected to extend the syndicate into other lines in the year ahead.

Duperreault remains a prominent industry figure who has not shied away from pointing out the sector's inefficiencies. For instance, he has been vocal in his calls for the inclusion of more modelling and analytics in the underwriting process to provide a better, more succinct service to clients.

"We're awash with data in this cyber world we're in, yet we don't use it very well in our own business. We don't use it to make efficient products and we don't deliver them well," he told *Insurance Day* during last year's reinsurance Rendez-Vous in Monte Carlo.

Duperreault is already working on innovations to help evolve the underwriting process at Hamilton, inspired by some of the work carried out by Hamilton's major investor, Two Sigma.

He says the methods used by Two Sigma in taking data and using it to get insights and make decisions, if applied to the insurance world, could benefit the underwriting process.

"The whole process of getting the information and making a decision can be automated. The smaller risks out there don't need all the hands touching it, all the questions being asked – it's annoying to the buyer and it's costly," he argues.

Duperreault also may yet have a role to play in the wave of consolidation which is taking place in the sector. "Growth is a wonderful thing and if you can find people and businesses that are compatible and that make you better than you have to go for it," he said.

Even without acquisitions, Hamilton's organic growth is likely to be substantial in the coming year as the company seeks to establish itself as a significant player at Lloyd's. ■

BRYON EHRHART

Aon Benfield Americas, chief executive

As chief executive of Aon Benfield Americas, Bryon Ehrhart is responsible for leading the reinsurance broker's operations in what remains the largest concentration of exposures in the world.

One of his chief tasks is to grow the extent to which these exposures are backed by reinsurance capacity, a role critical to the sector itself as it seeks out growth opportunities in today's competitive marketplace.

Ehrhart and his team have located tens of billions of dollars of potential capacity needs in the coming decade, which will provide an important means of deploying the abundant capital looking for a home in the reinsurance space.

His team placed around \$3bn of US mortgage risk in the commercial reinsurance marketplace last year, and Ehrhart believes the transfer of credit default risk from government entities Fannie Mae and Freddie Mac to the insurance and reinsurance markets offers the opportunity to provide up to \$6bn of capacity for the next six to seven years. Ehrhart has described this as the biggest emergence of new capacity demand since the aftermath of hurricane Andrew in 1992. Aon Benfield has led this placement in the market.

Further new opportunities are emerging for reinsurance in the Americas, Ehrhart believes. Notably, he argues risk transfer solutions for annuity risk could present opportunities to deploy between \$20bn and \$40bn of additional capacity in the coming years. In addition, he says, the depopulation of government catastrophe programmes will continue, transferring more risk from the public to private reinsurance marketplace.

Last year saw a notable shift in momentum in this field, with the first purchase of reinsurance by the Florida Hurricane Catastrophe Fund and a large number of policies moved from Florida's insurer of last resort, Citizens, to private market participants.

Ehrhart has now been chief executive of Aon Benfield Americas for more than two years, having previously spent three years leading strategy for the firm.

His career with Aon now stretches back more than two decades, having first joined the broker in 1994 to build the analytics and investment banking capabilities in its reinsurance broking division.

The most important period of his career may yet be ahead of him, however, if Ehrhart and his team can unlock the potential opportunities to deploy billions of dollars of capital in the US marketplace. ■



HITTING THE DIGITAL TIPPING POINT

BRIAN DUPERREULT



At the end of last year, *Insurance Day* was kind enough to ask me to offer some thoughts on the issues the insurance industry might face during 2015.

In rereading what I submitted in December 2014, one paragraph stands out in particular:

"Another benign cat year, coupled with low interest rates, will mean a very, very tough 2015 for the industry – which may prompt a more energetic uptick in mergers and acquisitions, increasing the pace of consolidation in the industry and convergence with various capital providers."

I don't lay claim to having any special ability to forecast the future – most of what I wrote was based on prevailing wisdom – but I think this is a good description of 2015. It has been one of the most challenging years we've faced in a long time.

Even with the Tianjin and Chile disasters, it was a relatively benign loss year, interest rates continued to inhabit the subterranean, and M&A spurred a wave of shape-shifting industry consolidation.

There were two things I didn't anticipate last year: the pace at which data analytics would capture the attention of our industry; and the emergence of a talent gap that, in the US at least, borders on a crisis.

The warning bells about technology have been sounded for some time: pay attention or perish. But ours is a conservative, legacy-bound sector that, for the most part, remained profitable during the global recession. It's not easy to shake up a status quo like that one.

In 2015, as the products, services and liabilities that we insure were being reinvented in real time, we hit the tipping point, and the warning bells were heard.

Now there isn't an insurer, reinsurer or broker who isn't scrambling to leverage data analytics and the potential of game changing risk analysis and pricing.

We share the angst of global C-suite executives who, according to a recent study by IBM, are kept awake at night worrying about being ambushed by so-called digital invaders. More than half of 5200 study participants told IBM researchers that, above all else, they fear being "Uberised" – blindsided by a competitor outside their industry wielding disruptive technology.

While loss activity, interest rates, and pressure on terms and conditions will always affect underwriting and financial performance, it's now a given that technology and talent will determine who will succeed and who will fail.

Last year was the year Millennials overtook Baby Boomers

as the world's most populous generation. In the US, there are 80 million Millennials to 75 million Baby Boomers. This isn't just an American phenomenon. More than half the world is now under the age of 30.

If my peers and I are immigrants to the digital world, these 80 million young people are natives – tech-savvy, collaborative, diverse, purpose-driven men and women who don't think of insurance when they think of a stimulating, challenging career.

This is a significant issue, particularly in the US where 400,000 positions will become vacant in the next few years as management begins to retire.

"The alarm bells about technology have been sounding for some time: pay attention or perish. But ours is a conservative, legacy-bound sector"

The looming talent gap has prompted an industry-wide initiative to raise awareness among Millennials of insurance as a competitive career choice.

I was joined by Marsh's Dan Glaser and Lloyd's Inga Beale in signing a letter urging our fellow CEOs to put their companies' weight behind this initiative. We're aiming to enlist the support of at least 200 carriers, brokers, agents and industry partners. Anyone interested in joining us should visit <http://insurancecareerstrifecta.org/>.

We enter 2016 with the expectation that interest rates will rise, terms and conditions will improve, and industry consolidation will continue – the traditional hallmarks of a market in transition.

If we bank on tradition, we're lost – but I don't think we will. At our core, we are an industry that takes its responsibility to protect seriously. And we love nothing more than a challenge. At our heart, we're gamblers, too.

I've gambled on insurance for more than 40 years. I'm not going to stop now. ■

Brian Duperreault is chief executive of Hamilton Insurance Group

KATHLEEN FARIES

Tokio Millennium Re, head of Bermuda

Kathleen Faries is a well-known name on the insurance-linked securities (ILS) stage. From January 1 she will be taking on her biggest role to date as head of the Bermuda branch of Tokio Millennium Re (TMR).

In 2012, Faries took the Bermuda ILS market by storm when she launched Tokio Solution Management backed by Tokio Millennium Re (TMR) as part of the reinsurer's wider strategy to expand into new markets.

Before this and as head of the market solutions unit at TMR, she was responsible for managing the fronting and transformer services the carrier provided to capital market entities, as well as underwriting the company's industry loss warranties and cat bond portfolios. She has been a constant innovator, and as the new head of the Bermuda branch of TMR we expect to see nothing less.

During the Monte Carlo Rendez-Vous de Septembre, TMR launched the Capital Solutions unit, which Faries will oversee as part of the reinsurer's strategy to increase its focus on ILS business and build its partnership with the capital markets.

The new unit takes the work that has been ongoing at TMR under the Tokio Solution Management brand to develop new capital markets products and attempt to bridge the gap between the capital markets and re/insurance.

Faries told *Insurance Day*: "I think every traditional reinsurer is looking at how they can be more efficient in the business they're doing and for us that involves how we interact with third-party capital, so we're really pushing innovation around technology platforms."

Faries' professional efforts also go beyond her day job. She is an active champion for Bermuda as a centre of excellence for third-party capital.

As part of the ILS Bermuda group, alongside industry figures such as Greg Wojciechowski, president and chief executive of the Bermuda Stock Exchange, she actively promotes innovation, industry leadership and a bold approach to new financial products. ■



ROD FOX

TigerRisk Partners, chief executive



Rod Fox joined last year's Power50 thanks to the swift growth and building influence of his boutique reinsurance broking and advisory firm, TigerRisk Partners.

Last year Fox, together with his co-founder, chairman Jim Stanard, continued to build out the firm, recruiting some top talent from rival broking houses and pushing into Asia.

Since its launch in 2008, TigerRisk has grown into the largest independent reinsurance

broker in North America and one of the top 10 brokers globally with offices in the US, Bermuda, Hong Kong and London.

Fox has sought to take on the giants of the broking industry with an entirely different business than the rest of the market, focusing on exclusivity and high-quality service, including heavy investment in sophisticated analytics.

TigerRisk's client base tends to be a limited number of larger insurance companies with complex reinsurance and capital needs.

No stranger to bold statements, Fox recently described the current market environment as presenting "the single greatest opportunity in my whole career". The winning distributors, he argued, will be those that bring capital and risk together innovatively and efficiently.

"We believe our clients want the most efficient capital solution, whatever form that may take, and the best strategic advice possible. We also believe our solutions should be delivered globally in a holistic fashion, not just through separate units selling different products," says Fox.

And Fox's vision is attracting some major industry talent.

In April, Fox achieved a major coup hiring Tony Ursano, a veteran insurance investment banker and former chairman of Willis Capital Markets and Advisory, to build a capital markets and M&A advisory business for TigerRisk.

He also secured reinsurance industry heavyweight Paul Karon as vice-chairman. Karon, who previously founded Benfield's US operation with Fox in 2000, was most recently vice-chairman of Bermuda-based reinsurance company AQA Re.

In August, the firm opened its first office in Asia, based in Hong Kong, bringing in Houqin Zhu, who previously led Willis Re's China operation to head up the operation.

Fox says the company will quadruple in size in the near future, particularly with its entrance into Asian markets. "We believe Asia will be a big part of the 21st-century story and our approach will be to apply the same principles we have applied in North America," Fox says.

Fox's take on modern broking is firmly fixed on finding creative and innovative ways to manage risk for clients in the soft reinsurance market.

TigerRisk now has six offices in the US, along with its presence in London, Hong Kong and Bermuda.

With conditions predicted to continue this year, TigerRisk will continue to focus on innovation.

Fox and TigerRisk will definitely be one to watch in 2016. ■

MIND THE GAP: HELPING THE PUBLIC SECTOR TO FINANCE CATASTROPHE LOSSES

NICK FRANKLAND



At the Reinsurance Rendez-Vous in Monte Carlo and the Baden-Baden Reinsurance Symposium in 2013, Guy Carpenter drew the market's attention to the catastrophe "gap" – the gap between total economic losses and insured losses arising from natural catastrophes worldwide. One reason for highlighting this issue was to counter the prevailing pessimism in the reinsurance market caused by excess capacity. The cat gap represents a significant potential source of new demand for insurance and reinsurance that could put this new and surplus capacity to work and so help to stabilise market conditions while bringing significant benefits to the public sector.

The cat gap is big and getting bigger. Approximately 73% or \$2.7trn of global catastrophe losses between 1970 and 2014 were uninsured. This is at a time when governments are under heavy public debt burdens. Between 2007 and early 2014 global debt grew by \$57trn, with almost 45% of the expansion coming from government spending, according to McKinsey. Governments in advanced economies borrowed heavily to offset the effects of the 2008 global financial crisis. Eight years later economies have not yet deleveraged. Meanwhile, demographic shifts, ageing populations, rising economic expectations in emerging economies, globalisation and increasing political risks bring ever more pressure to bear on public finances.

This matters. The impact of catastrophe losses can be substantial on government finances as the cost of uninsured losses requires disaster relief, welfare payments and other state bailouts. Affected areas and populations can take decades to recover when finance is limited and in some situations even political stability may be jeopardised. Despite this, most funding for loss mitigation and recovery is made post-event. For example, between 2011 and 2014 the US Federal Emergency Management Agency (Fema) granted only \$223m in pre-disaster mitigation grants, compared with \$3.2bn of post-disaster grants, according to the US Government Accountability Office.

But the story is not one of total government neglect or disinterest. State terrorism pools, especially in Europe and Australia, have long-established relationships with the private sector. Last year the UK's Pool Re appointed Guy Carpenter to place a retrocession in the open reinsurance market for the first time in its history. When added to the UK's newly formed Flood Re scheme, funded by a statutory levy, £3bn (\$4.48bn) of new

demand has been brought to the reinsurance market.

Elsewhere, earthquake, flood and other catastrophe pools exist and access the open market either through traditional reinsurance or other instruments including catastrophe bonds. Notable examples include the Caribbean Catastrophe Risk Insurance Facility, the New York Metropolitan Transportation Authority, the Texas Windstorm Insurance Association and the Turkish Catastrophe Insurance Pool.

There have also been other beneficial byproducts. GC ReBid is an electronic trading platform designed to provide the transparency and recorded process required by governmental pools and similar entities. It is an interactive trading platform allowing reinsurers to make pricing and capacity offers across a programme over a set period of time. Crucially, it provides a fully transparent and auditable record of each reinsurer's pricing and capacity behaviour through the entire placement process. In so doing it is also a significant step towards basis point electronic trading, which could have a wider future application.

More can be done to encourage governments and public sector bodies to look to insurance and reinsurance for pre-financed solutions. We must create clear risk-return frameworks that show the benefits and certainty of pre-financing versus the cost and uncertainty of post-loss financing. We must use our data, technology and expertise to provide compelling analyses of the cost benefits, including risk mitigation. They must also include assessment of the wider socio-economic benefits arising from faster and more efficient recovery from catastrophe losses.

There has been significant growth in public sector entities transferring risk to the reinsurance market using traditional and alternative risk-transfer mechanisms. As governments try to reduce public debt, there is a clear benefit from limiting the financial risk that catastrophes threaten. They also gain enhanced flexibility to finance the costs of economic and social recovery and rebuilding, while reducing or eliminating the need to increase the financial burden on individuals. Meanwhile, the reinsurance industry is keen to put its abundant financial resources to good and profitable use. It is a true win-win situation. ■

Nick Frankland is chief executive, EMEA operations at Guy Carpenter

NICK FRANKLAND

Guy Carpenter, chief executive EMEA



It is a challenging time not only for reinsurers but also for reinsurance brokers. The influx of new capital means intermediaries such as Guy Carpenter have had to radically revise their assumptions about the future structure of the reinsurance market.

As Guy Carpenter's chief executive for Europe, the Middle East and Africa (EMEA), Nick Frankland is at the sharp end of the changes. But despite a reinsurance market that has certainly seen easier times, Guy Carpenter's EMEA division has continued to show undeniable strength.

The reinsurance broking arm of Marsh & McLennan Companies, Guy Carpenter continues to maintain and build momentum in challenging market conditions. Revenue grew 2% in 2014 to \$1.2bn on reported and underlying bases, continuing a strong upward trend of revenue growth since 2010, with Frankland's division playing a major role.

Innovation is a key driver behind Guy Carpenter's recent growth in EMEA. For Frankland, this is best exemplified by Guy Carpenter's appointment as the sole broker to both the Flood Re and Pool Re reinsurance programmes.

In the case of Flood Re, Frankland's team is providing more than just structuring and placing reinsurance for the UK government-backed flood insurance scheme. The work includes managing the scheme's regulatory compliance issues, reserving, risk and capital modelling, as well as constructing an all flood perils model and post-loss catastrophe planning. This comprehensive remit, Frankland says, demonstrates the evolving role required of the reinsurance broker.

For Pool Re, Frankland's team placed the largest terrorism reinsurance limit in the world earlier last year. Pool Re's retrocession – its first purchase of commercial cover ever – also included cover for chemical, biological, radiological and nuclear (CBNR) attack, which the market has previously had a limited appetite for.

Frankland says: "It required an awful lot of consultancy work, as [Pool Re] wanted to reinvent its business model before we went out to place the reinsurance for it."

Frankland argues the real innovation associated with the Pool Re and Flood Re wins resided in Guy Carpenter's negotiation of the more stringent procurement requirements that exist in the public sector.

"There had to be absolute transparency around our fee structures, around reinsurer delivery and we had to demonstrate the reinsurance programme was value for the taxpayers' money, so there was a lot of work around benchmarking and validating the various solutions on offer," he says.

Guy Carpenter, he says, is able to do this through its online reinsurance trading platform, GCRBid, which has been specifically developed to support its public sector entity specialty practice. "It has been built particularly for this reason: to ensure when we place programmes such as Pool Re or Flood Re, the whole process is totally transparent, recordable and visible," he adds.

Expect Frankland and his team to be at the forefront of innovation in the reinsurance market in 2016. ■

DAVID GITTINGS

Lloyd's Market Association, chief executive

A well-recognised face in the London Market, David Gittings, chief executive of the Lloyd's Market Association (LMA), is a champion for pursuing change and modernisation within the marketplace.

In 2015 Gittings put his weight behind the London Market Group's (LMG) modernisation initiatives, including the new electronic placing project, Placing Platform Limited (PPL), as well as work to refresh the market's central services to allow data to be collected and placed into a central depository.

Earlier in 2015 Gittings outlined the future competitiveness of the market, supporting the modernisation agenda and delivering cost savings for its members as the top priorities for the LMA during 2015.

His career history is a showroom for instigating change towards a more modern way of doing business. During his time at the London Stock Exchange he contributed towards the modernisation of the market, which in 1986 resulted in "Big Bang" – a phrase coined to describe measures that led to an increase in market activity.

This included the step change from "open outcry" on the floors of the stock exchange to electronic, screen-based trading, brought in by the UK government in 1986.

Between 1995 and 2002, as director of regulation at Lloyd's, Gittings developed and implemented a regulatory regime at Lloyd's ahead of the changeover to statutory regulation at the end of 2001.

In 2002 he joined Wellington Underwriting, where he was a member of the group's executive committee and a director of Wellington Underwriting Agencies, before heading to the LMA.

When Gittings became chief executive of the association in 2006 he was given the task of focusing on and developing a more proactive approach and with his extensive knowledge of the industry, he was and still remains the man for the job.

He, along with a number of other industry heavyweights, is a member of the LMG – a group with the ambition to pioneer forward-thinking change within the London insurance market.

As market modernisation moves forward, we can expect Gittings continue to be at the forefront. ■



MARIO GRECO

Generali, chief executive



Mario Greco has transformed the fortunes of Generali over the past three years way beyond the expectations of most people in the industry, including those of rating agency Standard & Poor's, which only a few days after Greco's appointment as chief executive in June 2012 put Generali's credit rating under review.

The rating agency was concerned about Generali's ability to rebuild its capital base and improve its financial flexibility, which had been hit by a combination of the financial crisis, overexpansion and numerous strategic miscalculations during the previous four years.

It was particularly concerned about the appointment of an outsider as the new chief executive of a closed, tightly knit organisation such as Generali.

Greco started by tidying up Generali's books, which included taking a €1.7bn (\$1.85bn) writedown for the 2012 financial year, mainly on impaired investments. At the same he overhauled the management team, instituted new corporate and financial reporting structures and began embarking on a programme of selling off non-core assets.

In July last year Generali indicated all the targets set in the turnaround plan (which was intended for completion in 2015) had been achieved or were close to being reached. Impressively, the group announced it had already exceeded its 2015 Solvency I target of 160%, with a solvency ratio of 162% at June 30. The company's long list of asset disposals referred to earlier was also completed one year ahead of schedule.

Last year Generali delivered its best profit for six years when operating earnings improved by nearly 6% to €4.2bn.

But some key challenges remain. Greco is still in the process of shifting the weight of Generali's focus from life insurance and asset management towards non-life insurance, which will take time and careful management. One particular objective in this regard is the highly competitive, knowledge- and capital-intensive global mid-sized and large corporate insurance markets.

But Greco is not short of confidence. In August last year there came the announcement Generali, after a 12-year absence, will be returning to the German industrial insurance market by mid-2016 to take on the undisputed leaders in this particular area of the market, Allianz and HDI-Gerling Industrie, in their heartland. ■

EVAN GREENBERG

Ace, chairman and chief executive officer

The insurance sector has experience of a Greenberg building an empire. Over a 40-year period Maurice "Hank" Greenberg grew AIG into the world's largest insurance group before his abrupt departure a decade ago.

For 25 of those years he was served by his son Evan, who was designated to be his father's successor at AIG. Evan had other plans, however, and resigned in September 2000 to embark on a career independent of the company his father built.

Evan Greenberg resurfaced the following year as vice-chairman of Ace Ltd, with responsibility for the growth and development of its global reinsurance operations.

He was appointed head of the group's international operations the following year, before becoming president and chief operating officer in 2003. He succeeded Brian Duperreault as chief executive in 2004.

At the time, Duperreault was in no doubt about Greenberg's ambition and aspirations. "Evan works harder, longer and more effectively than almost any man I know. He is the right person to lead Ace in the next generation," he said at the time.

In the decade since Greenberg has built on Duperreault's strategy of growing Ace's global platform. The early years of his leadership saw some considerable challenges, with legacy issues to address at the same time as then New York attorney-general Elliot Spitzer launched his investigation into industry practices.

Greenberg has since led Ace on a path of expansion, with a series of acquisitions growing the company's global footprint further. The most significant of these – and the largest insurance acquisition of all time – took place in 2015 with the deal to buy US insurer Chubb. The \$28bn deal creates an industry behemoth which could reshape the competitive landscape in the coming years. At a time when many talk of a need for scale, Greenberg has achieved it through a deal which sets his business on a course to potentially emulate that of his father.

Rating agencies have warned of the challenges of integrating the two operations and the next 12 months are likely to shed more light on the merits of the deal.

But Greenberg's bold move has already marked him out as one of the industry's major power players for the medium term.

At the age of 60, he believes he still has a long way to go in the insurance industry. Greenberg is likely to remain an industry power player for many years to come. ■



GUO GUANGCHANG
Fosun International, chairman



Guo Guangchang has earned the nickname “China’s Warren Buffett” as a result of his investment strategy at Fosun International. Guo has become an increasingly prominent figure in the sector as a result of Fosun’s investments in international insurers during the past year. Last year saw Fosun acquire a 100% stake in Ironshore in a \$1.8bn deal, as well as the \$433m acquisition of Michigan-based property/casualty insurer Meadowbrook Insurance Group, which completed in July. In June, Fosun also announced the acquisition of a 52% stake in Israel-based Phoenix Holdings, in a deal costing the Chinese investment giant around \$461.6m. Last year also saw Fosun acquire Fidelidade Group, Portugal’s largest insurance company. At the time, Guangchang said the deal marked a “solid step to evolve into Warren Buffett’s model”.

“Guo will become an increasingly powerful player with each deal, and is likely to become a major industry figure in the years to come”

The Chinese conglomerate now has more than one-third of its total assets invested in insurance businesses. These businesses also include investments in Yong’an P&C Insurance, Pramerica Fosun Life Insurance and Hong Kong’s Peak Re. These deals have been part of a wider trend of Chinese conglomerates looking outside their domestic borders to acquire insurance businesses, a trend that has gathered pace in the past year, and is likely to continue in 2016 and beyond, particularly as the Chinese economy faces its own headwinds. Guo recently increased his stake in Fosun to 64.5% after buying shares from one of his founding partners, Fan Wei. Alongside insurance, the Chinese conglomerate invests in a number of different sectors. The combination of an insurance business with investments in industries such as pharmaceuticals, construction, mining and steel production have led to the comparisons with Buffett. A continuation of Fosun’s growth in the coming year will likely see Guo escape such comparisons and become a well-known name himself. Fosun’s influence on the global insurance stage is increasing, and it is likely more acquisitions will follow those announced to date. Guo will become an increasingly powerful player with each deal, and is likely to become a major industry figure in the years to come as economic dynamics continue to shift power eastward. ■

**GREG HAGOOD
AND FRANK MAJORS**
Nephila Capital, co-founders



Investment manager Nephila Capital continues to be a major force in the convergence capital space. The company, founded by Greg Hagood and Frank Majors, has dramatically expanded assets under management from \$2.5bn at the end of 2008 to a peak of \$10bn, before edging back to \$9.5bn at June 2015. Pioneering and innovative, Bermuda-based Nephila was the first insurance-linked securities (ILS) manager to launch a syndicate at Lloyd’s, wholly backed by third-party capital raised through an ILS structure. The syndicate was launched in 2013 and began underwriting in the second half of the year with a capacity of £9m (\$13.6m). The business written by syndicate 2357 is unique to Lloyd’s in that it is all industry loss warranties written on a county basis, often known as CWIL (county-weighted industry loss). Nephila said the business plan for the Lloyd’s syndicate is to build out its weather risk cover. Earlier in 2015 Nephila was one of the new participants on the reinsurance panel for the African Risk Capacity (ARC) initiative, which provides African Union nations with protection against drought and natural catastrophes. The ARC transaction marked Nephila’s first weather risk-transfer cover written by its Lloyd’s syndicate 2357. At the time the fund manager said the ARC transaction demonstrated the weather risk-transfer market would continue to grow. “A growing awareness weather risk can be quantified and transferred, like other financial and insurance-related exposures, is a healthy development for the global economy and for society,” the firm said. Since then it has made a series of strategic investments in Florida in a bid to tighten its grip on distribution. It has also made the bold move into US direct insurance as it looks for ways to feed its funds. This has included participation on direct placements through fronting arrangements such as its tie-up with State National, as well as putting capacity behind managing general agents (MGAs) Amrisc and Arrowhead, as well as establishing a property facility for wholesaler AmWins. Earlier last year it signed a deal with Technical Risk Underwriters to provide US property capacity to Ryan Specialty Group MGA – once again to penetrate further the US market. Nephila was founded in London in 1997 as part of Willis. The company relocated to Bermuda in 1999 to establish a local presence and to deepen existing relationships in the world’s largest catastrophe reinsurance centre. “There is a lot of capital that is interested in catastrophe risk as it has a positive expected return over time and it isn’t correlated to stocks and bonds,” Hagood, a former Bear Stearns & Co banker, says. Nephila has two minority investors: hedge fund Man Group, which has a 19% stake, and private equity house KKR, which owns a 25% stake. KKR co-chairmen and chief executives Henry Kravis and George Roberts described Nephila as “the best team in the industry” when they bought the stake in 2013. Expect Hagood and Majors to play a key role in the evolution of the alternative capital’s convergence with the insurance industry. ■

STEVE HEARN
London Market Group, chairman, and
Cooper Gay Swett & Crawford, chief executive

Over the past year, efforts to reform the London market and reassert its position as the world’s centre of excellence for specialist underwriting have been gathering pace. Steve Hearn, chairman of the London Market Group (LMG), has been leading the charge. Since the publication of the seminal London Matters report at the end of 2014, it has been full steam ahead for the market’s reform advocates, led by the energetic Hearn. The report’s findings fired the starting gun on a raft of initiatives aimed variously at improving the market’s efficiency, promoting the London market better to its customers and addressing some of the regulatory burdens that are holding back the market’s growth and ability to innovate. Nearly one year on and the progress has been significant. Arguably one of the biggest achievements has been around electronic placing. London market brokers have now committed to support the new central placing platform. Of the 17 members of the London & International Insurance Brokers’ Association (Liiba) board, senior executives of 16 firms have now committed to the initiative. The backing of the biggest brokers in the London market is a significant milestone in the implementation of the placing platform initiative, which is a key part of the market’s modernisation plans. Previous centralised placing initiatives, such as Kinnect, have failed because they did not win market support, so the broking community’s commitment is vital. “It’s a huge breakthrough”, Hearn says. The placing platform service is a key component of the London market’s new Target Operating Model, which is under development. Other important initiatives include working with HM Treasury to develop London as an insurance-linked securities hub. Other plans have also been unveiled. One is to develop a central marketing function to promote the London market – in much the same way as wool growers formed a body to promote the industry, which led to the creation of the Woolmark logo, which has since grown to



be universally known to be the marker of quality wool products. “We need to be able to differentiate the London market proposition. Customers don’t understand our proposition,” Hearn says. The LMG is also working on an initiative to develop a more diverse talent pool with the skills and abilities to engage with the London market’s potential customers around the world and develop the innovative products customers will want to buy. Hearn announced in September he is staying on an additional year as LMG chairman to the see the London Matters job “through to the end”. ■

ANDREW HORTON
Beazley, chief executive



Specialty business has been a key area for re/insurers over the past few years and Beazley, which has made specialty lines central to its business, has continued to go from strength to strength in 2015. This has been the focus under Andrew Horton, chief executive of Beazley, who had led the group’s expansion in Europe, the US, Asia and Australia. Horton was appointed chief executive on September 1, 2008, having joined Beazley in 2003 as finance director. The Lloyd’s carrier had impressive growth over the past year, primarily through its specialty segment. Specialty is an area of business where insurers have been innovating with products targeting emerging new risks. Horton and his team have been leading the way in this regard. The carrier has been one of the front runners in the cyber market at a time when many insurers are still figuring out how to tackle the class. **“The Lloyd’s carrier had impressive growth over the past year, primarily through its specialty segment”** Last year the company expanded its Beazley Breach Response (BBR) product – launched in 2009 in the US – to the UK, France and Italy. Last year it announced it would be leading the Lloyd’s cyber consortium, along with Beazley, Aspen and Brit. Further growth is expected. Its US specialty lines business has continued a story of strong growth, with written premium up 6% for the first nine months of the year. Gross written premiums rose to \$1.64bn for the nine-month period. Horton has been keen to tap into the Asia market. Beazley went into partnership with Korean Re earlier to establish a special-purpose syndicate (SPS) at Lloyd’s. Under the agreement, SPS 6050 will write a whole account quota-share of Beazley syndicates 623 and 2623. In addition, Beazley will take a quota-share of Korean Re’s commercial lines book. “We hope this collaboration will enable Beazley to write more business in Asia and enable Korean Re to develop a track record at Lloyd’s,” Horton said after the partnership was announced. A number of other Lloyd’s insurers have seen acquisition activity last year, such as Amlin by Mitsui Sumitomo and Fairfax’s acquisition of Brit, but Beazley seems committed to remaining an independent player. If anything, Horton believes recent market tie-ups will create more opportunities. “We like the independence we have, we think it is quite attractive for people joining us and as long as we are relevant to the lines of business we are in and we are going to support the shareholder base we are completely comfortable continuing as we are,” Horton said last year. ■

DAVID HOWDEN
Hyperion Group,
chief executive and founder

If the recent pace of expansion continues from the various businesses operating under Hyperion Group, it looks like its broking and underwriting arms will have a presence in every part of the globe.

David Howden, chief executive of Hyperion, founded the group in 1994. From its humbler beginnings as a wholesale broker with just five employees, it has grown to be a multi-billion dollar enterprise.

The group's explosive growth, which now includes underwriting arm Dual, Aqua and Howden Broking group, has without doubt been driven by Howden himself as he continues to lead the group's hungry merger and acquisition activity and strategic growth.

Last year's acquisition activity pushed forward Howden's ambitious growth plans, securing his position in the Power50.

Hyperion's businesses made a slew of acquisitions last year after a particularly busy 2015.

In April the completion of the RK Harrison (RKH) deal created the world's largest independent employee-owned insurance intermediary group, with Howden at the helm of the newly created "super-independent broker".

The business has projected annual revenues approaching £400m (\$614.7m) and Ebitda of £100m, with close to 3,000 employees across 121 offices in 37 countries.

"The combined group will boast an extensive UK and international footprint, a formidable reputation and an extremely complementary business mix with enhanced and diverse service offerings and capabilities," Howden said at the time.

Hyperion acquired 100% of the share capital of RKH, becoming the parent company of the combined group. Howden said when the deal was announced, "Hyperion and RKH are two outstanding entrepreneurial success stories. The combined group will boast an extensive UK and international footprint, a formidable reputation and an extremely complementary business mix with enhanced and diverse service offerings and capabilities."

The Howden broking business also expanded last year with the acquisition of retail broker Perkins Slade Forrest Holdings. It also acquired a 49% stake in and management control of CIMB Insurance Brokers in Malaysia.

Meanwhile, Dual launched its Frankfurt and London-based merger and acquisition liability team in September and acquired UK-based managing general agent Oliva Underwriting.

The London-based insurance broking group has significantly expanded the scope of its global operations over the past couple of years. In 2013, it acquired Hong Kong-based specialist marine broker FP Group, Oslo-based non-marine broker NorthEdge Forsikringsmegling, and Chilean broker Patagonia Corredores de Seguros. During its 2014 financial year, which ends September 30, Hyperion went on to announce four more acquisitions: managing general agent (MGA) PGI in the US and brokers Bar-Ziv Ravid in Israel, Colemont in Finland and Donoria in Poland.

Moving into 2016, Howden's appetite for growth looks unlikely to be sated anytime soon. ■



LI HUAIZHEN
China Minsheng Investment Corporation,
president

China Minsheng Investment (CMI) is one of the major conglomerates from the East expected to play an increasingly prominent role in the insurance markets of the West.

Set up in Singapore only last year by China Minsheng as a vehicle for international investment, the company made headlines in July with a \$2.2bn deal to buy White Mountains' reinsurance subsidiary, Sirius International Insurance Group.

At the head of CMI sits its president, Li Huaizhen, who at the company's launch stated his intention to set up offices in London and Hong Kong to facilitate overseas expansion. The group accumulated \$6bn of shareholders' equity by the end of 2014, with the first significant deployment coming with the Sirius deal in July.

"The growth of CMI and Sirius is expected to help drive growth in Asia's reinsurance market"

Li is expected to lead further international expansion in the coming years as CMI grows its presence in the re/insurance space in a bid to build a global financial holding company.

The company has stated its intention to achieve both the "localisation of global resources and the internationalisation of local resources" as it continues its expansion both domestically in China and internationally. CMI is "fully committed to strategically investing in financial services and upgrading industrial businesses".

The acquisition of Sirius has provided both an international reinsurer, as well as reinsurance capabilities which it can take into local markets in Asia.

The growth of CMI and Sirius is expected to help drive growth in Asia's reinsurance market, and the Singapore hub from which it plans to operate.

It is expected CMI will expand Sirius's capital base, with the acquisition also providing access to expertise and knowledge. This knowledge will assist in developing the insurance and reinsurance sector domestically in China to support industrial operations – another major investment driver.

CMI was initiated by the All-China Federation of Industry and Commerce (ACFIC) and launched by 59 private companies in Shanghai in May 2014.

It specialises in a wide array of fields, including equity investment and management; commercial, financial and investment consultation; industrial investment; and asset management. ■



AJIT JAIN
Berkshire Hathaway, head of reinsurance



Ajit Jain, the leader of Berkshire Hathaway's reinsurance division, declared last year reinsurance business was "no longer very lucrative". Warren Buffett's lieutenant and potential successor said Berkshire Hathaway would continue to pursue reinsurance deals where they made sense but, given the state of the market, the company would also have to look elsewhere for profitable business.

"What was a very lucrative business is no longer a very

lucrative business," he said in an interview with the Wall Street Journal.

"Since the reinsurance business isn't going to offer as many opportunities for the foreseeable future, we feel like we should go down the food chain."

In a reflection of it sentiment towards the reinsurance market, Berkshire Hathaway cut its holding in Munich Re from more than 12% percent to 9.7% earlier last year. It had held more than 10% of the reinsurer's share capital since October 2010.

As head of reinsurance at Berkshire Hathaway, Jain is one of the most powerful people in the global insurance industry, with a vast balance sheet at his disposal. What Jain, seen as a deal-maker extraordinaire, does or does not do can have a huge impact on the market.

He is understood to have unwound all of the company's involvement in London market broker facilities over the past year, amid concerns about the softening of the specialty insurance market.

In June Berkshire Hathaway struck a deal to reinsure one-fifth of Australian insurance giant Insurance Australia Group's business for a 10-year period and take a stake in the group. The deal helped Jain's business almost double its third-quarter written premiums compared to the same period last year.

"What Jain does or does not do can have a huge impact on the market"

Jain's appetite for taking bets on vast long-tail liability portfolios was seen last year with the giant adverse development cover Berkshire Hathaway provided to Liberty Mutual. The transaction saw Liberty cede around \$3.3bn of existing liabilities to Berkshire's National Indemnity Company (Nico), in return for \$3bn of premium.

The massive deal is second only to the landmark Equitas deal in 2006 in terms of liabilities assumed. In the Equitas deal Nico assumed \$7.8bn of pre-1993 Lloyd's liabilities.

Nico has made a number of major retroactive reinsurance transactions in recent years, including the assumption of liabilities from Equitas, Swiss Re, AIG, CNA, Ace and White Mountains.

While such deals provide sizeable floats on which to generate investment returns, the challenge for Jain is to predict correctly the evolution of the liabilities in the portfolio.

He is seen by some as having almost a gambler's appetite for risk-taking, while others, such as Buffett, describe him as very disciplined. ■

YASUYOSHI KARASAWA
Mitsui Sumitomo Insurance, chief executive
CHARLES PHILIPPS
Amlin, chief executive



Mitsui Sumitomo's £3.5bn (\$5.39bn) bid for London market group Amlin is in line with the increased international profile Japanese insurers are looking for as they attempt to diversify operations away from an excessive concentration on domestic non-life business.

The benefits of a successful integration could not be clearer for Yasuyoshi Karasawa, president and chief executive of Mitsui Sumitomo. The purchase of Amlin, expected to complete in the first quarter of this year, will give the Japanese group a significant boost to its operations at Lloyd's, which at present are restricted to Mitsui Sumitomo syndicate 3210, which wrote gross premium of £350.8m last year.

Amlin syndicate 2001 was the second-largest writer in the Lloyd's

"The big challenge is maintaining the considerable degree of goodwill underlying the cash offer for Amlin"

market last year with premium income of £2.56bn. On a pro-forma basis the enlarged Mitsui Sumitomo operations at Lloyd's will write annual gross premium of more than £2.9bn. The syndicate, established in 2000, provides a range of commercial lines covers, the largest lines being property, accounting for 33% of the overall book, and marine with 24%.

Amlin also provides Mitsui Sumitomo with a sizable foothold in Europe through its operations in the Netherlands and Switzerland.

For Charles Philipps, Amlin's long-serving chief executive, there is no shortage of incentives. He and his team will stay on after the acquisition, while the transaction will provide much-needed scale and financial flexibility for Amlin, which has had its difficulties over the past few years. The company only recently put the problems of its loss-making European operation ACI behind it. The structure of Amlin's international operations will be retained, but Mitsui Sumitomo will merge its Lloyd's and Bermuda businesses with Amlin's Lloyd's and reinsurance operations, with Philipps leading the enlarged business.

The big challenge for both Karasawa and Philipps is maintaining the considerable degree of goodwill underlying Mitsui Sumitomo's cash offer for Amlin, which represents a 36% premium on the insurer's closing price in September. And, in addition to avoiding the ignominy of a massive writedown in goodwill during the first few years after the integration, the other danger is less than careful management of Amlin's exposure to catastrophe risks could potentially lead to increased volatility of earnings for Mitsui Sumitomo in the future. ■

DENIS KESSLER
Scor, chairman and chief executive



Last year saw Paris-based reinsurer Scor achieve a number of major milestones – testament to Kessler and his team’s efforts. Rating agencies Fitch and Standard & Poor’s both upgraded Scor’s rating to AA- , while AM Best raised the group’s outlook from stable to positive. These upgrades demonstrate the pertinence of Kessler’s business strategy, which continues to withstand the present macroeconomic and market environment.

In just 13 years Kessler has managed to transform the Paris-based reinsurer from the brink of bankruptcy to the fifth-largest reinsurer in the world.

Under his watch, Scor has restructured its balance sheet, instilled new management, revamped its recruitment process and remuneration structure, created regional hubs around the world and adopted state-of-the-art internal modelling tools.

The business is now in rude health. In the first nine months of 2015 Scor achieved double-digit premium growth in both its property/casualty and life segments, while net income soared 30% to €492m (\$537.2m).

The reinsurer wrote €9.996bn of gross premiums during the period, a 19.3% year-on-year increase. Gross written premiums are expected to reach approximately €13bn by the end of 2015.

Meanwhile, the return on equity reached 11.1% – above the business’s target of 1,000 basis points above the risk-free rate. France’s regulator the Autorité de Contrôle Prudentiel et de Résolution (ACPR) has also confirmed its intention to approve the reinsurance group’s internal model.

Kessler says: “The group has delivered excellent results over the period in terms of growth, profitability and solvency, putting Scor firmly on track to achieve the targets set out in the ‘Optimal Dynamics’ plan.

“Major milestones have been achieved with the recent upgrades of its rating to AA- and the intention of the ACPR to approve the group’s internal model. All of this confirms Scor’s status as a tier 1 global reinsurer.”

It is a far cry from Scor’s position in 2002. Under-reserved and reeling from September 11, 2001 losses, Scor faced certain closure unless it recapitalised. Kessler quickly got to work making the necessary cuts and drumming up the needed recapitalisation money.

Throughout this long journey, Kessler and his team have held the course and achieved the strategic targets set out in successive plans in a bid to achieve the coveted tier 1 status.

“I want to provide comfort for my clients and shareholders we will manage the group in a prudent way and that they can count on us not to derail or deviate, regardless of what events come our way,” Kessler says.

Kessler has focused on four cornerstones: strong franchise, high diversification, robust capital shield and a controlled, mid-level risk-appetite.

With his unwavering drive, Kessler is definitely one to watch this year. ■

SHIRINE KHOURY-HAQ
Lloyd’s, director of operations

The dire need for modernisation of the London market has been made clear over the past year with the seminal *London Matters* report, galvanising efforts to make London a more attractive place to do business.

The aim of that work is to build on the strengths of the London market, with the objective that face-to-face negotiation is supported and facilitated by electronic data capture for placing, signing, closing, claims and renewals.

At the heart of the London market’s modernisation efforts sits the new Target Operating Model (TOM).

Shirine Khoury-Haq, director of operations at Lloyd’s and the London Market Group’s sponsor of TOM, has taken the helm of this new market initiative. Since its announcement, the energetic Khoury-Haq has been rallying the market behind the initiative to ensure its success.

TOM is undergoing a market-wide consultation at present, which will run until the end of 2015.

“The London market is developing a new operating model which aims to make the most effective and appropriate use of technology possible. As we do this, we are keen to both consult widely within the market and to learn from other companies and sectors which have already embraced technological change,” Khoury-Haq said, speaking at Lloyd’s in November.

It’s not an easy task to take on. Modernisation initiatives in the market have in the past found difficulty in finding the necessary support, but Khoury-Haq is determined to get the market behind the much-needed update and see it successfully launch.

“London Matters set out a substantial challenge for us and we need to respond positively and swiftly. It said in no uncertain terms that London would have to change or run the risk of losing competitive advantage,” Khoury-Haq said at the 2015 Insurance Technology Congress (ITC) in London.

Khoury-Haq started her role at Lloyd’s in July 2014.

She joined Lloyd’s from Catlin where she was group head of operations and UK chief operating officer. Before this, she was an associate partner at IBM, specialising in large systems and business transformation projects as well as post-merger/acquisition integration. ■



**IN THE CLUB? TOP TIER REINSURERS
WILL EXTEND THEIR DOMINANCE OF
THE REINSURANCE MARKET IN 2016**

DENIS KESSLER

A few years ago we entered the era of the tiering of the industry. In 2016 this trend will continue, creating opportunities for the members of the tier 1 club and challenges for the tier 2 and tier 3 players.

Tier 1 reinsurers are market leaders, with the critical size to face global demand. They are market-makers, pricing all types of products and establishing terms and conditions. They respect global risk management policies, implement human capital strategies and favour genuine global culture.

The top tier companies are trendsetters and industry shapers, and they participate actively in key industry issues such as regulatory change. They play a role in identifying emerging risks and contribute to fill the protection gap in the re/insurance markets. They have the resources to embrace innovation, developing state-of-the-art tools and processes, and they have the capacity to build their own internal models.

For tier 2 and tier 3 players, the situation is likely to be rather different. The “mono-liner profile” used to be very profitable, albeit risky. However, in today’s context, with strong competition from alternative capital providers that are not yet regulated, reinsurers have to differentiate themselves through value-added services and diversify their offering, which is costly and time-consuming.

In addition, tier 2 and tier 3 players will continue to feel the full force of the structural change in the way in which cedants are buying their reinsurance programmes – for example, with a view to optimising the use of their capital resources. This

will make the dancefloor open and consequently merger and acquisition activity is bound to continue in 2016.

Moreover, the discrepancy between tier 1 reinsurers and the tier 2 and 3 reinsurers is widening and it will become increasingly difficult for tiers 2 and 3 to catch up. The challenges to be faced by the industry in 2016, such as the Solvency II regime implementation, other regulatory evolutions in emerging markets and the expanding risk universe towards emerging risks, will all require infrastructure, networks, resources, expertise and more from reinsurers. In this situation, tier 1 reinsurers, with their comprehensive internal models, strong ratings, global platforms, innovation capacity and leadership, will be able to cope.

In a market environment we can qualify as “the soft landing of the soft cycle”, where reinsurers have already suffered for several years from the impact of low interest rates on their assets, capital management more than ever will be the focus of everyone’s attention. The diversified profile of the tier 1 multi-liners will rapidly be considered as the “winning” strategy, enabling fungibility and agility, reactivity and adaptation.

For tier 1 reinsurers like Scor, 2016 is expected to be full of opportunities. Evolving regulation and the endless development of the risk universe will contribute to an increase in the demand for reinsurance. ■

Denis Kessler is chairman and chief executive of Scor

“The discrepancy between tier 1 reinsurers and the tier 2 and 3 reinsurers is widening”



MICHEL LIÈS

Swiss Re, group chief executive

Swiss Re, under the direction of its chief executive, Michel Liès, has been one of the best-performing insurance organisations in the world over the past few years, successfully leveraging its financial strength and geographic reach to ride out the pressures of a highly competitive conventional market and the incursions of alternative capital.

Liès took over at the helm from Stefan Lippe in February 2012 as the reinsurer continued its recovery following the trauma of 2008's financial crisis, which resulted in a radical reorganisation of the group and necessitated a capital injection from Berkshire Hathaway.

A long-time employee of the company, having joined in 1978, Liès must be one of the most cosmopolitan figures in the reinsurance industry. During his time with Swiss Re he has worked in various countries in Europe and Latin America and is fluent in six languages. He is a citizen of Luxembourg.

Since taking the top executive post, Liès has overseen the group's successful and profitable development at a global level. Swiss Re posted aggregate net profit of \$12.15bn in the three years to 2014 and another \$3.67bn for the opening three quarters of 2015.

"The group has taken dramatic action to improve the performance of its life and health reinsurance operation"

The group has taken dramatic action to improve the performance of its life and health reinsurance operations, adversely affected by legacy issues in the US. The division recorded a loss last year but has returned to profitability in 2015.

As of 2016, the group will adopt two new ambitious financial targets: delivery of a return on equity of 700 basis points above the risk-free rate over the cycle and growth of economic net worth per share of 10% a year.

Central to the group's success has been its breadth of operations and vast experience accumulated over decades, including in many markets that are now showing exceptional growth. Its status as a pioneer in the risk securitisation business brings opportunities in areas where many rivals face threats.

A particular corporate focus for Swiss Re last year was raising awareness of the insurance and reinsurance protection gap for both mature and emerging markets. Liès is well placed to exercise overall leadership of the initiative, as immediately before his appointment as chief executive he was head of the global partnerships unit, which focused on developing relationships with public sector stakeholders, governments and non-governmental organisations. ■



DENNIS MAHONEY

RFIB, chief executive

Nearly eight years after his last front line job at Aon, Dennis Mahoney is to return to the fray of the London market after succeeding Jonathan Turnbull as chief executive of Lloyd's broker RFIB Holdings.

Mahoney, who had only recently joined RFIB as executive chairman as part of the deal that saw Calera Capital acquire a majority stake in the company, is best known for his long stint as chairman and chief executive of Aon's UK business.

RFIB had previously said Turnbull would remain in his role as chief executive following the investment. However, just one month after the deal's completion, RFIB announced Mahoney would be replacing Turnbull.

"Mahoney is known for his clearly stated views on key industry issues"

How long Mahoney, who left Aon in 2009 and has since limited his industry involvement to board roles at companies like Ironshore and Sciemus, will stay in the role is not clear. But his interest in the future development of RFIB is much more than just as an adviser to Calera Capital in the acquisition of the company. Mahoney, who has invested in the broker alongside the private equity firm, has "skin in the game".

In addition to successfully managing the expansion of Aon's UK and international business, Mahoney, a self-described "passionate agent for change", is also known for his clearly stated views on key industry issues.

A big supporter of the modernisation of the London market, and particularly of an electronic marketplace, he was of the firm conviction that the days of brokers wandering the streets of London carrying huge files of paper and queuing up patiently for hours at underwriting boxes were numbered.

The plan to grow RFIB to four times its existing size, taking the business to around £200m (\$309.7m) in annual revenues, in the next three to five years appears eminently achievable, particularly given a number of growth initiatives have already taken place at the



broker in the past 18 months. This includes measures to generate further growth in the Middle East.

Other growth areas targeted by RFIB's new owners include the UK and Bermuda, both markets in which Mahoney has had a great deal of success in the past. RFIB's third target market, the US – traditionally a tough market for small to medium-sized London market brokers to break into – will present a greater challenge. ■

THE INDUSTRY MUST COLLABORATE ON THE BIG PROBLEMS THAT NEED EVEN BIGGER SOLUTIONS

MICHEL LIÈS



The deep anxiety that pervaded the world after the bloody attacks in Lebanon, Paris and Mali last month, as well as the Russian plane over the Sinai, as well as the recent bombing in Tunis, still persists.

Particularly the images from the November 13 attacks are hard to forget, since the event highlighted the ever-present threat of terrorist activity on European soil.

It is still too early to give a meaningful perspective on the monetary impact these tragic events might have. But as was clear from the media's coverage of the aftermath, the events have spiked companies' interest in insurance protection against terrorist attack.

This is understandable. As humans, we tend to be more interested in buying insurance coverage after a disaster occurs, rather than before. Whenever there is a catastrophic event, our attention goes to trying to take measures that can prevent or relieve some of the financial burden of another event in the future. This event is no exception.

There is some relief for Parisian businesses struggling after the attacks, as they are likely to be able to make successful insurance claims because of the French state-backed terrorism fund. The fund is intended to help insurers pay claims from businesses. Many governments, including France, introduced state-funded terrorism insurance and reinsurance facilities in the wake of the September 11, 2001 attacks in New York.

But even as the terrorism threat has evolved, terrorism remains only borderline insurable. Particularly in markets where penetration is low, there is potential to run into trouble. The only practical solution is a public-private partnership in which the insured and the insurance markets, as well as the reinsurance markets, all retain some degree of risk, supported by a government backstop that limits the exposure. Capping insurers' potential losses like this may also offer a solution to emerging terrorism exposures, like from a cyber attack, as cyber security has emerged as one of the most critical issues facing government and industry alike.

The necessity of public-private partnerships is not exclusive to terrorism. This becomes particularly clear when considering catastrophe losses – on average only about 30% of these losses have been covered by insurance over the past decade. In common with people and companies, most governments also look for funds only after a disaster has hit and often revert to

raising taxes, borrowing or soliciting international aid. This too often leads to spikes in costs, as well as delays in rebuilding on the ground. These means big catastrophes have the ability to wipe out years of hard-earned development.

My vision for the industry is there needs to be more collaboration. That means, for instance, working much more closely with governments and multilateral institutions to help manage previously underinsured risks or "protection gaps" is a continued challenge, as well as an opportunity for the entire insurance industry. Protection gaps in all kinds of areas remain a huge burden on people and the countries they live in.

More collaboration is also needed when it comes to another immediate challenge being discussed at present in the context of Paris. The shock of terror has threatened to mute the COP21 talks on climate change, but with 2015 set to be warmest year on record as climate change and El Niño joined forces, there is much need for action – policy action, for instance, which is urgently needed to realise the 2°C target.

If global warming is contained insurance can play an important part in strengthening disaster risk resilience, as it provides a mechanism to compensate affected parties for damages incurred. Equally, by quantifying the economic impacts of weather and climate, insurance puts a price tag on risk and provides an incentive for investment in prevention measures. Insurance therefore strengthens climate resilience. Case studies across the globe show up to 65% of weather and climate risk can be cost-effectively averted, but these studies also indicate such solutions will not work in a world 4°C warmer – at least not at a reasonable cost.

Or think of the substantial space for co-operation between alternative capital and traditional reinsurance to help tackle the property protection gap. There are many more examples where we could be smarter together immediately, where challenges go hand in hand with opportunities, be it in the area of terrorism, climate change or property protection. Only together can we maintain and extend the boundaries of insurability and develop innovative solutions to further close the various protection gaps between economic and insured losses. This is the major challenge and opportunity, now and in the future. ■

Michel Liès is group chief executive of Swiss Re

BRONEK MASOJADA
Hiscox, chief executive

Hiscox remains one of the London market's strongest brands, and has continued to demonstrate growth in challenging market conditions under the leadership of chief executive, Bronek Masojada.

Masojada has now been chief executive of Hiscox for 15 years, during which he has overseen steady and consistent growth at the company.

He joined the company in 1993, initially as managing director of Hiscox Holdings and was appointed chief executive in 2000.

His presence meant the departure of iconic chairman Robert Hiscox in 2013 did not result in a departure in strategy, with the two having worked closely together on the company's development for around two decades since Masojada first joined the company more than two decades ago.

Under Masojada's leadership the Hiscox name has steadily become better known beyond its London roots, expanding nationally and internationally with the company pursuing a strategy of developing its retail business, particularly in the high net worth space.

This strategy of pursuing steady growth has continually delivered strong results at Hiscox, with the company gradually increasing its global footprint and brand awareness, with a substantial marketing investment helping drive increased uptake of the company's policies.

Masojada believes innovation in distribution is central to the industry's growth prospects, and as a company Hiscox has sought to innovate in the way products are delivered to clients.

In the US, for example, Hiscox has worked with wholesale brokers to repackage its UK small business product, traditionally sold direct to customers, to co-brand the cover and sell it to retail brokers with the appropriate client base.

Masojada's influence extends to the wider market. He served as deputy chairman of Lloyd's from 2001 to 2007, and is a member of the board of the Association of British Insurers. He also had a stint as president of the Insurance Institute of London.

In addition, Masojada serves as chairman of the Lloyd's Tercentenary Research Foundation, a charity which supports research in areas of interest to the insurance industry. He has recently also been appointed to the board of UK terrorism mutual Pool Re as a non-executive director. Anthony Latham, chairman of Pool Re, described Masojada as a "renowned ambassador for the insurance industry who has been a leading advocate for its development".

Masojada's influence has also been felt in the development of the UK's Flood Re backstop, where he was vocal, and ultimately successful, in securing equal access to the programme for properties that were initially due to be excluded. ■



TRACEY MCDERMOTT
Financial Conduct Authority,
acting chief executive

The UK's Financial Conduct Authority (FCA) has had a busy year overseeing the insurance industry, with a number of reviews and regulatory initiatives being developed.

Many in the market have expressed concern as to the extent of regulation being faced by the industry, in particular the implications of several thematic reviews taking place.

Tracey McDermott sits at the FCA's helm as an executive board member and acting chief executive, replacing Martin Wheatley after he was ousted in July.

The month before the regulator had published its thematic review on the handling of insurance claims from small and medium-sized enterprises (SMEs), which looked into whether SME customers were being treated fairly by insurers in relation to the handling of their insurance claims.

Lloyd's insurers are also in McDermott's spotlight, with new conduct risk standards from January 1, 2016. Covering a wide range of operational issues, including complaints handling, the new rules for Lloyd's managing agents will require a great deal more information to be reported, much more frequently.

The FCA also undertook a thematic review this summer to investigate delegated authority arrangements in the market.

According to the review, the FCA found some firms do not treat delegated authority arrangements as outsourcing. It said improvements are needed to due diligence and the way they manage outsourced arrangements, particularly in considering and assessing customer outcomes.

McDermott and her team are also examining big data use in the retail general insurance sector. The regulator is examining how big data affects consumer outcomes, whether it encourages or constrains competition and whether regulation affects developments. The outcome of these reviews could have serious implications for the insurance market.

The FCA will publish its finding on this and details of any further work by mid-2016.

McDermott became acting chief executive in September 2015. She has previously been director of supervision and authorisations and before that director of enforcement and financial crime. She joined predecessor regulator the Financial Services Authority in 2001.



A search for a new chief executive for the FCA is under way, after Wheatley was forced out by the chancellor of the Exchequer, George Osborne, who said a "different leadership" was needed to take the regulator forwards.

Many are calling for someone with industry experience to be credible. Will McDermott get the top job? Maybe not. But in the meantime, she is sure to have an enormous influence over the UK insurance sector until the next FCA chief executive is found. ■

**OVERCOMING THE RELEVANCE
CHALLENGE THROUGH
TALENT AND DIVERSITY**

MIKE MCGAVICK



Relevance is a topic that resonates deeply with me – I have spoken of it and written about it frequently. Usually, we discuss relevance through a lens of innovation and the need to do better. And, as the world continues its rapid change and risk changes in ways to which we must respond, innovation will come faster when our teams comprise the very best minds that come from a broad and diverse talent set. Diverse teams do not just create better ideas, they collaborate and find ways to better implement those ideas. It becomes a real competitive advantage and also keeps us relevant.

change: model, mentor and measure. That is true in many things and it can work toward the goal of increasing diversity as well. For instance, give women who are in their early career something on which to model their careers. This is not going to happen naturally – find the talent, force the system and then make sure your mentor programmes support new talent and cut across all your employees. Then measure: are you counting? Are you holding people to account? Are you making progress?

Last, we have to extend the invite to everyone. It seems obvious – if you want a diverse workplace, you need to reflect that in your hiring practices. At XL Catlin we have a simple rule; we do not approve a new hire unless it is proven they were chosen from a diverse pool of candidates and if it is a close call it comes down to diversity.

And we point the finger at ourselves first. For example, through the merger of XL and Catlin, while we created a bigger company, we actually lost ground in the ratio of men to women in our senior leadership team. We will do better also.

"For diversity to be a natural choice, you need a culture that is welcoming to all"

The benefits of a more diverse workforce in our industry should matter to all of us as it is directly related to our long-term relevance as a sector. And once we acknowledge the fact our industry has not historically placed as high a priority on diversity as it should, we can start doing better. It is a long effort. Knowing where to start can be tough. I suggest three areas of focus: culture, structure and hiring practices.

Culture is often defined as what "tells" one what to do when no-one is there to tell you what to do. For diversity to be a natural choice, you need a culture that is welcoming to all. Also, for diversity to stick, the expectation has to come from the top, through both the presence and support of a diverse leadership. Then this change needs to run through every part of your business. Think about what behaviour you reward and what language you use to describe leadership qualities and hiring policies. Your words and actions matter if you are going to build a culture that is respectful and collaborative. We work in an industry that is centred on relationships, so creating internal relationships that respect the individual sets the tone for how our teams engage with clients.

Then structure and using the tools we all know can drive

"If you want a diverse workplace, you need to reflect that in your hiring practices"

As with so many things occurring in the re/insurance sector, I am confident we will get this right too. The recent Dive In diversity festival at Lloyd's and the ongoing activities of groups like the Association of Professional Insurance Women and the Insurance Industry Charitable Foundation are proof we are increasingly and collectively aware this is an area on which we have to focus.

After all, few things are as obvious as the benefits to having a workforce that more closely matches the trends and demographics of the broader world and carries a multitude of views, opinions and talent to bring us forward. ■

Mike McGavick is chief executive of XL Group

MIKE MCGAVICK
XL Group, chief executive

Mike McGavick leads XL Group into 2016 as a vastly different organisation to the one he took over in 2008.

When he arrived at the company in May 2008, XL Capital, as it was then known, had a raft of issues to address, in particular its link to bond insurer Security Capital Assurance (SCA), which resulted in a \$1.4bn charge in October that year. That year saw XL produce a full-year net loss of \$2.63bn. But the years that followed have seen a dramatic transformation of the company, culminating in the 2015 acquisition of Catlin.

Now trading as XL Catlin, 2016 will see the company embark on its first full year as a combined entity. McGavick says the integration of the two businesses has been swift and is proceeding ahead of schedule. The combination, which followed lengthy discussions between McGavick and his counterpart Stephen Catlin, has created a firm positioned to lead in a number of business lines and markets. McGavick says the deal has created a top-three competitor in the brokered catastrophe reinsurance market, as well as in lines such as aerospace, fine art and specie.


McGavick is also a frequent speaker at events and gatherings, during which he often talks of the need for greater innovation.

His leadership role extends beyond his role at XL, with McGavick also serving as chairman of the Geneva Association, a role for which he was selected based on his deep knowledge of insurance and considerable experience of governmental and public affairs issues.

McGavick has never been afraid to speak out when he thinks regulators and policymakers should be acting differently, including on issues such as the implementation of Solvency II in Europe or the possibility of legislation affecting Bermuda's reinsurance sector.

He previously ran as a Republican for a seat in the US Senate in Washington, and also spent two years as director of the American Insurance Association's Superfund Improvement Project, where he was the association's lead strategist in working to transform US Superfund environmental laws.

Before joining XL, McGavick served as president and chief executive of Seattle-based insurer Safeco between 2001 and 2005. Before that he spent six years with Chicago-based insurer CNA Financial, where his roles included president and chief operating officer of the company's largest commercial insurance operating unit. ■



MALCOLM NEWMAN
Scor Paris-London hub, chief executive



Following the London Matters report, which highlighted the extent to which London's position as the global centre of excellence for specialty insurance is under threat, the market began to look at ways in which it could further innovate.

A number of initiatives are under way to bring more business to the London market, including one to attract insurance-linked securities (ILS) business to London.

The London Market Group (LMG) established an industry taskforce to work with the government to investigate ways in which more ILS business could be attracted to London. Malcolm Newman, chief executive of Scor's Paris-London hub, is leading this work for the LMG.

"ILS is very much the innovative end of our industry. It is vital for London's future, therefore, that we ensure the expertise surrounding these vehicles is attracted to be part of our unique cluster," he said after the taskforce's first official meeting in June.

The taskforce has been set up following a commitment made by the chancellor of the Exchequer, George Osborne, in the budget statement on March 18.

"The government is working closely with the LMG to facilitate the creation of an onshore UK hub for capital markets products"


In November, Newman said good progress had been made with the Bank of England on the Financial Services Bill. The bill, which is being discussed in the House of Lords, contains draft provisions for HM Treasury to facilitate and regulate the establishment and operation of transformer vehicles.

"We are delighted the government is working so closely with the LMG to facilitate the creation of an onshore UK hub for these capital markets products and we look forward to further progress on implementing a new and competitive framework for ILS in 2016," Newman said.

In addition to Newman's role on the taskforce, he is also chairman of the International Underwriting Association (IUA), a role he has held since 2013.

He also heads Scor's Paris-London hub as chief executive, having been appointed in April 2015. ■

ED NOONAN
Validus, chairman and chief executive



Bermudian group Validus has an enviable financial track record since its formation in 2005, delivering compound annual growth of 12.4% under the leadership of Ed Noonan, who has been chairman and chief executive of the company from the start. Net profit for the past five years totalled \$1.8bn as net premiums increased 16.6%.

The group has grown over the years through a combination of organic development and acquisition that has included reinsurance operations, in the form of Flagstone and IPC, and Lloyd's, through the purchase of Talbot. Most recently, the group carried out a further reorientation with the acquisition last year of Western World, a primary US insurer operating in the excess and surplus lines market.

"Noonan has also had some sharp words about the marine market's inability to model cargo risks accurately"

Noonan has described the \$690m Western World takeover as something of a hedge against increasing threats to Lloyd's, as US buyers are looking to place more business locally.

One of the more punchy commentators on market developments, Noonan told analysts the Lloyd's market's biggest challenge was maintaining its relative importance in the global market in the face of local competition. He warned excessive regulation at Lloyd's was stifling the entrepreneurial spirit that has been the market's hallmark.

Noonan has also had some sharp words about the marine market's inability to model cargo risks accurately after unexpected exposures emerged following hurricane Sandy in 2012 and last year's Tianjin port explosions.

In addition to international reinsurance, Lloyd's and US primary insurance, operations at Validus include the group's third-party asset management business, AlphaCat, now with \$2.1bn of assets under management. Validus was quick off the mark to set up this alternative capital capability and although it is likely to remain an important strategic and financial business segment for the group, recent signs in the insurance-linked securities market suggest the sector is approaching equilibrium, Noonan said. Capital inflows are likely to slow as excess returns disappear.

Noonan told shareholders the Western World acquisition completed "our basic strategic footprint" and any future acquisitions are likely to be smaller. At the nine-month mark last year, the group's gross premium breakdown was Validus Re 48.6%, Talbot 34.6%, Western World 9.1% and AlphaCat 7.7%. ■

GEORGE OSBORNE
Chancellor of the Exchequer

George Osborne has certainly got the London market excited. In last year's autumn statement he pledged the government would look at ways to improve the competitiveness of the UK's tax and regulatory regime to attract more reinsurance business to London.

The chancellor's comments came as a report by the London Market Group (LMG) and Boston Consulting Group found London was losing its share in the global reinsurance market, seeing it fall to 13% in 2013 from 15% in 2010, as reinsurance purchasing is increasingly centralised and emerging market growth gains in importance.

"The new diverted profits tax creates significant uncertainties for reinsurers and multinational insurers based in the London"

Following the autumn statement, the LMG wrote to HM Treasury outlining a number of areas the group argued would help boost the competitive position of the London market on the international stage.

The group put forward various proposals aiming to ease the burden of UK regulation on re/insurance businesses but it was the proposal to look at ways to encourage an insurance-linked securities (ILS) market in London that particularly caught Osborne's eye.

In his subsequent budget, Osborne pledged to take steps to build an ILS market in the UK, saying the government will work with the industry and regulators to develop a "new competitive corporate and tax structure" for allowing ILS to be domiciled in the UK. "This alternative form of reinsurance makes greater use of capital markets and is a key growth opportunity for the sector," Osborne said.

Since then an industry taskforce led by Malcolm Newman, chief executive of Scor's Paris-London hub, has been working closely with Treasury officials to develop the tax and corporate framework necessary for ILS to flourish.

The work is making progress, with the House of Lords considering legislation that will pave the way for the creation of "transformer vehicles", while discussions about the taxation of ILS investors appear to be positive.

Osborne also brought some other positive news for the industry at last year's autumn statement, announcing plans to crack down on the number of fraudulent whiplash claims. He said the government will consult on ending the right to cash compensation for minor whiplash injuries.

Osborne has not always been the bearer of good news for the industry, though. In the budget earlier in 2015 he announced a hike in insurance premium tax from 6% to 9.5%. In addition, the new diverted profits tax creates significant uncertainties for reinsurers and multinational insurers based in the London market. ■



ANDY PARKER
Capita, chief executive



Andy Parker joined Capita in 2001 before becoming chief executive in 2014, heading up the outsourcing company in charge of Capita Insurance Services, which provides market solutions, back-office insurance services, syndicate management and turnkey services through its Lloyd's managing agency.

While Capita's business ranges beyond just insurance, its presence in the London market has grown over the past year, with some possible new developments for 2016. Most recently, Capita is one of a number of companies looking to buy Xchanging.

Capita said acquiring Xchanging would position it as one of the leading providers of technology-enabled business process services in the international insurance and asset administration industries.

"Capita's presence in the London market has grown over the past year"

It would also provide a stronger platform for Xchanging to accelerate sales growth and to develop its software, technology and procurement solutions.

Parker says Capita will be able to secure at least £35m in cost synergy benefits in 2017, at a cost of around £20m in the first 12 months after acquisition. "We've been looking at Xchanging for some time and we continue to see clear strategic rationale in the acquisition," he said last year.

Elsewhere, Parker and his team have had a busy year. Through its Lloyd's managing agency, Capita is managing newly launched syndicates including syndicate 1492, launched in October with capital and distribution backing from Latin American re/insurer Istmo Re.

It has also continued to invest in the managing general agency space, including increasing its investment in Pardus Underwriting last December.

Capita is also the managing general agent for the UK government flood scheme, Flood Re. Based on a five-year contract, Capita will be responsible for working with Flood Re and the industry to build and then run Flood Re's business operations, systems and controls ahead of regulatory approval at a later stage. ■

DAVID REEVES
Barbican Insurance Group, chief executive

When seeking out examples within the London insurance market of businesses successfully diversifying in one way or another, Barbican is certainly up there.

Chief executive, David Reeves, can take a lot of credit for a strategy which, in the past 12 months, has seen Barbican launch two special purpose syndicates (SPS), with a combined stamp capacity of £130m for the first year of operation. And Reeves confidently anticipates this to grow.

SPSs have been providing Lloyd's insurers a way in which to diversify their book of business by increasing capacity using third-party capital.

"Lloyd's has got an incredibly strong brand and it's also got a number of very large licences overseas, which allow you to trade on a global basis. It's very hard to simulate the width of the licensing Lloyd's has and that's why people want it so much," Reeves told *Insurance Day*, following the recent launch of syndicate 1856.

In the two years before the establishment of syndicate 6120 in December 2014, Barbican launched two SPSs. For the 2013 year of account it established SPS 6113, with the backing of names. This was followed in 2014 by the establishment of SPS 6118, a whole-account quota-share, backed by Malaysian carrier Labuan Re and another reinsurer.

Most recently, Barbican has partnered with Credit Suisse, a major fund manager in the ILS market that invests in cat bonds and writes collateralised reinsurance and retrocession. "Only the highest-quality teams get through this process and Credit Suisse performed exceptionally well during the application process," Reeves said.

Reeves is also an ambassador for other market initiatives, and has been especially vocal about attracting much-needed talent into the London insurance market. At the end of 2014, Barbican won best corporate social responsibility programme at the *Insurance Day* London Market awards, with the judges highlighting its apprenticeship programme, launched in 2013.

"At Barbican, nurturing talent through apprenticeships is very important to us. If the London Market can welcome, encourage, and promote apprenticeships it can only be a positive development for our collective future competitiveness and prosperity," he said. ■



THE LONDON MARKET MUST BOOST ITS CONNECTIVITY TO STRENGTHEN ITS INTERNATIONAL POSITION

DAVID REEVES

The London market has rightly earned international recognition for the calibre of its underwriting. In many ways viewed as the birthplace of the modern insurance marketplace, London continues to help drive the ongoing evolution of the industry through a combination of its underwriting depth, appetite to absorb emerging risks and willingness to innovate.

However, it must guard against becoming a victim of its own success. The London market is in danger of becoming over-reliant on the brightness of its underwriting beacon to attract business through its door, rather than using it to more clearly illuminate its presence in the regions from which that business originates.

London has long prided itself on its global appeal but as a market can we really say we are genuinely connected to the countries we serve? In my view, we must take significant steps to bolster our connections with these territories and to achieve this must proactively demonstrate the value we bring, both as a market and as individual organisations, on to the international stage.

It is imperative, first and foremost, that we ensure London is a market conducive to transacting business. Technology is a key component of this and there is much work being carried out to embed a robust infrastructure within our market framework to deliver full transactional connectivity, reducing time-wasting duplication, enhancing speed and limiting errors at all stages. In addition, we must continue to drive transactional costs down – technological advancements will contribute to this, but we need to conduct forensic-level examination of every process to achieve cost efficiency throughout.

Just as critical is our need to make significant and far-reaching investment in training and staff development. The market as a whole has achieved strong returns on its underwriting investment and continues to do so even in challenging market conditions, but we must reinvest those profits in our people if we are to secure our international foundations.

We see vast insurance potential today that remains untapped. We are currently anxious about a perceived oversupply of market capacity; yet if we succeed in accessing only a small percentage of those dormant reserves, that capacity would be swallowed in an instant. And this potential is not just locked within emerging markets such as China and India, but is welling up in mature markets such as those of North America and western Europe in the form of new insurable risks.

To tap these reserves we must ensure our teams are properly

equipped. It is simply not possible to expect our underwriters to hit the ground running in territories such as China, India or Malaysia, nor to crack new risks in the US, without a thorough grounding in all aspects of the market they are entering. We must strive to understand their unique insurance needs and also to understand the value of our own products and services in the context of those needs. We must be more culturally astute, able to blend into the market rather than being viewed as an outsider.

This also comes down to our ability to work in partnership with regional practitioners who provide a doorway into the local market, not only acting as introducers but also helping to establish levels of trust. At Barbican, for example, we have built strong links with a Malaysian partner, one which has not only created opportunities on more traditional lines but also in areas such as takaful and cyber.

"London has long prided itself on its global appeal but as a market can we really say we are genuinely connected to the countries we serve?"

In terms of the products we develop, these must be built to a standard that guarantees global appeal straight off the production line. Yes, it is imperative we have the ability to tailor our coverage to meet specific customer requirements, but our priority must be to create solutions that are, where feasible, fit for purpose in any locale.

London can no longer simply open its door and expect business to walk through. The market is too competitive, both at an international level and at the local level, with burgeoning regional hubs in many growth markets reducing the need for customers to look beyond country borders. London must step out into the markets it operates in and position itself on the front line. This is where I am spending the majority of my time at present, meeting brokers and clients "on site" to gain a clear understanding of the role we play and what more we can do to support them. ■

David Reeves is group chief executive of Barbican Insurance Group

KENGO SAKURADA

Sompo Japan Nipponkoa, chairman

Long-time employee Kengo Sakurada has taken the top spot at Japanese group Sompo at a crucial point in the company's history as it looks to reposition itself in the domestic and global market. In common with its two main rivals in the Japanese non-life market – Tokio Marine and Mitsui Sumitomo – Sompo is consolidating domestic operations and looking to boost its presence in life and international markets.

Sakurada started at Yasuda Fire & Marine, a forerunner of Sompo, in 1978 and has occupied a series of senior post at the group since 2005. The most important group development of recent years has been the combination of previously separate units Sompo Japan and Nipponkoa to create Sompo Japan Nipponkoa in September 2014, creating the largest domestic non-life insurer by premiums written, with a market share of 27.4%.

The combined operation immediately took steps to reduce costs and improve profitability in what is a traditionally highly competitive Japanese market. The stronger-than-expected recovery enabled the group to post a doubling in ordinary profit to ¥208.3bn (\$1.69bn) for the 2014 financial year ended March 31, 2015, Sakurada reported to shareholders.

In its life account, Sompo Japan is aiming for steady growth by leveraging its non-life insurance agency network and focusing on high-margin protection-type products.

But it is in the international market that the group has made the biggest splash, acquiring London market business Canopus in 2014 for the equivalent of \$970m. The boost Canopus brought meant Sompo's overall profitability was higher than expected under its medium-term management plan, which is due to close at the end of the current fiscal year.

After a bedding-in period, the group has now brought Canopus's reinsurance operations together with the existing reinsurance business under a new brand, Sompo Canopus Re. It includes a new company, Sompo Japan Canopus Reinsurance AG, based in Switzerland. The new company starts with total equity of £328m (\$495.5m).

And this is not the only international move the group has carried out. Last year Sompo disclosed it had taken a stake of 7.5% in French reinsurer Scor.

At an overall group level, Sompo's aim is to go beyond insurance and "evolve into a service provider that enables more customers to live with security, health and wellbeing amid a constantly changing environment", Sakurada told shareholders in the group's annual report. ■



JULIAN TIGHE

Asta, chief executive

It has been a busy year for new syndicates at Lloyd's, with several seeking approval during 2015.

Tighe heads one of the largest providers of capacity to Lloyd's as a third-party managing agency.

Asta Managing Agency now manages a total of eight Lloyd's syndicates, including the Everest syndicate, and Asta's chief executive, Julian Tighe, is looking to grow that number further following the successful launch of three syndicates over the past 18 months.

New syndicates joining Asta's managing agency have included Skuld's new special purpose syndicate 6126, as well as Everest Re's entry into the Lloyd's market, syndicate 2786, both which have received in principle approval from Lloyd's.

In addition, Tighe and his team have launched a managing general agent (MGA) platform to take advantage of growing opportunities in the space – the first MGA, Pelican Underwriting, launched in July.

"Tighe has led the way in introducing alternative capital to the Lloyd's market"

The focus on MGA business will be new entrants to the market, from which Tighe expects to see increased demand as a result of mergers and acquisitions, and as MGAs struggle to expand to meet tighter regulatory requirements.

"We believe there is great potential and synergy in running both the MGA and the third-party managing agent models side by side. The new venture not only allows us greater diversification of client type across the UK, but also strengthens our position for longer-term sustained revenue growth," Tighe said recently.

Asta has helped bring some unique offerings into the Lloyd's market.

Tighe has led the way in introducing alternative capital to the Lloyd's market, with the launch of Nephila Capital-backed syndicate 2357 in 2013 to write industry loss warranties, which Asta manages.

He is continuing to look for new opportunities, with emerging markets being a key target as Asta looks for new, unique business to bring into the Lloyd's market.

Tighe took over as chief executive in January 2014 from Stephen Crane. He was previously chief financial officer of Asta in 2009, before taking the role of chief operating officer in 2012.

Asta Managing Agency was last year named Company of the Year at the *Insurance Day* London Market Awards in recognition for its achievements in introducing new players to the market. ■



NIKOLAUS VON BOMHARD

Munich Re, chairman of the board of management



As head of Munich Re, the world's largest reinsurer, Nikolaus von Bomhard remains a significant power player in both the reinsurance sector and the wider economy.

In a highly competitive market, he has been forthright in his views about the future strategy needed to remain a leader in the reinsurance world.

Von Bomhard has been adamant that innovation rather than acquisition is key to success in the current marketplace. "Innovation is gaining importance again very quickly. Those companies that are not standing with their backs to the wall can be winners in this phase," he said recently.

One area in which Munich Re is looking to innovate is to meet some of the challenges posed by the changing climate. Von Bomhard has previously highlighted the potential market opportunities of being active in this area.

Von Bomhard has been chairman of the Munich Re management board for more than a decade, having served the company since 1985. More than a decade later, von Bomhard has maintained Munich Re's position as the world's largest reinsurer.

Amid high levels of reinsurance competition, the last year has seen Munich Re continue the strategy of reducing its traditional reinsurance business in favour of expanding its primary arm. Von Bomhard foresaw many of the challenges the market is now facing.

When he took over the role in 2004, von Bomhard spoke to *Insurance Day* about his company's plans to expand its primary arm because of potential challenges ahead in the reinsurance market. He said at the time: "When we set up Ergo [Munich Re's primary insurance brand] we felt that reinsurance had limits as regards growth. As it happened it did continue to grow but can it go on forever?"

"Growth potential is important. You could ask why don't we expand in life reinsurance like Swiss Re? We think we can grow the primary insurance more."

With more reinsurers continuing to look to the primary market for growth, his strategy from 2004 looks quite prophetic.

In the coming years Munich Re will need to be at the forefront of industry innovation in order to maintain its strong market position. Von Bomhard will play a pivotal role in helping to shape this success and leading innovation in the market as a whole. ■

ULRICH WALLIN

Hannover Re, chairman of the executive board

The outlook within Hannover appears to be more optimistic than those of its peers. The belief in the company is the current pressure on rates and conditions will ease and Ulrich Wallin, chairman of Hannover Re's executive board, talks about indications of a rising demand for high-quality reinsurance protection in mature markets as a consequence of the economic upturn in the US, which he believes should have favourable implications for re/insurance market development as a whole.

But questioning Wallin's judgment is actually more difficult than it might appear. When he succeeded Wilhelm Zeller, one of the industry's most respected figures, as chief executive of Hannover Re, in 2009, he was by no means the expected choice to head up the world's fourth-largest reinsurer despite the fact he ticked most of the boxes. He had been a Hannover Re board member since 2001 with responsibility for the company's specialty division, securitisation activities, the purchasing of retrocession cover and for its treaty business in the UK and Ireland.

"In addition to sound judgment, Wallin also seems to have been blessed with that other essential quality: luck"

According to Wallin himself, he would not have thought of applying for the job if he had not been approached by members of the supervisory board of Talanx, Hannover Re's parent company.

But that innate reserve has not stood in his way. Hannover Re has posted record net profit figures every year since 2009.

An upturn in major loss experience was not enough to derail a strong non-life underwriting performance for either the third quarter or the nine months at Hannover Re last year and the group continues to forecast full-year net profit of about €950m.

In addition to sound judgment, Wallin also seems to have been blessed with that other essential quality: luck. In 2011, for example, the Hannover Re result, under some pressure at the time, was boosted in no small measure by a favourable German court ruling on the tax treatment of Irish business written by the company between 1993 and 2001. ■



JEFF WARD

Ebix, vice-president and head of Europe

Jeff Ward, vice-president and head of Ebix Europe, has joined this year's Power50 following the software firm's successful bid to be the technology provider for the London market's electronic placement platform initiative.

US-listed Ebix beat outsourcing giant Xchanging to provide the platform, which is seen as one of the most important strategic developments for the market at the moment – and, given previous market failures in this area, the stakes are high. Ebix software was seen as “tried and tested”, with less of a risk profile than Xchanging's “relatively untested solution”, insiders say.

Ward has worked on several electronic placement proposals during his 26 years in the London market. He is recognised as a driving force behind industry modernisation initiatives, as well as for his vocal honesty about the necessity for the industry to revolutionise the way in which it does business.

He is a supporter of the London market's new Target Operating Model (TOM), designed to improve the way the market does business both locally and globally, bringing substantial change to both front and back offices – and, in parallel, to the Rüschlikon community, which continues to grow with increasing pace, connecting brokers' and insurers' systems with Acord standards, eliminating accounting inefficiencies.

Ebix was also in the battle to acquire Xchanging, tabling a proposal to acquire the outsourcing and business processing firm for £450m (\$683.8m). Ebix had written to Xchanging's board outlining its interest in making an all-cash offer of 175p per share. At the time of writing, technology firm Computer Sciences Corporation is in the driving seat, having made a 190p per share bid.

Also last year, in partnership with Ebix, Willis launched a global accounting platform as part of the broker's operational improvement programme. “This will rapidly accelerate the worldwide adoption of Acord Rüschlikon at a speed and cost peer-to-peer messaging can simply never achieve,” Ward said at the time. ■



PREM WATSA

Fairfax Financial, chairman and chief executive



Investors in insurance stocks looking for a consistent, steady but unspectacular return should probably avoid Fairfax Financial, the Canadian group headed by Prem Watsa. Investment guru Watsa has adopted a contrarian view of global investment trends for many years, resulting in a volatile, although generally positive, performance.

During the financial crisis Fairfax proved the big winner among insurance organisations

as Watsa's defensive hedges in what he considered a troubled investment scenario came up trumps. While other insurers lost massive sums on writedowns, Fairfax posted investment gains of \$2.57bn in 2008. The group recorded aggregate net profit of \$3.24bn for the five years to 2012 before posting a loss of \$573m in 2013 and then bouncing back to a profit of \$1.63bn in 2014.

Interestingly, Watsa maintains a pessimistic view of global investment prospects, retaining Fairfax's defensive hedges and instruments to protect against deflation last year.

Watsa leveraged Fairfax's outperformance through the financial crisis to make a host of acquisitions both in and outside the insurance sector, particularly in India and other emerging markets. Purchases included Thai Re, Pacific Insurance of Malaysia, American Specialty, First Mercury, US group Zenith and Pethealth. Last year Fairfax acquired Union Assurance in Sri Lanka and took another \$300m stake in Fairfax India.

The group's most important transaction for many years was the \$1.8bn purchase of London market player Brit, completed last year, and the sale of a 29.9% stake in the operation to Ontario Municipal Employees Retirement System. Brit joins reinsurer OdysseyRe, Canadian insurer Northbridge, US insurers Zenith and Crum & Forster and other global insurance operations in the Fairfax roster.

Watsa took control of Fairfax in 1985 and has seen shareholders' funds grow from \$8m then to \$8.89bn at September 30, 2015. Yet he remains a controversial figure because of his “value investor” strategy. Fairfax has been the target of short sellers over the years, leading to multibillion-dollar legal suits claiming the company was the victim of an illegal plot to destroy it.

Last year Watsa gained shareholder approval to change the terms of Fairfax's multiple voting shares to ensure he and his family retain their current share interest of 41.8% over the next decade. His salary will be capped at a relatively low \$600,000 a year for the next 10 years; he already receives no bonus or stock options for his service. ■

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Feeling the pinch

Insurers are searching for growth and profit in increasingly constrained conditions. **Graham Village** assesses which companies have been the most successful

Changes affecting solvency requirements, regulatory standards, licensing and a host of other business areas taking effect over the next few years will have a significant impact on the global re/insurance industry. How the sector responds to these changes will be interesting to see. Will the industry become more or less diverse in

the way it operates and how will individual companies perform? For now, the industry continues to exhibit wide variation between geographic markets and type of operator in terms of capitalisation and solvency levels, as well as investment and underwriting performance. Still, it is possible to discern general market trends and, over the past few years, the

global insurance industry has posted modest premium growth and a generally good level of profitability. Investors looking for outperformance may have been a bit disappointed but it is worth remembering the insurance industry's recovery since the financial crisis of 2008 has been stronger than that of the banking sector. Data from *Insurance Day's* extensive

corporate database reveals the insurance industry to be in pretty good shape. Most companies posted solid results last year – a trend that is likely to be continued in 2015. For non-life insurers and particularly reinsurers, the lack of major loss activity has been a big help. By Munich Re's calculations, insured natural catastrophe globally totalled about \$31bn in 2014, down from the already

low mark of \$39bn the year before. Over the past 10 years the annual figure was \$58bn and over the past 30 years the industry averaged \$33bn a year. And that run of good luck looks to have continued in 2015 (at the time of going to press). Once again, the eastern seaboard of the US escaped major storm damage during the hurricane season. Kinder natural catastrophe experience

"As investment returns shrink, the need for underwriting excellence increases"

has offset some of the pressure insurers have faced on the investment side after the financial crisis heralded a new era of persistently "lower for longer" interest rates. As investment returns shrink, the need for underwriting excellence increases. Insurers also have to consider how adventurous they can afford to be on the investment side as they try to boost their returns and increasingly have been looking at alternative assets and generally more risky investments. At the same time, for European companies, confusion remains even now about how attractive various investment classes, including infrastructure projects, will be under the new Solvency II regime, due to come into formal effect from January 1, 2016.

Rates for many lines in many territories have been under increasing pressure over the past few years, cutting into companies' revenue and prompting much discussion about how the market should respond. The annual analysis carried out by sigma, the economic research unit of Swiss Re, calculated global non-life premiums were up 2.9% last year after a rise of 2.7% the year before, while life business increased 4.3% following a decline of 1.8% in 2013. The established markets of North America, Japan and Europe are highly mature and offer no easy route to substantial growth, while emerging markets,

particularly in Asia, hold out more promise. Advanced insurance markets saw premiums increase at the same rate as GDP for non-life business and at a faster rate for life in 2014. But growth in emerging markets was 7.4% overall, well above the economic growth rate of 4.1%. That high level of development has been the catalyst for the drive by many large Western companies to expand operations into new markets either through acquisition or start-ups. An interesting twist, more apparent last year, has been the larger insurers in emerging countries looking to break into more mature markets, Chinese companies Anbang, Fosun and China Minsheng Investment being good examples. Global merger and acquisition (M&A) was a key feature of the insurance industry last year, and *Insurance Day's* M&A database tracked 28 deals valued at more than \$1bn announced or completed by the first week of November 2015. Aon Benfield's latest *Global insurance market opportunities* publication splits national insurance markets into four quartiles based on what it calls "a desirable mix of profitability, growth potential and a relatively stable political environment". Not surprisingly, most of the 12 countries in the top quartile are in emerging markets, headed by Indonesia, Malaysia and Singapore. Only three advanced markets break into this top quartile: Australia, South Africa and Norway. Major markets such as those in the UK, France, Italy and Japan lie in the bottom tier. Major markets cannot be ignored because of the large premium income they continue to deliver but Aon Benfield's report points to seven areas of opportunity insurers should pursue over the next five to 10 years, and most of these relate to mature markets: US mortgage credit; reputation and brand; microinsurance; corporate liability cover above \$1bn; terrorism; cyber; and the "sharing economy", creating new demand for insurers to fill gaps in cover. According to Aon Benfield, far from being on its last legs, the insurance industry is in an enviable position because of the simultaneous occurrence of three positive trends: reduced loss frequencies; the rise

Table 1: Leading international insurers, financial metrics 2014

Company	Combined ratio %	Solvency margin %	Net profit/ shareholders' funds %	Net written premium/ shareholders' funds %	Underwriting result as % pre-tax profit
Oil Ltd	(7.2)	928.8	15.9	10.8	72.8
Berkshire Hathaway	–	566.0	8.3	17.7	9.5
RenaissanceRe	50.2	361.9	13.8	27.6	77.1
Platinum	69.4	353.2	9.5	28.3	85.2
AIG	83.3	310.2	7.0	35.4	3.9
Ageas	99.6	265.7	4.7	37.6	28.9
Montpelier Re	65.6	253.2	13.6	39.4	90.4
Achmea	102.0	245.0	0.1	193.9	–
Ping An	95.3	235.2	13.6	104.2	8.2
Axa	96.9	217.7	7.7	46.0	6.5
Markel	95.0	193.9	4.2	51.6	40.3
White Mountains	103.8	188.4	7.8	53.1	(35.7)
Ace	87.7	187.4	9.6	60.2	58.6
Lancashire	68.7	182.7	16.9	54.8	99.1
Hartford	97.2	182.7	4.3	77.3	16.9
AIA	-	180.7	11.2	55.4	(81.2)
CNA	97.7	180.5	5.4	55.4	(60.1)
Swiss Re	85.4	180.2	9.7	88.1	66.0
Validus	73.7	174.7	13.4	57.3	118.1
XL	88.2	174.0	1.9	56.3	184.9
Alleghany	88.8	166.2	9.1	60.2	53.1
CCR	82.6	165.9	9.8	65.1	93.4
OdysseyRe	84.8	165.2	14.9	60.5	39.7
Endurance	86.0	164.7	10.9	60.7	73.1
HCC	82.1	164.5	11.7	60.8	54.5
Allied World	85.2	162.7	13.0	61.5	65.8
Arch	87.2	157.5	13.6	63.5	55.8
PartnerRe	86.2	156.6	15.0	63.8	46.7
Fairfax	90.8	151.2	17.2	66.2	10.0
Axis	91.6	149.0	13.9	67.1	55.6
Everest Re	82.8	141.7	16.1	70.5	61.3
Allianz	94.3	136.9	10.2	114.3	22.9
Aspen	91.7	135.9	10.4	73.6	80.1
Vienna Ins Gp	96.7	134.9	7.2	163.1	24.0
Munich Re	95.1	132.7	10.5	157.2	27.4
Chubb	88.3	129.4	12.9	77.3	49.0
Scor	91.4	128.9	9.0	178.1	54.4
Aviva	95.7	123.1	15.4	81.2	4.8
Argo	96.2	120.4	11.1	83.1	23.8
Generali	93.8	118.4	7.2	277.1	40.2
Arig	101.7	111.4	5.9	98.4	(87.0)
Groupama	102.0	109.9	0.3	183.2	–
Hiscox	83.9	108.2	14.9	92.4	69.5
Tokio Marine	108.0	106.9	6.9	93.5	149.4
Hannover Re	94.7	105.5	13.1	166.6	25.6
Travelers	89.0	103.9	14.9	96.2	75.5

Table 1 (continued): Leading international insurers, financial metrics 2014

Company	Combined ratio %	Solvency margin %	Net profit/ shareholders' funds %	Net written premium/ shareholders' funds %	Underwriting result as % pre-tax profit
Zurich	97.8	101.3	1.2	138.8	15.0
Toa Re	97.7	95.4	2.9	104.8	13.9
MS&AD	104.8	82.1	4.5	121.8	(160.4)
QBE	96.1	79.6	6.7	125.6	58.8
Amlin	89.0	77.7	13.3	128.8	101.7
Beazley	89.0	77.5	16.2	129.1	69.5
WR Berkley	93.8	76.5	14.1	130.7	37.5
Allstate	93.9	75.3	12.8	142.5	41.8
IAG	94.8	66.5	10.7	115.7	57.0
Sompo Japan	95.8	65.5	3.0	152.8	95.3
Hanover	96.9	59.1	9.9	169.1	35.2
Liberty Mutual	97.5	55.7	9.1	179.4	(33.1)
RSA	98.5	54.9	1.8	182.1	(198.3)
Mapfre	95.7	46.9	9.2	213.4	(7.4)
Korean Re	99.4	46.8	6.4	213.6	13.6
PICC P&C	96.5	38.7	17.6	258.6	37.5
Talanx	97.9	32.9	9.6	303.7	(120.4)
Source: company filings/Insurance Day database					

Table 2: 10 top companies by net result as % of shareholders' funds, 2014

Rank	Company	%
1	PICC	17.6
2	Fairfax	17.2
3	Lancashire	16.9
4	Beazley	16.2
5	Everest Re	16.1
6	Oil Ltd	15.9
7	Aviva	15.4
8	PartnerRe	15.0
9=	OdysseyRe	14.9
9=	Hiscox	14.9
9=	Travelers	14.9

Table 3: 10 lowest net result as % of shareholders' funds, 2014

Rank	Company	%
1	Achmea	0.1
2	Groupama	0.3
3	RSA	1.8
4	XL	1.9
5	Toa Re	2.9
6	Sompo Japan	3.0
7	Markel	4.2
8	Hartford	4.3
9	MS&AD	4.5
10	Ageas	4.7

of securitisation and alternative capital; and the impact of big data. “Because of the confluence of new demand, plentiful supply and ground-breaking analytics capabilities, we believe the next decade offers a unique opportunity for ‘break-out’ growth, innovation and development within the insurance industry,” the report’s authors state.

Aon Benfield’s report pointed out 27 of the world’s top 50 insurance markets recorded a combined ratio of better than 95% in 2014, compared with 21 countries the year before, while six national markets were below 90%, down from 10.

Global premium at the end of 2014 stood at a record \$5trn, up 3% on the back of growth of 3% for both life and non-life business, as well as a fall of 3% for reinsurance business. At the same time, global re/insurer capital was up 6% during the year to \$4.2trn.

Table 1 lists selected 2014 figures for the important global insurance and reinsurance companies tracked by *Insurance Day* ranked by solvency margin rather than the usual measurement of premium income. The table gives a simple demonstration of the wide range within the industry, running from Talanx at 32.9% to Oil Ltd at 928.8%.

Table 4: 10 lowest combined ratio %, 2014

Rank	Company	%
1	Oil Ltd	(7.2)
2	RenaissanceRe	50.2
3	Montpelier	65.6
4	Lancashire	68.7
5	Platinum	69.4
6	Validus	73.7
7	HCC	82.1
8	CCR	82.6
9	Everest Re	82.8
10	AIG	83.3

Table 5: 10 highest combined ratio %, 2014

Rank	Company	%
1	Tokio Marine	108.0
2	MS&AD	104.8
3	White Mountains	103.8
4	Achmea	102.0
5	Groupama	102.0
6	Arig	101.7
7	Ageas	99.6
8	Korean Re	99.4
9	RSA	98.5
10	Talanx	97.9

Table 6: 10 lowest net written premiums as % of shareholders’ funds, 2014

Rank	Company	%
1	Oil Ltd	10.8
2	Berkshire Hathaway	17.7
3	RenaissanceRe	27.6
4	Platinum	28.3
5	AIG	35.4
6	Ageas	37.6
7	Montpelier	39.4
8	Axa	46.0
9	Markel	51.6
10	White Mountains	53.1

Mutual insurer Oil Ltd, owned by energy industry interests, is not an ordinary underwriting company and Berkshire Hathaway’s immense financial strength makes it a unique player in the insurance

industry. But even excluding these two companies, the spread within the industry is fairly wide.

The other tables drill down more deeply into capitalisation and performance.

“The worst relative performers tended to be drawn from the ranks of some of the largest players in Europe, Japan and the US”

Interestingly, the best relative performance (in terms of net profit as a percentage of shareholders’ funds) came not from a Bermudian or London market specialist but China’s PICC (see table 2), followed by Prem Watsa’s Fairfax Financial.

At the other end of the scale, the worst relative performers tended to be drawn from the ranks of some of the largest players in Europe, Japan and the US. But the most telling fact is none of the companies covered recorded a net loss in 2014, even though a few made large write-offs following disposals or had particular problems to contend with.

All analysts agree underwriting performance is more important than ever in view of the investment environment but table 4, showing the 10 companies with the best combined ratio, provides few surprises. Oil Ltd’s peculiarities mean it actually posted a negative ratio for the year. The rest of the places are taken by catastrophe and other specialty lines companies, joined by AIG in 10th place with a ratio of 83.3%, an improvement of no fewer than 17.1 percentage points on the previous year.

Again, it is an indication of how good last year was that only six groups recorded a ratio of worse than 100%. The two companies with the highest combined ratios were both Japanese in the shape of Tokio Marine and MS&AD (Mitsui Sumitomo).

Tables 6 and 7 show the companies writing the lowest and highest amount of net premiums as a percentage of shareholders’ funds. Tables 8 to 10 provide some peer group comparisons. In the US, it is clear the specialty lines players have typically outperformed their larger rivals. The five carriers shown in table 8 increased their

Table 7: 10 highest net written premiums as % of shareholders’ funds, 2014

Rank	Company	%
1	Talanx	303.7
2	Generali	277.1
3	PICC P&C	258.6
4	Korean Re	213.6
5	Mapfre	213.4
6	Achmea	193.9
7	Groupama	183.2
8	RSA	182.1
9	Liberty Mutual	179.4
10	Scor	178.1

Table 8: US specialty/regional market net profit, \$m

	2013	2014
Alleghany	628	679
Hanover	251	282
HCC	407	458
Markel	281	321
WR Berkley	500	649
Total	2,067	2,389

Table 9: US all-lines companies, underwriting result, \$m

	2013	2014
AIG	(382)	409
Allstate	2218	1,772
Chubb	1675	1402
CNA	(1,055)	(725)
Hartford	53	287
Liberty Mutual	(1,222)	(876)
Travelers	1,752	2,009
Total	3,039	4,278

Table 10: Major continental European insurers, net income, €m

	2013	2014
Achmea	352	14
Ageas	570	476
Allianz	5,996	8,848
Axa	4,482	5,024
Generali	1,915	1,670
Groupama	135	15
Mapfre	791	845
Talanx	732	769
Vienna Insurance Group	234	367
Total	15,207	18,028

collective net profit by 15.6% to \$2.4bn last year. That works out at an average of 9.1% of shareholder’ funds.

The seven large all-lines companies shown in table 9 also had a better year in aggregate, recording a 40.8% increase in underwriting profit, to \$4.28bn. That equates to just 1.9% of average aggregate shareholders’ funds, rising to 3.4% when the much larger AIG is excluded.

“It is an indication of how good last year was that only six groups recorded a combined ratio of worse than 100%”

Table 10 shows the major continental primary insurers had an improved year in 2014, collectively posting an 18.6% increase in net profit to €18.03bn (\$19.16bn), equating to 9.3% of shareholders’ funds, and many are expecting 2015 to be more profitable than last year. Europe’s largest non-life insurer, Allianz, forecasts the global insurance industry will remain on a similar course this year. Advanced markets should continue their slow but steady recovery from the financial crisis, while in emerging markets increased underlying demand should outweigh more challenging economic conditions. “On the other hand, the outlook for profitability remains subdued as there are no signs the headwinds of low investment returns and regulatory changes will ease,” the group said. ■



NEW MODEL ARMY

The reinsurance market is experiencing a period a massive structural change, driven by the influx of new capital into the sector. **David Flandro** and **Julian Alovisi** examine the implications of these changes and how they will shape the reinsurance business model of the future

» The reinsurance market has undergone profound change in recent years. The landscape has been reshaped by new capital inflows, changes in buyer behaviour (characterised by reduced cessions and smaller reinsurance panels) and steep price declines across most lines of business.

Adverse investment conditions following the financial crisis have arguably been exacerbated by regulatory requirements and rating agency charges, which have precluded carriers from using equities – their most useful hedge against inflation and low yields – have added to these pressures.

Investment income for most players remains significantly below 2007 levels. Meanwhile, a flurry of merger and acquisition (M&A) activity has transpired as certain reinsurers look to build scale and improve diversification to survive in the present environment.

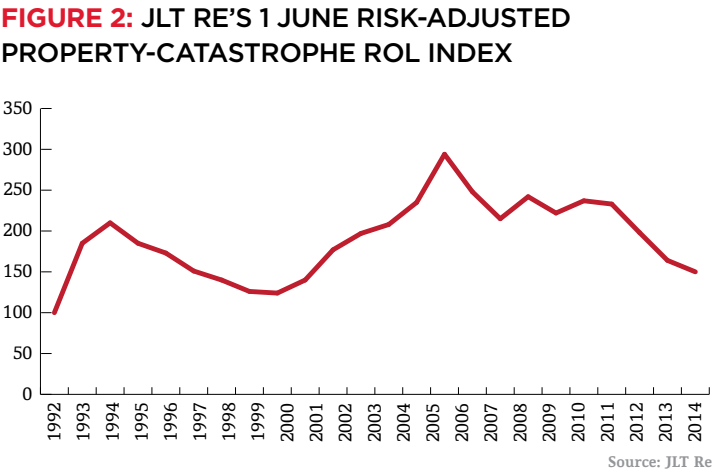
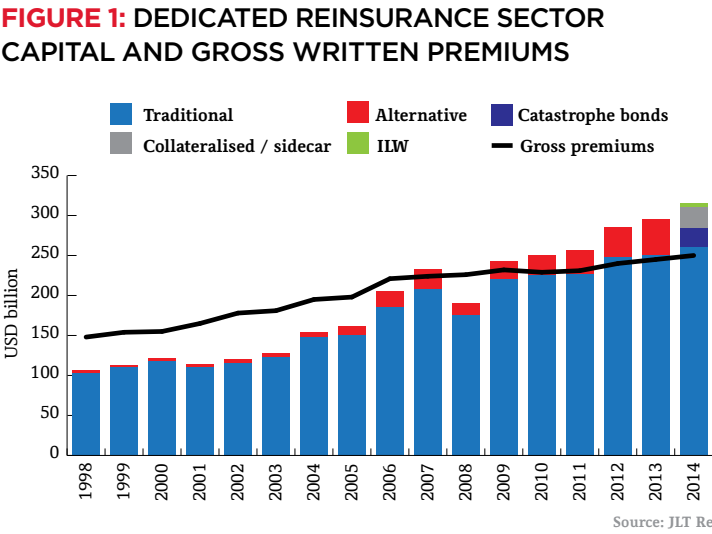
These developments have far-reaching consequences for many market participants, including primary insurance carriers, reinsurers and reinsurance brokers. With no imminent prospect of a turn in the market, sector participants are seeking ways to harness conditions and build successful business models for the future.

Following the financial crisis, and particularly after 2011, capital suppliers became increasingly attracted to the catastrophe reinsurance

space and its relatively high returns and low correlations. Combined with strong reinsurer balance sheets, this influx of capital has created a supply and demand imbalance greater than any seen in recent memory.

Recorded growth rates for reinsurance premiums (a proxy for demand) and capital (a proxy for supply) tell the story. Reinsurance supply has consistently exceeded demand since 2009, as figure 1 shows.

To compound matters, many reinsurance buyers began to cede significantly less premium during this time; cession rates fell from 14% in 2005 to 8% in 2014. This coincided with a move towards consolidating reinsurance panels, with some insurers using as few as 10 counterparties compared with more than 50 just a few years ago.



These developments go a long way to explaining why reinsurance rates in certain market segments have fallen towards levels last seen in the early 2000s. Figure 2 shows how risk-adjusted property catastrophe rates-on-line (ROLs) for Florida business have fallen more than one-third in the past four years. More favourable terms and conditions have accompanied rate reductions during this time.

This situation is neither new nor surprising. In fact, barring a combination of events similar to those that led to the last hard market (ie, the September 11, 2001 terrorist attacks, an equity market crash, a reserving crisis and a succession of US landfalling hurricanes), current market conditions are unlikely to change in the short term.

It is now widely accepted that alternative reinsurance solutions are permanent features of the market, prompting cedants to diversify their sources of reinsurance capital accordingly, particularly for property catastrophe business. Buyers will also continue to benefit from heightened competition outside property catastrophe lines as new capacity offered in these classes puts incumbent players under pressure.

Indeed, the supply glut is now so large that it is estimated the impact of a \$130bn loss (for example, following an event such as a powerful hurricane tracking across Florida and the US East Coast) is likely to be restricted to one or two property catastrophe reinsurance renewals. Therefore, waiting for a more favourable pricing environment on the back of heavy losses is no longer a viable option for reinsurers.

Short-term resilience

Despite this, reinsurers’ returns have generally not suffered since the onset of the soft market. This is due in part to favourable reserve development and also to a sustained period of good fortune given the very low insured catastrophe losses of recent years.

A number of carriers have increasingly been releasing reserves to protect or enhance profits in this environment but there are now growing concerns some companies may be on the cusp of exhausting redundancies as a result of aggressive releasing during these soft market conditions. Figure 3 shows the loss-reserving cycle over time for the US property/casualty sector and how recent trends suggest the market may be moving towards a period of deficiencies.

The good fortune with loss experiences cannot go on forever either. Insured catastrophe losses were unusually low in 2013 and 2014, totalling approximately \$45bn and \$35bn respectively, well below the 10-year average. This trend has continued into 2015, with global claims during the first six months of the year at slightly more than \$16bn, about half the 10-year average.

However, losses following the Tianjin explosions in China, hurricane Joaquin’s fleeting threat over the US East Coast in September and October and hurricane Patricia’s near miss in Mexico, were timely reminders extreme events can strike at any time and this period of good luck will inevitably end.

Banking for the future

Clearly, reinsurers cannot continue to bank on reserves and low losses consistently to deliver strong results in the long term. It also appears less likely significant rate hardening will follow a major loss event, given the amount of capital flowing through the sector.

Reinsurance buyers are therefore likely to continue to benefit from the heightened competition and innovation dominating the marketplace at present. The trend towards smaller reinsurance panels is now firmly in place as more cedants strive to develop strategic partnerships with a smaller number of highly rated counterparties that offer a stable capital base and are capable of writing across multiple lines of business and in all parts of the world.

However, there is a danger the blurring of the lines between insurance and reinsurance may test these strategic relationships in future years as primary

carriers and reinsurers increasingly compete in the same spaces. Either way, cedants’ buying habits will inevitably change as their business models evolve. While centralised reinsurance buying looks set to continue at big insurance organisations, regional influences could re-emerge as local expertise is incorporated into placement strategies. Laddered, multi-year cover is likely to remain popular as buyers take advantage of lower pricing in the near term while hedging against potentially higher pricing in the medium term.

The rapidly changing risk landscape is also likely to influence buying strategies, creating greater demand for more complex multi-

event or clash covers to mitigate the growing number of risks that have the potential to affect multiple territories and business lines (such as the Tianjin loss last year).

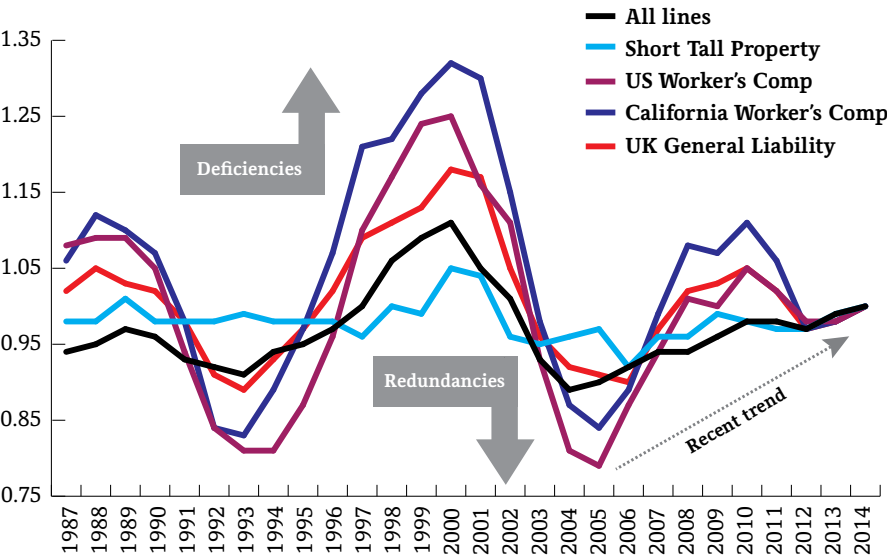
So what does all this mean for reinsurers and how should they respond to changing market conditions? Most have incorporated alternative capital into their businesses by creating their own capital markets units and exploiting arbitrage opportunities via the third-party capital-backed retrocession market. In the same vein, reinsurance

capital is increasingly compared directly to debt and equity capital as a source of finance as the cost of reinsurance falls relative to other capital sources.

Underwriting discipline is also becoming more necessary each day as rates are likely to be nearing technical minimums for certain lines of business, having fallen for 12 consecutive renewals. Conservative risk selection is therefore fundamental for reinsurers’ survival as temptations to relax underwriting standards could see them taking on more risk at decreasing levels of profitability.

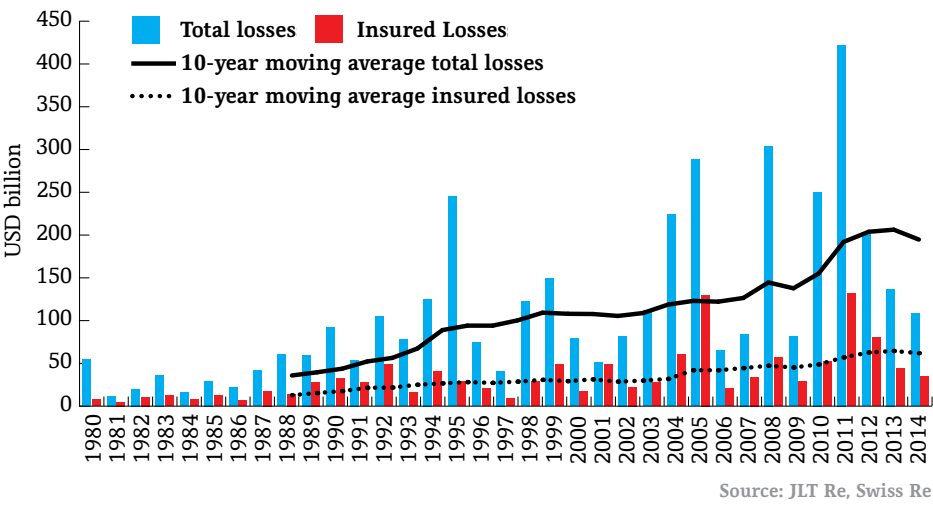
“The rapidly changing risk landscape is likely to influence buying strategies, creating greater demand for more complex multi-event or clash covers”

FIGURE 3: PROPERTY/CASUALTY ACCIDENT YEAR RESERVING TRENDS



Source: JLT Re, SNL, UK PRA returns

FIGURE 4: CATASTROPHE PROTECTION GAP



Large, diversified reinsurers enjoy certain advantages in meeting these challenges, namely larger balance sheets, a breadth of risk knowledge, established client relationships, innovative products and strong analytical capabilities. These companies will seek to consolidate their positions in future years by leveraging long-term client relationships and developing new products to exploit untapped growth.

Conversely, some – but not all – smaller and specialised companies face significant pressures to remain relevant. This has been a factor in driving sector M&A activity over the past 18 months as a number of players have consolidated to improve diversification and build scale. Deal-making is expected to continue into this year and beyond as certain smaller players look to grab the initiative and secure their futures through consolidation.

Those that ultimately find themselves excluded from the larger reinsurer panels run the risk of being pushed to the margins. It is nevertheless important to note that smaller, more nimble players capable of deploying capital strategically and utilising analytics as a differentiator within specific areas of expertise can continue to flourish – in certain cases more than their larger counterparts. ‘Smart capital’ and relationships still make a difference, and it is important to remember that many large buyers have opted not to restrict their panels only to the largest reinsurers - but to cultivate a mix of size and expertise in their more limited scope of reinsurer relationships.

Broking models

This new market environment also requires reinsurance brokers to adapt their business models. The days of being remunerated large sums for undifferentiated placement services are numbered, meaning brokers today must offer more in order to become trusted advisors to clients. This includes tailoring the best cover and best structures for specific clients by providing expert and impartial advice amid the high number of traditional and alternative risk-transfer solutions on offer in today’s marketplace.

It also means offering bespoke, best-in-class analytics and advisory services to help clients grow profitability into new lines and markets

while also advising on issues such as M&A opportunities, reserving risks and enterprise risk management in relation to regulators’ and rating agencies’ requirements. Insight, not just analytics, must be on offer for brokers to win in today’s market.

Despite the challenging market environment, growth opportunities still exist. Harnessing early signs of increasing demand for reinsurance capacity offers genuine growth potential and an opportunity to deploy capital for underwriting purposes rather than simply returning it to shareholders.

There was strong evidence of increased demand during last year’s June and July renewals. This was especially true for property catastrophe lines, particularly in the US, where a number of private carriers

bought more cover for wind exposures as state-backed insurers continued to depopulate their portfolios by transferring increasing amounts of risk into the private market. Some of these state-backed carriers also contributed strongly to the increase in demand. Efforts to accelerate the transfer of risk from governments to the private market are being replicated elsewhere at a time of strained public finances for many countries.

The continuation of this development can go a long way towards addressing the level of underinsurance for property risks on a global basis. Figure 4 illustrates the task facing the re/insurance sector in narrowing the catastrophe protection gap and expanding coverage around the world. Developing innovative products to narrow this gap while strengthening penetration levels in emerging markets will help create the additional demand needed to meet the sector’s oversupply.

Additionally, new and emerging risks are also likely to be major growth areas in the future. Estimates suggest the cyber market alone could triple in size over the next five years. Fresh thinking also needs to be applied to difficult questions surrounding new technologies such as driverless cars, cloud computing, 3D printing, the internet of things, nanotechnology, “sharing economies”, drone proliferation and a host of other issues which will require risk-transfer mechanisms.

Finally, the largest “catastrophe” that has ever beset the industry may be in the early phases of rearing its head: long-tail reserving risk. It is likely buyers will, in the coming years, need additional access to casualty and liability reinsurance solutions. These could include loss portfolio transfers, adverse development covers, capital release alternatives and even casualty stop-loss and quota-share solutions.

State-of-the-art modelling and best-in-class advisory services will be needed throughout to provide costed and effective solutions to risks such as these. Intermediaries need to be ready to deliver cutting-edge analytical tools and bespoke solutions that can help develop the innovative products in this this rapidly changing marketplace. ■

David Flandro is global head of analytics, and Julian Alovisi is head of research and publications at JLT Re



Power50 survey: INNOVATION

Innovation has become a key theme for the insurance industry as companies grapple with competition from new markets and new capital. This year's survey asked how successful the industry is at innovating.
By Sophie Roberts

The London insurance market is renowned across the world for its proven ability to innovate. The inception of Lloyd's is testament to that. From its original days when it penned the first marine policy to today, when underwriters are creating products to cover emerging risks such as cyber, the Lloyd's market has underwritten everything in between, exposing itself to risks others would not.

So why is this now being called

into question? Has the market become complacent? In part, the landmark *London Matters* report published at the end of 2014 went some way towards looking at this, identifying areas where the industry needed to modernise to maintain its relevance.

One of the more disturbing findings of *London Matters* was that clients have been questioning London's continued ability to innovate in a more global competitive marketplace. Perhaps in response to these concerns, market figures are doing more to

promote innovation. Innovation is in the boardroom. Companies are even appointing heads of innovation.

Relentless price competition across the re/insurance industry is also making innovation even more important.

This year's Power50 survey examines how successful *Insurance Day's* readers feel the insurance industry is at innovating. More than 100 people completed the survey: 50% re/insurers; 15% brokers; 3% technology providers; and 4% investment managers.

The 28% who selected "other" represented (where specified) a mix of consultancy roles, legal, claims adjusting and Lloyd's.

The survey got straight to the point, asking participants if they felt the industry is doing enough to innovate to meet the challenges it faces. A mere 5% felt confident it is, while 43% felt it was to a degree but said that more can be done. But this was overshadowed by 48% who responded "no, not really", while 4% said it was not innovating at all.

"The development of new products in response to emerging risks has always been an area in which the London market has excelled"

Respondents recognised and overall are supportive of the London market's modernisation agenda, but said there is still too much of "an anti-modernisation feeling".

One respondent said: "It's not difficult to recognise as an industry we still operate in the dark ages and modernising the way we do business is the obvious solution to this. However, if there isn't some form of mandate around these initiatives, I just can't see how there will be industry-wide buy-in."

Products versus processes

Responses also suggested there is much more confidence in the industry's ability to innovate with regard to products as opposed to internal processes.

One respondent said: "The industry continues to respond to the ever-changing risk landscape faced by customers and changes in customer business models. Innovation in the area of insurance-linked securities has also been rapid. Often the industry does not get recognition for this activity. That said, adoption of IT solutions is incredibly slow."

Over the past year, *Insurance Day's* reporting on innovation has focused on five key areas: modelling, diversification into new markets, use of new technology, new products and convergence with new capital. We asked respondents to rank these areas where the market has been most innovative (see Figure 2).

Respondents said the industry is most innovative in the development of new products, closely followed by modelling.

The most concerning finding was respondents found industry is least innovative when it comes to using technology, which does not inspire much

confidence in the short-term success of some of the market-wide initiatives involving claims processing and electronic placement, both significant components of London's modernisation agenda.

The survey then asked respondents if they viewed any of the innovation occurring in the market as being disruptive. One respondent said it was, saying the move to electronic placing "will disrupt the current face-to-face broking process if used properly".

Overall, though, this view was not representative of all responses. Most participants believe innovation will not be disruptive – and, if it is, this should be viewed as something positive.

Modelling is regarded among respondents as an area where the industry has been most innovative and respondents said more can be done in this area. When asked if the models available were adequate enough, nearly three-quarters of survey participants believed they could be improved, with 17% saying they were not adequate at all (see Figure 7).

Some respondents said continual refinement of data will improve modelling, but there is some concern about the lack of data available for some new exposures. One respondent said: "The main constraint

Figure 1: Do you feel the industry is doing enough to innovate to meet the challenges it faces?

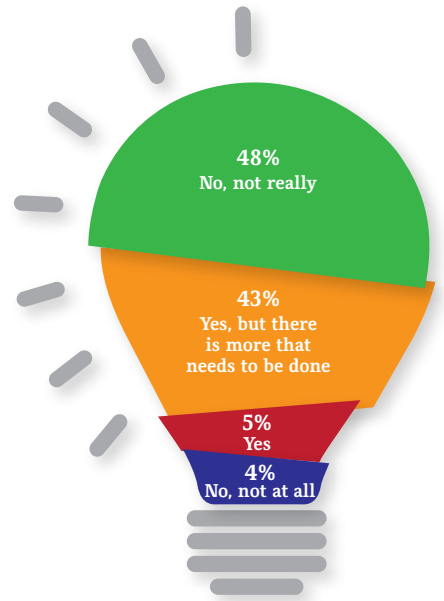


Figure 2: Please rank the following initiatives where the market has been most innovative (1, the most; 5, the least)

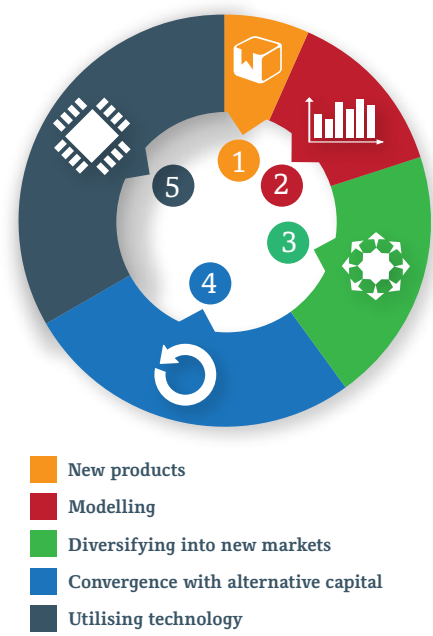


Figure 3: In the last year, my company has been innovating through (check all that apply)



is data at the correct granularity and quality levels. Modelling often does not reflect the true underlying risks and the risk-driving factors that need to be considered. The efforts on liability modelling are much more limited, by example.”

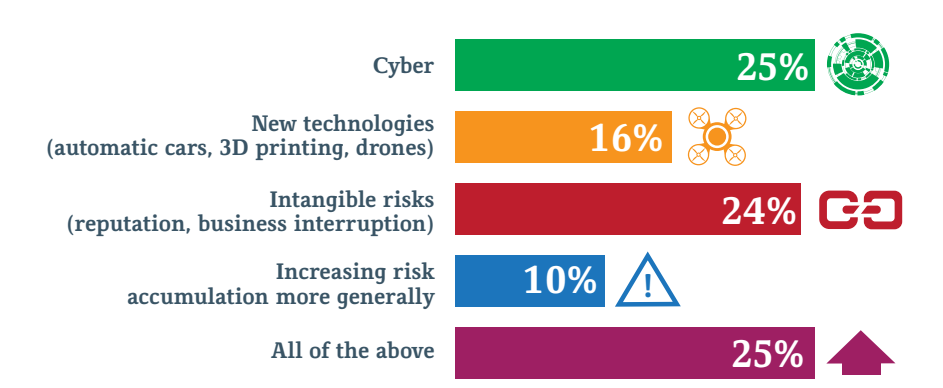
We asked respondents how their organisation is making use of big data (see Figure 6). Forty-six percent of respondents said the use of big data was going directly towards risk modelling, with 28% using it for claims managements and 22% towards underwriting techniques.

One respondent said data was a key area of the modernisation work taking place at Lloyd’s. “There are projects dedicated to the reuse of big data rather than rekeying from paper inputs, as well as data capture automation, master data management and governance, pre-bind contract checking and automated rules engines to hold a single version of the tax and regulatory rules. It’s all going towards a much more sophisticated way of using big data, outside modelling.”

Emerging risks

The survey explored how individual companies had been innovating (see Figure 3). The most popular area was developing new products for emerging risks (64%), followed by diversifying into new markets (62%). Slightly more than half highlighted looking at new ways to attract talent (55%), developing more advanced modelling techniques (51%) and exploring new distribution channels (48%); more than one-third said exploring new ways of working with capital (37%). Quarter of respondents

Figure 4: What do you see as the most challenging emerging risk for the industry to develop coverage for?



said their company had been innovating across all areas.

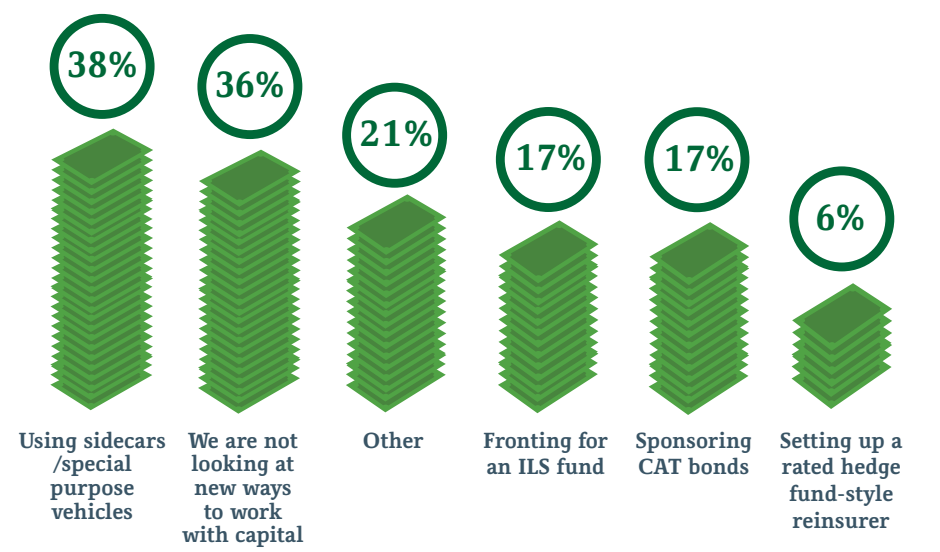
The development of new products in response to emerging risks has always been an area in which the London market has excelled, building its reputation on its ability to provide specialist solutions for specialist risks. There has been much commentary around new, emerging risks such as cyber, drones and new environmental concerns, and the industry’s responsibility to step up to the proverbial plate.

The survey asked respondents what they deemed be the most challenging risks to develop coverage for (see Figure 4). Perhaps unsurprisingly, cyber was seen as the most challenging risk, with 25% of respondents believing this to be the case. However, another 25% of respondents agreed all identified risk areas were challenging. A similar proportion selected intangible risks, such as reputation and business interruption (24%); new technologies, such as automatic cars, 3D printing and drones, was selected by 16%.

One respondent said: “All of them do have the potential to significantly impact the risk landscape and will represent true new business opportunities for the insurance industry, but one of the bigger risks is the unexpected interdependency or accumulation of risks driven by technology. Defining standalone products around this ambiguity is a real challenge, especially when providing adequate coverage.”

Respondents were asked how individual companies are innovating. Slightly more than one-third of respondents (37%) said they had been working with alternative capital.

Figure 5: How is your company looking at new ways to work with capital? (check all that apply)



“If there isn’t some form of mandate around these initiatives, I just can’t see how there will be industry-wide buy-in”

There are plenty of examples of how re/insurers are using third-party capital vehicles. Notable third-party structures last year have included former Lancashire founder Richard Brindle’s start-up, Fidelis, which employs a mechanism to shift capital and risk tactically between insurance and investments to maximise returns during market cycles.

But the purposes for these third-party capital structures can differ and Brindle’s example, despite worth flagging up for its innovative composition, is perhaps not as common as others.

The survey asked respondents how the company they worked for was looking at new ways to work with alternative capital (see Figure 5).

The most popular was working with third-party capital via sidecars and/or special-purpose vehicles, selected by 38% of respondents; 17% sponsor catastrophe bonds; another 17% are fronting for an insurance-linked securities fund; and 6% looked at setting up a rated hedge-fund style reinsurer.

Against this, however, 36% of

respondents said their company had no intention of looking at new ways to work with alternative capital.

New talent

Talent management is high on the insurance industry’s agenda. Senior industry figures have been vocal about the lack of young talent entering the market, going as far to say the market’s current demographic is, in part, stifling innovation. In November, *Insurance Day* revealed the London Market Group was launching a market-wide skills gap survey to identify where talent shortages exist within the London market.

Respondents were asked if they felt the industry has progressed over the past year in attracting the right talent to help facilitate innovation. The overall consensus was not enough has been done, with several respondents agreeing the market still represented “an old boys’ network”. However, one respondent said there is “some more awareness that a new type of skill set is needed,” with another suggesting there needed to be a lot more promotion of the industry at universities. ■

Figure 6: How is your organisation making use of big data? (check all that apply)

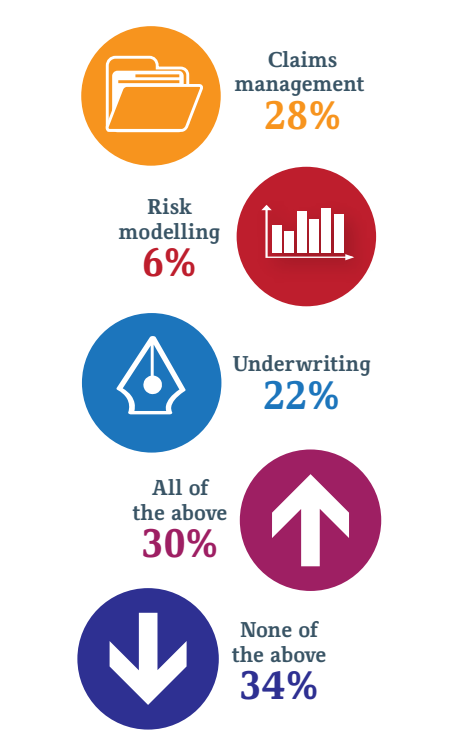


Figure 7: Are the models available adequate?

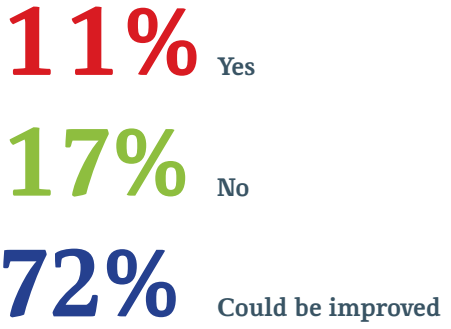


Figure 8: What type of organisation do you work for?

Insurer	37%
Reinsurer	13%
Broker	15%
Technology provider	3%
Investment manager	4%
Other (specified respondents from consultancy, legal, claims adjuster, Lloyd’s)	28%



EUREKA?

Senior executives speak a lot about the need for innovation by the re/insurance industry. **Kat Blackler** asked four executives where they feel the industry is innovating and what is holding it back from doing more



Tina Kirby, head of innovation and product development at Beazley

“More innovation needed”

» Tina Kirby sees innovation in the insurance market as taking two forms: innovations that address risks that were previously unaddressed; and innovations that make it easier for brokers and clients to do business with carriers.

In very broad terms, the former occurs more frequently for large risks (sometimes filtering down over time to smaller risks), while the latter are more concentrated in the small to medium-sized enterprise space.

Kirby sees the most fertile area for innovation in the specialist market at present as cyber risk. “It is an area in which Lloyd’s has shown the spirit of Cuthbert Heath – the 19th century Lloyd’s underwriter who probably ranks as the most innovative ever – is still alive and well on Lime Street,” she says.

“In just a few years, the Lloyd’s market has become the world’s leading centre for cyber risk expertise, writing in the region of \$500m in cyber business of all kinds annually.”

The most innovative dimension of many cyber policies is the way in which they combine cover for first- and third-party exposures, according to Kirby. “Clients are looking for

support and advice in handling data breaches, not just indemnity from third-party lawsuits. Insurers have stepped up to the plate to develop a range of products that combine response services with indemnity cover – products that can then be applied to a wide variety of companies across different sectors.”

In terms of improving the ease of doing business with brokers, Beazley is also innovating, Kirby says. Last year Beazley launched “MyBeazley”, a broker portal that offers an end-to-end service for brokers from quote through policy issuance. “The key to such initiatives is how well tailored they are to the needs of users: we spent more than a year talking to brokers and refining our design to create the best possible experience,” she says.

However, Kirby believes there are major risks clients face that are inadequately addressed by insurance today.

“Our industry is naturally conservative and that is understandable: if we do not do our homework properly, innovation can cost more than we bargained for. But in areas like non-property damage business interruption, cover options remain limited.

“Reputational risk is another risk category

“Our industry is naturally conservative and that is understandable: if we do not do our homework properly, innovation can cost more than we bargained for”

that, in some manifestations, should be insurable. We already effectively insure reputational risk for data breaches by helping clients handle the breach more effectively, thereby reassuring and retaining customers. We could do more.”

The pace of business is accelerating, with greater interconnectivity and shorter delivery times and, often, thinner and less durable margins.

Kirby believes this need for fast, effective solutions will drive innovation in product delivery, making it easier to place, amend and claim on an insurance policy.

Bad news also travels faster than ever, driven by both social media and traditional media. Crises can therefore blow up very rapidly and, if they are not handled well, exact a heavy toll on a company’s standing with its customers, employees and investors.

This, Kirby says, has led Beazley to develop a number of products offering expert services that enable a fast, effective response without the annual overhead of employed expertise.

“We believe there will continue to be greater demand for insurance offerings that help companies address crises of many kinds rapidly and effectively,” she says. “Innovation is a strategic focus for Beazley. We are working to ensure our underwriters have the data, the resources and the organisational support they need to turn innovative ideas into well-designed

products and solutions that meet the needs of our clients and brokers.”

However, she points out business-to-business insurers invest less in innovation than those with consumer-facing products.

“The ability to innovate exists in Lloyd’s and other re/insurance markets but the time and resource devoted to it is significantly lower in the B2B world than the B2C world. This results in slow speed to market with new products – we need to constantly assess the balance between the urgent and the important to up the pace.”

Kirby also believes technology has an important role to play in innovation. “Technology can yield data that enables faster, more confident underwriting, which in turn improves insurers’ speed and can reduce premiums. Technology can reduce the cost of claims adjustment and loss verification, which speeds up claims payments and reduce time and money lost in coverage disputes,” she says.

“Technology connectivity and user-friendly interfaces reach further and wider all the time, making it easier for customers to do business with insurers and access valuable risk management information.”

Reinsurers also play a critical role in backing innovation in the insurance market. “They can also scrutinise the viability and sustainability of new ideas for cover. Without the support of reinsurers, innovation affecting indemnity cover would be practically impossible,” Kirby says.



Torsten Jeworrek, member of Munich Re’s board of management

“Adapting to a modern world”

» Torsten Jeworrek believes insurers, reinsurers and brokers alike all need to innovate to adapt to the rapidly changing business environment of the modern world. He sees technology and social change as the two largest drivers of innovation.

“The digitalisation of production processes, transport, logistics and big data are changing societies and economies across the world. These developments are changing the risk landscape and insurers’ business models. Nevertheless, innovation is much more than digitalisation. We need to embrace not just technological changes, but also economic and social developments, and we must make the risks associated with them insurable,” Jeworrek says.

Innovation is right at the top of the agenda

for Munich Re, he adds. For Jeworrek, business diversification is key, as is the ability to offer tailored solutions such as multi-year treaties and retroactive reinsurance solutions. He believes Munich Re is in the position to take advantage of the rapidly changing commercial world. “With our technical expertise and risk knowledge, we are in a position to support rapidly growing industries and to judiciously extend the boundaries of insurability with needs-based covers. That means we emphasise innovation,” he says.

Jeworrek sees the rapid development of technologies as both an opportunity and a challenge for the re/insurance sector. “In today’s rapidly changing business environment, ever more complex processes give rise to

previously unforeseen risk scenarios,” he says. “New technologies always harbour new risks, whether we are talking about digitalisation, robotics or new materials like nanocomposites in our daily lives. The insurance industry has to find products and solutions for these risks.”

It is important for all re/insurance executives to make sure they are aware of how risk and the world in general are changing, he argues. “Re/insurers have to be up to date about what is going on in the underlying businesses, but also in terms of social and political developments, and think about re/insurance solutions that will keep pace.”

Mergers and acquisitions can have an

important role to play for re/insurers and brokers that are looking to innovate and gain access to new markets, Jeworrek says. He believes it can be a good way for companies to acquire expertise they do not at present have.

“When companies buy other companies some are aiming to acquire know-how and models they do not yet have. I expect the latest consolidation to continue for some time, probably several years. We are still in an early phase. But at the end of the day it is not just the size of a company that matters. Client access and know-how to develop innovations are just as important,” Jeworrek adds.

“Insurers and reinsurers are largely responding to the challenges of innovating before losing relevance”

“Insurers and reinsurers are largely responding to the challenges of innovating before losing relevance. Relevance is a low standard and we hope to build insurance businesses around many of these new sources of risk and uncertainty,” he says. “Thankfully, capital levels in the industry do not inhibit growth from innovation. Rather, investments in expertise that will allow sustainable capacity from insurers and reinsurers.”

Brokers are an important part of the insurance and reinsurance value chain and therefore have an important role when it comes to innovation, Ehrhart says.

“The host of the dialogue between risk and capital is the broker and material understanding, description and analytics are

required in any innovation process. Brokers facilitate all of these processes when there is willingness from capital providers to listen, participate and contribute to the evolution of the solution.”

Reinsurers, Ehrhart argues, represent “smart” risk capital. “They listen to our clients’ needs and help us form sustainable solutions. We have a long track record of innovating for our clients with reinsurance and alternative capital. We expect the aggressive pace of innovation to continue.

“Thankfully, reinsurer chief executives are accessible and thoughtful around the range of innovation their firms are willing to consider and we will continue to make progress for our clients.”



Bryon Ehrhart, chief executive of Americas, Aon Benfield

“Plenty of opportunities”

» Bryon Ehrhart sees plenty of opportunities for innovation for insurers, reinsurers and brokers alike, with many already put into action. Reinsurers have been innovating around five new areas where demand is growing and are also optimising their capital structures in innovative ways to improve their value proposition to his clients, he says.

These new growth areas include US mortgage credit, with demand for more than \$6bn in limit a year for the foreseeable future, and annuity reinsurance, where there is more than \$10bn in demand a year, he says.

In addition, government pool depopulation and pool financing conversion from risk financing to risk transfer could generate more than \$3bn in additional limit a year; while capital model changes, such as Solvency II in Europe and AM Best’s stochastic BCAR, could generate from \$5bn to more than \$10bn in additional reinsurance demand in 2016/17. The final major area of demand growth, Ehrhart says, is cyber risk reinsurance.

“Reinsurers’ innovations in capital structures have been significant,” Ehrhart says, with reinsurers incorporating meaningful alternative capital into their underwriting capital structures. “All of these innovations are helping our clients grow and efficiently manage risk.”

“Risk and uncertainty are growing in many areas and there are plenty of areas to innovate further around business interruption, cyber crime (not just attacks), technology

failure, distribution and supply chain failure, political risks and uncertainties, product recall, terrorism, absenteeism, harassment or discrimination,” he says.

“Further opportunities exist in reputation damage, failure of disaster recovery plans, corporate and social responsibility, intellectual property losses and social media,” he adds.

Despite already seeing much innovation in the market, Ehrhart believes there are many more opportunities for re/insurers to take advantage of.

“Insurance and reinsurance companies continue to monitor and engage potentially disruptive forces. Tremendous changes in product, distribution, underwriting, claims, investments and capital are occurring – really every aspect of the insurance business model. Risk and uncertainty for insurers continues to grow and reinsurers continue to engage with insurers on innovative ways to partner for mutual success.”

Underlying insurance demand growth remains a bit sluggish, given the growth in risks themselves, Ehrhart says. But he argues there are several risk classes presently uninsured that are capable of being insured and reinsured. “Insurers and reinsurers have plenty of opportunities to partner in ways that create clear value propositions for risk transfer from existing risk owners,” he says.

Ehrhart believes most insurers and reinsurers are making sure they innovate before they are in danger of becoming irrelevant.



Steve Reid, business strategy director, Xuber

“Fear of change”

» Steven Reid sees a fear of change as the biggest challenge holding back innovation in the re/insurance market.

“The C-suite may buy into the need for change but often that doesn’t percolate further down the chain, so we need to bring more minds into the mix and sell them the reason why these changes are important,” he says.

He sees a lot of work being done to reform the London market, particularly the Target Operating Model (TOM), and says there is quite a lot of product innovation around lines such as cyber. “We are starting to get a lot of demand from clients for solutions that will add value by allowing them to get straight through to the end client,” he says.

Advancements in technology and demand from clients and regulators for more and better data are major drivers of innovation, Reid says. The soft market conditions, with tighter margins and lower investment returns, are also driving innovation.

Technology is enabling clients to innovate and get new products to market quicker than ever before. “Customers are demanding innovation and so are insurers; technology can enable them to collapse the distribution chain and move towards more efficient straight-through processing,” he says, adding: “One

of our aims is to provide technology for our customers that allows them to future-proof themselves as much as possible from anything that will come their way.”

Re/insurers and brokers that are not innovating are at risk of becoming irrelevant, he argues. “I think you have to adapt or die. In a subscription market of leaders and followers, the followers need to think seriously about their added value. Additional pressure is also coming from insurance-linked securities and alternative capital.”

The London Matters report on the challenges the London market faces to maintain its competitiveness was a “big wake-up call”, he adds. “TOM is part of the response.”

The question is whether that is enough to keep out the disruptive threats from the likes of Google and Amazon, he says. “The specialist market typically follows general insurance in time, so we should see more from telematics and the internet of things in the future.”

It is important not to forget the role brokers have to play, Reid says. Brokers, he argues, are close to the clients and can encourage insurers to innovate. “Brokers themselves have a history of innovating and dropping services that don’t add value, so maybe we can learn something from the way brokers have adapted.

“Everyone has a role to play in driving innovation and greater efficiency,” he adds.

Hey big spenders

Asian insurance groups have feverishly bought their way through the global insurance markets in 2015. But there's more to come. China's most influential buyers are yet to enter the market, and London companies remain among their most likely targets, **Antony Ireland** finds

The new world order of insurance is beginning to take shape – with Asian companies firmly in the driving seat following a spate of landmark acquisitions.

"We're all going to have to get used to some unfamiliar names," Mike Van Slooten, head of international market analysis for Aon Benfield, says. "People need to accept it's a global insurance market and this trend illustrates how the global economy has shifted."

It has been happening for some time: Tokio Marine, Japan's largest non-life insurer, bought Lloyd's insurer Kiln, for example, as long ago as 2008. But the frequency and scale of transactions, from Mitsui Sumitomo's \$5.3bn purchase of Amlin to Chinese conglomerate Fosun's \$5.7bn spending spree on insurance assets in the past two years, has piqued industry's attention.

Transactions so far have focused on the acquisition of well-established businesses in the major markets of the US, Bermuda, London and Europe – often, as Van Slooten puts it, "at prices considered quite eye-watering in the developed markets". New kid on the block Oceanwide Holdings, a Chinese property company, has notably bucked the trend by announcing plans to launch a \$310m start-up reinsurer called Asia Pacific Re.

In the year to September 2015, Asian acquirers made outbound deals worth a reported \$20bn compared to inbound deals of just \$849m. And with overseas investment restrictions lifted in China and Japanese companies seeking diversification away from a mature home market and sovereign rating pressures, industry insiders see plenty more activity ahead.

"Nine of the last year's 10 largest deals in the Asia region have involved overseas targets – a trend we expect to continue," Ian Stewart, a partner of law firm Clyde & Co Singapore, says. "Japanese companies have been leading the way as they look overseas, notably

in the US and elsewhere in Asia, for growth and to diversify their risk portfolios."

Japanese companies have both the capacity and appetite to make further acquisitions, MoungoMo Lee, managing director of analytics for AM Best Asia-Pacific, says. "According to their mid-term strategies, around \$20bn of transactions were forecasted in 2015 to 2016, but the value of deals announced in the first 10 months last year has already exceeded this figure," he says.

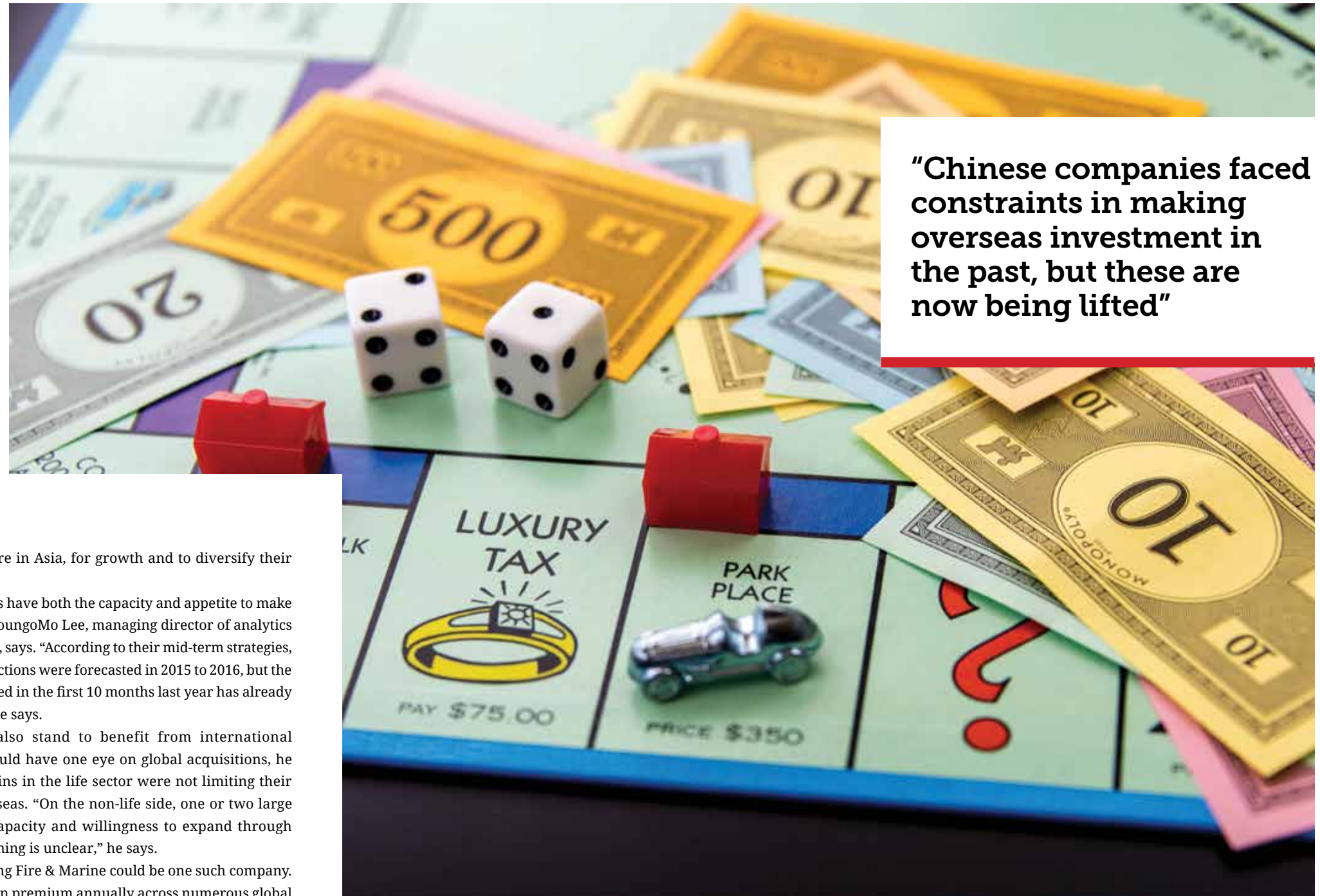
Korean insurers also stand to benefit from international diversification and would have one eye on global acquisitions, he adds, if negative margins in the life sector were not limiting their ability to expand overseas. "On the non-life side, one or two large companies have the capacity and willingness to expand through acquisitions, but the timing is unclear," he says.

Seoul-based Samsung Fire & Marine could be one such company. Writing around \$16bn in premium annually across numerous global offices, the insurer has stated publicly its intentions to "grow into a global financial services company".

"It's only a matter of time before Samsung is a global player – it's just a case of which vehicle it picks," Van Slooten says. "If it can't do it organically it will have to buy somebody. There are a number of other big groups out there in the same position."

Chinese powerhouses

But it is China that appears to be holding the most cards when it comes to the next wave of prospective suitors. Chinese firms have already made a huge splash in the past couple of years, led by Fosun, Anbang and China Minsheng Investment (CMI), which have between them made acquisitions in the London, European, US and Bermudian insurance markets last year alone.



"Chinese companies faced constraints in making overseas investment in the past, but these are now being lifted"

"Chinese companies faced constraints in making overseas investment in the past, but these are now being lifted. Considering the fact that assets grew more than 20% annually for the Chinese non-life industry in the past five years and insurers need to make up for a previous lack of overseas investment, activity will be very high," Lee says.

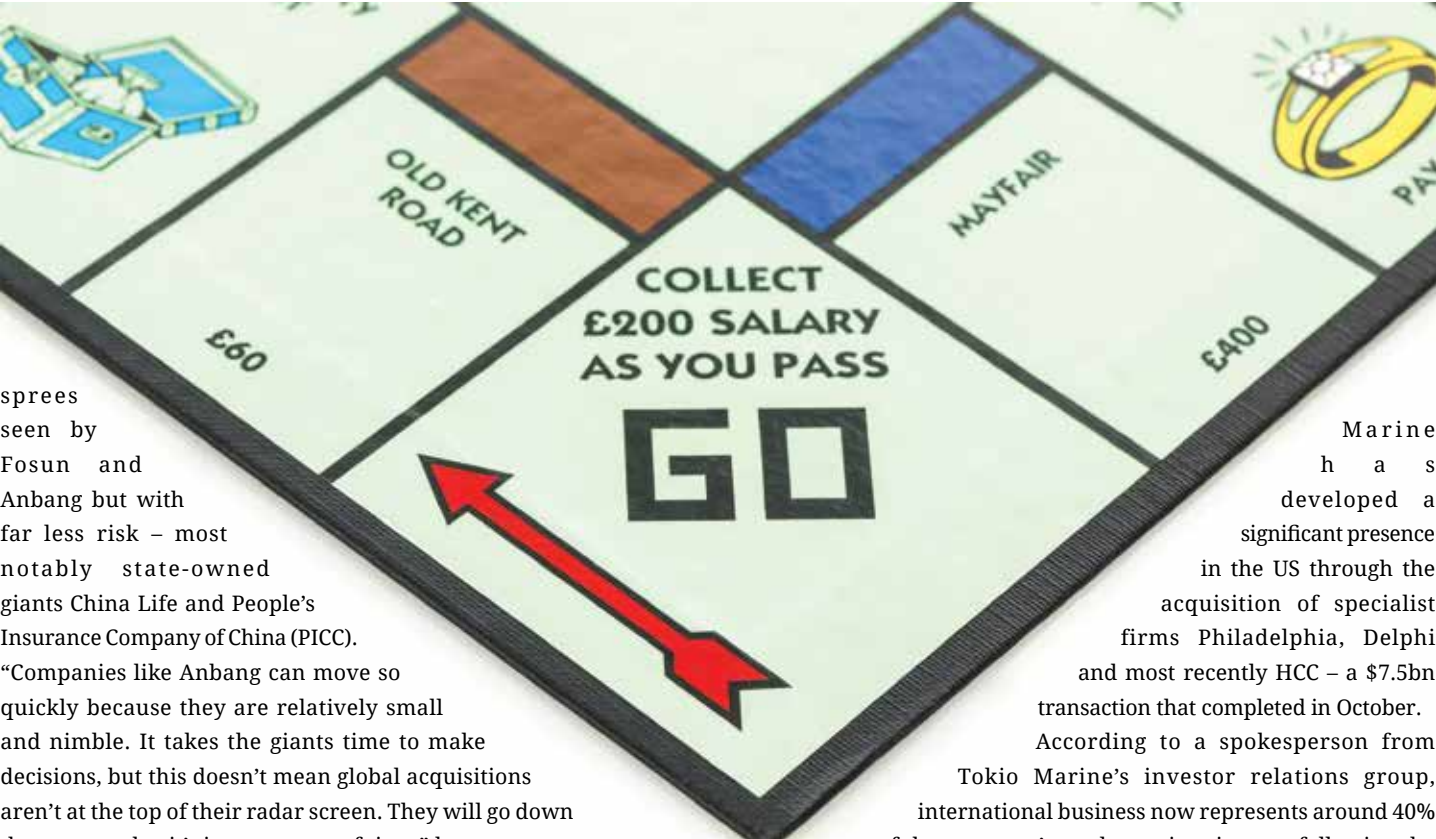
A Fosun spokesperson tells *Insurance Day* the company sees "investment and insurance" as its core strategy. "We are looking for all kind of potential opportunities to benefit from China's growth momentum," the spokesperson says.

Standard & Poor's has warned, however, against what is being described as Anbang and Fosun's "Buffett model" approach. "Chinese insurers with aggressive expansion strategies in less familiar

businesses could be exposed to higher risks", the rating agency said, while Moody's implied Fosun was on the cusp of a ratings downgrade if it continued to spend so much of its war chest on acquisitions.

The speed with which the Chinese newcomers have appeared on the global radar may cause some concern for insureds. "A few Chinese companies have appeared with significant amounts of capital. The insurance market doesn't know who they are or who's behind them, so there is a credibility issue that needs to be overcome in some cases," Van Slooten says.

However, Sam Radwan, co-founder of Enhance International, a consultancy that advises some of China's largest insurers, believes there are much larger organisations waiting in the wings that have the balance sheets to match or even exceed the kind of aggressive spending



sprees seen by Fosun and Anbang but with far less risk – most notably state-owned giants China Life and People’s Insurance Company of China (PICC). “Companies like Anbang can move so quickly because they are relatively small and nimble. It takes the giants time to make decisions, but this doesn’t mean global acquisitions aren’t at the top of their radar screen. They will go down the same path – it’s just a matter of time,” he says.

“China Life has the largest balance sheet of any insurance company in China. Once it starts moving it will move in a big way. PICC will be looking very closely as well,” Radwan adds.

Statements of intent

Specialty commercial insurers are the most likely targets, according to Radwan. “[This year] has been earmarked by a lot of companies including Sunshine Life and China Life as the year they want to move aggressively into the small commercial insurance market,” he says. “The next step would be larger commercial business.”

When it comes to target markets, he says, New York is the top of these organisations’ shopping lists, with London second. China Life has already made a clear statement of intent in London by buying a majority stake in the Canary Wharf tower and 40% of 99 Bishopsgate.

The Lloyd’s market is attractive as it provides global market access, while the US offers enough size to create a balanced portfolio and immediate diversification.

“We expect more US deals involving Japanese buyers – Dai-ichi Life has said it will look for further opportunities in the US following its \$5.7bn acquisition of Protective Life Corp. Chinese firms have been and will also continue to look to the US, but we don’t expect it to stop there,” Stewart says.

Fosun and Anbang’s geographically diverse acquisitions are a sign of things to come, he predicts. “Meanwhile, despite spending more than \$7bn to buy insurance companies in the US in the past six years, Tokio Marine still sees M&A opportunities and has ample access to funds for deals,” Stewarts says. “No jurisdiction is off limits when it comes to Asian interest.”

Indeed, having established itself in London through Kiln, Tokio

DIRECTION OF ACQUISITION DEALS, JULY 1, 2014 TO JUNE 30, 2015



Source: Clyde & Co

“North America is still the largest insurance market in the world and we do see further growth potential – it’s a very important market for us,” the spokesperson says, adding the company is “always considering candidates” in Europe too.

London’s lure

As far as London is concerned, Tokio Marine is for now content with nurturing its Kiln business, but Van Slooten says Lloyd’s is “a natural stepping stone to the global market” and will be the “first port of call” for many future acquisitions.

“Companies like China Re, GIC and Korean Re all now have a toe-hold in the Lloyd’s market. They’ve been operating under the radar and are small scale at moment, but they’re learning how the market works and it’s a statement of intent. It’s clearly not going to stop here,” he says. “Other companies have stated their ambitions to enter the London market but haven’t done so yet.”

However, Andrew Holderness, head of Clyde & Co’s corporate insurance group, adds that while interest in Lloyd’s as an entry point remains strong, the choice of acquirable Lloyd’s businesses is diminishing. “Anyone looking for opportunities therefore needs to consider a significant investment to buy one of the larger players, persuade private equity investors to exit at an acceptable price or acquire operations that might be considered sub-optimal,” he says.

He adds, though, that other routes exist that can provide a gradual introduction to the Lloyd’s market, such as the special-purpose syndicate (SPS) route opted by Korean Re in partnership with Beazley, GIC Re with Catlin and Labuan Re with Barbican.

Stewart adds London deals may increase once Solvency II kicks in early this year if some businesses look to put certain parts of their operations into run-off. Many Lloyd’s syndicates will hope this will be the case. Not only does Asian investment help the Lloyd’s market as a whole move towards its Vision 2025 goal of internationalisation, but being acquired may come as a welcome relief to individual boards after a prolonged period of declining returns.

“It’s a difficult time to be a listed business. There are probably a number of smaller Lloyd’s operations that are feeling the pressure

and would like nothing more than a big company to come in with big balance sheet, put that money behind them and let them get on with the job,” Van Slooten says.

“If you’re a company operating at Lloyd’s or in Bermuda and somebody comes knocking on your door with a really high multiple offering to buy your business, you have an obligation to shareholders to do the best thing by them, so the likelihood is these deals will go through.”

A London Market Group spokesperson tells *Insurance Day* there is no doubt Asian insurers – particularly from mature markets like Japan – are looking to London. “Certainly our share in Asian markets is declining as more business stays locally. However, having those local insurers as part of our market can only be a good thing – this is a unique ecosystem and building closer ties that deliver greater diversity and the opportunity to share skills and experience must be a great opportunity.” ■

CHINA’S BIG SPENDERS

ANBANG – Barely a decade old, Anbang has assets of \$114bn. The firm’s chairman has stated Anbang will have businesses on every continent in the world within a decade. Recent acquisitions include Dutch insurer Vivat, Belgium’s Fidea NV and a majority stake in South Korea’s Tong Yang Life. Last year the firm raised around \$8bn through two private financing rounds, quintupling its registered capital in the process. “With reports in China suggesting Anbang is adopting a ‘Warren Buffett model’, further acquisitions are likely to follow,” Ian Stewart of Clyde & Co says.

CMI – China’s biggest private investment fund has adopted a “going global” strategy with the aim of turning profitable overseas investments for its client base of private investors. CMI spent \$2.2bn buying White Mountain’s reinsurance subsidiary Sirius International Insurance Group in July. CMI is owned by a group of shareholders from a diverse mix of private companies.

FOSUN – Chinese billionaire Guo Guangchang’s privately owned conglomerate raised \$1.5bn in a rights offer to fund its recent push into the banking and insurance sectors, spending \$5.7bn in the past two years. Insurance acquisitions include Bermuda-based insurer Ironshore, US-based Meadowbrook Insurance Group, Israel’s Phoenix Holdings and a \$1.4bn acquisition of three Portuguese state-owned insurers. Its speed of expansion across various financial sectors has raised some eyebrows but it insists it will continue its “investment plus insurance” strategy, seeking out value investment opportunities worldwide.

CHINA LIFE – This state-owned insurer with assets of more than Yuan1trn (\$157bn) is tipped to be a major spender in the coming years. It is yet to make any major acquisitions, but has bought a 70% stake in Canary Wharf and 40% of 99 Bishopsgate, indicating London will play a key role in its long-term strategy. Consultant Sam Radwan of Enhance International says China Life has indicated it also wants to establish itself in New York, so US insurers are on its radar.



THE GREAT WALL OF CHINA

China’s domestic insurers will be discouraged from ceding reinsurance offshore, forcing international markets on to the mainland to retain and grow their Chinese portfolios. By Antony Ireland

» China’s insurer solvency regime is set to undergo a major overhaul this year. But the China Risk-Oriented Solvency System (C-cross) comes with a hidden cost for global reinsurers.

Ostensibly a move to bring China’s insurance market in line with Solvency II era capital adequacy reforms, C-cross also serves a valuable secondary function – boosting China’s domestic reinsurance market – by making it relatively expensive to cede risk to global reinsurance markets.

Carrie Yang, partner in Clyde & Co’s Shanghai office, says the risk factors used to determine the risk of default (the default ratio) of offshore reinsurers are significantly higher under C-cross than those applicable to onshore reinsurers.

“Consequently, a higher capital requirement would be required of domestic cedants if they reinsure risks to offshore reinsurers,” she says.

As well as placing a credit risk charge on cedants, C-cross also requires foreign reinsurers to post collateral on business conducted with domestic Chinese insurers.

Under the new regime, onshore Chinese reinsurers will gain a competitive advantage, Mike Van Slooten, head of international market analysis for Aon Benfield, says. “However, they

may also face higher capital requirements if they are retroceding large volumes of business offshore,” he adds. An offshore reinsurer that meets solvency requirements in its own domicile has a risk factor of 8.7% if it posts collateral and 58.8% without collateral. If it fails to meet solvency requirements the risk factor is 86.7%. Domestic reinsurers’ risk factors range from 0.5% to 74.5%.

Reinsurers in established markets such as Bermuda, London, Europe and the US may well scratch their heads at the logic behind the Chinese Insurance Regulatory Commission’s (CIRC) wariness of offshore reinsurance, given the high levels of international regulation their cross-border business is subject to.

Alas, China and protectionism go hand in hand – and CIRC’s domestic focus hardly breaks new ground.

Brad Kading is president of the Association of Bermuda Insurers and Reinsurers (ABIR) and a leading advocate for global markets in their attempt to convince CIRC to reconsider its position. “Our companies look at China as a very important future market,” he says, acknowledging their concern about potential lost premiums under C-cross. And the amount a stake is significant.

Around 30%, or \$4bn, of China’s \$12.5bn property/casualty insurance premium was ceded to offshore reinsurers in 2011, according to Aon Benfield. Naturally, CIRC could not care less about potential lost revenues for far-flung foreign reinsurers. It is little surprise, then, that the ABIR’s lobbying hinges instead on the potential threat C-cross poses to China itself.

A highly concentrated domestic crop insurance market, for example, would be exposed to potentially severe natural catastrophe risk from typhoons and earthquakes, Kading says, adding the recent catastrophic explosions at Tianjin provide a timely illustration of

the support global reinsurance markets provide to Chinese carriers.

The majority of publicly disclosed loss estimates from the disaster, Kading says, are from global insurance markets – most notably Zurich and Swiss Re, which stand to pay out more than \$500m between them, and the Bermuda market, whose combined losses are already projected at between \$300m and \$400m. “These are meaningful numbers,” Kading says, although he admits it is difficult to gauge at this stage what figures Chinese reinsurance market losses from the event will run into.

“If losses are concentrated in the Chinese domestic market, that creates a real solvency peril for local insurers,” he warns. “They benefit from having a diverse pool of reinsurers available to them.”

Kading has alerted CIRC to positive changes in Brazil, which has announced, after an extended period of lobbying from the ABIR and other global reinsurance industry groups, that it is phasing out restrictions on cross-border reinsurance flows in the coming years. “We’re hopeful over time there could be a change to CIRC’s position,” Kading says.

Strategic shift

There are also predictions stricter capital requirements and an improved focus on risk management under C-cross will shift domestic insurers’ strategic focus away from pure revenue growth towards a more balanced approach – one that “encompasses product mix, reinsurance effectiveness and investment allocation,” Van Slooten says.

“Smaller companies focused in areas other than motor business or ceding lots of business to foreign reinsurers will potentially be affected most, which may result in greater specialisation in certain

types of products and services, less demand for solvency relief cover and increased sophistication in the use of reinsurance protection,” he says.

According to MounqMo Lee of AM Best, the number of available reinsurers may drop as existing business models cease to be commercially viable. “However, overall capacity is not going to drop as additional capacity – both domestic and overseas – will rush into the market,” he says.

Indeed, it seems inevitable that international reinsurers will seek to set up operations on the Chinese mainland to circumnavigate the new credit risk charges. “International companies will be booking their Chinese business at their local Chinese entity rather than at their regional entity or head office level,” Lee says.

“In the short to medium term, incentives will be high to move more staff and even regional business to China. As China intends to make Shanghai a regional financial reinsurance hub, this trend will align well with the authorities’ plan.”

Kading says CIRC has indicated it plans to reduce the 30-year seasoning requirement, creating an opportunity for international reinsurers to invest in Chinese start-ups. However, Lee believes acquisition opportunities are relatively sparse in China compared to some of the smaller Asian markets also undergoing solvency reform.

Van Stooten adds the difficulties in establishing an onshore presence could lead to increased participation in Lloyd’s existing platform in China, which was set up in 2007. Lloyd’s China launched with the bold ambition to “become the top provider of specialty insurance and reinsurance products for Chinese clients”. C-cross may provide a timely injection of impetus.

In the meantime, the debate between CIRC and the global reinsurance markets will continue to focus on language that places the best interests of the Chinese insurance market and insurance buyers front and centre. Behind the scenes, both parties will be staking their claims to secure the direction of Chinese reinsurance premiums. ■

C-CROSS METHODOLOGY

The China Risk-Oriented Solvency System (C-cross) is a three-pillar solvency framework, designed to improve Chinese domestic insurers’ solvency and enterprise risk management. It is slated for implementation for non-life insurers in 2016.

Much like Europe’s Solvency II, C-cross links quantitative capital requirements with insurance risk, market risk and credit risk to establish optimum minimum solvency levels, which vary significantly between different lines of insurance.

C-cross encourages ceding risks to qualified domestic reinsurers or those that also offer contract guarantees such as letters of credit. An offshore reinsurer that meets solvency requirements in its own domicile has a risk factor of 8.7% if it posts collateral and 58.8% without collateral. If it fails to meet solvency requirements the risk factor is 86.7%. Domestic reinsurers’ risk factors range from 0.5% to 74.5%.

Sources predict this will lead many domestic insurers to switch their reinsurance cessions to onshore carriers.

"This year will be the year of the survival of the fittest. Investors are becoming much more selective about the markets they get in"

Latin flavours

Latin America has lured the international re/insurance community with its promise of strong economic growth and growing demand for insurance products. But recently, the prospects for some of the region's economies look a little less appetising. **Rodrigo Amaral** examines the outlook for Latin America's main insurance markets



The international re/insurance industry has been flocking to Latin America in recent years, attracted by its potential as a source of premium growth and an interesting alternative to ever more competitive mature markets.

During most of the century, this view was fuelled by strong economic growth indicators across the region and the fast pace of development achieved by the insurance sector in several countries.

In the past two years, however, the region has struggled with unfavourable external conditions and, in the case of some countries, failed economic formulas. Factors such as the Chinese economic readjustment and the soft commodities market have put a brake on economic growth prospects in the region, especially in export-driven markets.

The inevitable tightening of monetary policy by the US Federal Reserve, expected to take place at some point in the next few months, is likely to compound the challenges by putting pressure on local currencies and increasing the debt burden of many of the region's biggest companies.

"The next 10 years will be worse than the previous decade," Marcos Casarin, a senior analyst for Latin America at London-based consultancy Oxford Economics, says.

According to Casarin, some countries that have made good use of the commodities-driven boom of the 2000s – such as Chile, Colombia and Peru – are better prepared to face the new global economic reality. The same goes for economies that went through structural reforms, among them Mexico, he says.

But others, such as Brazil, will need to face both fiscal tightening and painful reforms before they can have any hope of resuming solid rates of growth. And many investors have despaired of places such as Venezuela and even Argentina because of long-term economic mismanagement.

Winds of change

"In the long run, Latin America needs to acknowledge the strong growth posted between 2004 and 2013 leaned a lot on the favourable winds provided by the sustained increase of commodity prices and of external demand, as well as very loose international financial conditions," Juan Ruiz, chief economist for South America at BBVA Research, says. "It is likely those winds will not be there any more."

Ruiz believes regional economies will have to rely more on internal drivers to carry on growing, and that entails increasing productivity by implementing hard structural reforms to unblock vital sectors such as education, health, formal labour and competition. The fiscal position of governments is another important factor, as export revenues will not be able to fund public investments to the same extent they did in previous years.

He also highlights that there is too much political noise in several Latin American countries, which creates uncertainties about the ability of some markets to adapt themselves to new economic conditions. A case in point is Brazil, where much-needed reforms are not implemented largely because of the inaction of a fragmented parliament and a weakened, unpopular president. "The reduction of political noise would be a very positive factor to boost economic dynamism in the region," he says.

The truth, however, is those that cannot adapt are set to fall behind, with the risk of compromising many of the gains obtained in the past 15 years. "[This year] will be the year of the survival of the fittest," Casarin points out. "Investors are becoming much more selective about the markets they get in."

In the following pages, we examine the prospects of eight of the most important markets in the region for the insurance industry.

BRAZIL
Investment potential

Latin America's largest economy has drawn the interest of insurance groups, especially after the end of the state-owned reinsurance market in 2008. Even though the economy has stuttered in the past three years, companies such as Axa, Ace and QBE are developing businesses in the country.

Rates of growth in the insurance sector have been impressive since the early 2000s and today it amounts to almost 4% of Brazil's GDP. The expansion has been especially strong in mass-market lines such as life and health insurance, as well as private pension plans, all boosted by an upward-moving middle class with more access to credit and greater levels of consumption.

In the 12 months to June 2015, however, premium growth stood at 6%, sharply down from 13.1% in the previous year, as the economy is expected to go through its first two-year recession since the 1930s. GDP growth forecasts have been slashed, with some analysts expecting the economy to contract around 3.5% both last year and in 2016. The Brazilian economy is suffering from internal and external factors, as demand for its many commodities exports has slumped and the country is paying the bill for a long period of expansionist policies implemented by the government since the start of the global financial crisis.

Earlier in 2015, Standard & Poor's downgraded Brazil's sovereign debt to below investment status. A plan by the government to cut public expenses and raise some taxes to fill a fiscal hole is struggling to be passed in parliament, and the government is in deep political trouble because of corruption scandals and the record low popularity of Brazil's president, Dilma Rousseff. "It will get worse before it gets better," Mailson da Nóbrega, a former minister for the economy, now a consultant, said during a meeting of insurance and risk managers in São Paulo.

Still, da Nóbrega said Brazil has a 200 million-strong consumer market, a dynamic economy, improving institutions and a vibrant democracy, factors that combined may fuel optimism about its long-term perspectives. Economists expect the economy to start recovering by the second half of this year and investments in infrastructure should create new opportunities for insurers and reinsurers. But da Nóbrega warns unless fiscal tightening is implemented and structural reforms are approved, the economy is unlikely to advance much. "Brazil needs to stop kicking the can down the road," he says.



ARGENTINA
All change?

Argentina has an educated workforce, a wealth of natural resources and a reasonably developed economy. It also has close commercial ties with Latin America's largest market, Brazil. However, the country has a remarkable tendency to baffle investors with odd economic policies and to deliver disappointing economic performances. Will Argentina change its economic tack after president Cristina Fernández de Kirchner bows out in December?

That is a big question in an embattled country facing high inflation, currency volatility, unfavourable external conditions and a fragile fiscal position, not to mention an increase in poverty levels and slow economic growth. The UN Economic Commission for Latin America and the Caribbean (ECLAC) estimates Argentina's GDP will have closed 2014 up 1.6%, repeating the performance in 2015. The International Monetary Fund (IMF) is more pessimistic, forecasting a 0.4% growth and a 0.7% contraction respectively.



One of the main challenges for Argentina is to restore the trust of investors and other economic agents; not an easy task for a country that defaulted on part of its foreign debt as recently as 2014. This will have to be a priority for the new government, according to BBVA Research's Ruiz. "It will be crucial that the new economic program is credible and modifies the expectations of internal and external actors to launch the whole potential of the country," he says.

Analysts say fiscal tightening and guarantees of legal stability would go a long way towards restoring Argentina's place in the global economy. The devaluation of the peso, for instance, could help increase the ability of exporters to compete, although it does not bode too well that Argentina's main market is sluggish and protectionist Brazil.

If the economy resumes growth and the currency stabilises, the insurance market could become an attractive one. Premium growth has increased steadily in local currency in recent years, but the insurance industry has struggled with government meddling in its investments and even the introduction of tough restrictions on the reinsurance market.

CHILE
Solid performer

When people talk about good economic management in Latin America, the name of Chile usually pops up in the conversation. For decades, the country has implemented market-friendly policies that have opened up the economy to investors and improved life standards of the population, to the point where Chile has been admitted to the Organisation for Economic Co-operation and Development, a club of wealthy economies.



The good run appears to have hit a bump recently, especially because of the sharp fall in the price of copper, Chile's most important export. The devaluation of the Chilean peso against the US dollar has fuelled inflation and domestic consumption has shown signs of fatigue. As a result, GDP growth rates should not be very flattering for Chile in 2015 and this year. ECLAC estimates the economy will grow 2.1% in 2015, before accelerating a bit to 2.5% in 2016.

In general, however, Chile's favourable business environment and solid fiscal position should enable the economy to pick up speed as soon as copper prices and other external factors improve. "Chile's economy is the one in the region that is probably furthest ahead in terms of adjusting itself to new external conditions," Ruiz says. Looking forward, he says, the recovery of confidence by the private sector will enable growth rates to move from around 2% at present to something closer to 3.5% in two or three years.

Chile also boasts Latin America's most mature insurance industry, with some segments, such as private pension plans, ranking among the most advanced in the world. The sector is open to foreign players and is very competitive, and Chilean insurers have unimpeded access to global reinsurance, a wise decision in a country that has high exposure to earthquake risks.

It is true some sectors, such as private health insurance, are often the target of criticism by consumers. But overall, Chile's insurance sector has posted healthy premium growth and solid results in recent years. The government is now studying how to create a new, more autonomous insurance supervisor, a plan that has been well received by the industry.

COLOMBIA
Culture change

Some Latin American countries have taken big strides ahead in the past two decades and one of them is undoubtedly Colombia. In fact, the country could even be on the verge of finding a solution to a decades-old civil war.

The possibility of a peace deal between the government and Farc, a left-wing guerrilla group, could turn the attention of a growing number of investors to a country that has done quite a few things right in the recent past. Colombia has opened up its economy, liberalised several sectors and implemented legal changes that have helped investors to have more confidence in the country.

That said, Colombia is heavily dependent on exports of oil and, as a result, is suffering with the current market for this commodity. GDP growth forecasts for this year and next hover around 2.5% and 3.5%, which does not look bad today in the region, but are lower than the rates posted in most of the past decade. Inflation has also been somewhat of a concern; enough, in fact, to convince the central bank to raise interest rates. Domestic consumption is holding up well, though.

The good news is the government boasts a good enough fiscal position to promote investments that could help Colombia sail through the global economic malaise without suffering too much. "A plan of investments in infrastructure will be a source of growth in forthcoming years," Ruiz says, adding he believes GDP growth could reach 4% by 2017.



Infrastructure investments are also one of the reasons why some insurers have positive expectations for the country. Colombians are more underinsured, compared to other middle-income Latin Americans, which makes it likely premium growth will catch up as income levels improve.

A general lack of an insurance culture, however, has proved to be a tough hurdle to the development of the market. On the other hand, one of Colombia's main financial groups, Grupo Sura, is becoming a major regional player following the purchase of the Latin American unit of RSA earlier in 2015.

CUBA
Feel-good factor

The easing of relations with the US has revived hopes Cuba will soon become an interesting market for companies in several economic sectors. The Economist Intelligence Unit estimates the decades-long economic sanctions imposed by the US government on the island could be lifted by 2018. If so, investments could flow at a higher pace into a country that has an educated workforce and significant economic potential,



not to mention geographic and cultural proximities with the American market.

GDP growth forecasts already reflect this new optimism, with analysts expecting that the Cuban economy could expand by something like 4% to 5% a year in the near future. Plans have been mooted to liberalise some sectors of the economy and contact between Cuban officials and investors from several countries has increased since the re-establishment of diplomatic relations with the US earlier in 2015. Cuba certainly needs alternatives, as nowadays its main trade partner is crumbling Venezuela.

Uncertainties remain, though. There are doubts about how much control over the economy the communist government is willing to relinquish to the private sector. Human rights, political freedom and corruption continue to be concerns, and the influential Cuban community in the US could hinder the actual lifting of sanctions while president Raúl Castro stays in power. But if things go right, Cuba could become a new feel-good economic story in the region.

MEXICO
Ripe for picking

Mexico has been a darling of investors since the government approved a number of structural reforms, including to the all-important energy sector, in the past three years. But the country is still struggling to leave behind a long period of sluggish economic growth which, in the 2000s, left it a tad behind other Latin American economies.

The reforms, which also encompassed changes to the tax system and the labour market, have helped Mexican companies recover their ability to compete with rivals from countries such as China and become a potential exporting powerhouse. The signature of several free trade agreements should help the country's diversified manufacturing base in this quest. Mexico is also the Latin American economy with the highest ranking in the World Bank's Doing Business report, which bodes well for future investment flows.



But the country remains very dependent on the robustness of the US economy, which swallows a large chunk of its exports and answers for large investments in the productive sector. With economic growth still tentative north of the border, Mexico's exports have expanded more slowly than even the most sanguine expectations. Another major factor is global oil prices, as Mexico's big oil sector accounts for a large share of the government's tax revenues. However, Casarin points out the Mexican economy is more diversified today than it used to be and energy sector reform has mitigated the impact of slumping oil prices on the country.

Poverty continues to be a concern and wages have grown only modestly at best in the past two decades. Consequently, domestic demand has failed to impress of late. All things combined, forecasts for GDP growth remain modest at around 2.3% in 2015 and 2.8% in 2016, according to the Mexican central bank.

Ruiz points out, however, that the reforms are likely to deliver more impressive results in the future and the country should also receive a boost from an improving external environment. "The outlook for the Mexican economy is improving a lot, thanks to the structural reforms implemented at the outset of the incumbent government and also to the US economy," he says.

On the insurance side, Mexico remains an underdeveloped market, but it is also a well-regulated one, having been among the first countries in the world to adopt Solvency II-like risk-based capital rules. It is also an open industry, with several foreign players holding leading positions in the market. Opportunities should keep arising in the future as economic growth picks up steam.

PERU
A frontier market

If a single Latin American economy should be crowned as a very agreeable surprise in the new millennium, Peru could very well be the one. After decades flirting with socialist-inspired policies, from the 1990s onwards the Andean country has adopted liberalising policies that have transformed it from being Latin America's economic basket case. In fact, in the past decade, GDP growth reached an Asian Tiger-like 6.1% a year on average.

Peru's recent progress has been enabled by a number of economic and structural reforms that have lifted millions of people out of poverty and driven domestic consumption while at the same time increasing the role of the private sector in the economy. Not even the election of a couple of nominally left-wing governments, including the incumbent one, led by president Ollanta Humalá, has stopped the advance of market forces.

On the other side, much of the success has been boosted by the long-lived, but now deceased, China-driven commodities boom. Consequently, Peru has not been able to dodge the bearish bullet and the economy should expand by a mere 2.7% in 2015, according to ECLAC. Social unrest is a concern as well, as indigenous people are well organised and often take the streets to protest against investment projects and other changes to their way of life.



Like other regional good students, though, more robust rates of growth should be achieved once global conditions improve. The Economist Intelligence Unit believes, for example, the Peruvian economy should grow by an average of 4.4% between 2016 and 2019. "Peru's growth will recover gradually, boosted above all by infrastructure projects and an increase of production in the mining sector," according to Ruiz.

For insurers, Peru remains very much a frontier market. Rates of insurance penetration in 2014 stood at less than 1.8% of GDP. But rising consumption and ever-higher investments in infrastructure have the potential to provide new sources of growth.

VENEZUELA
Bleak future

If investors want to have an idea of what can go wrong to their projects in Latin America, they need look no further than Venezuela, an oil-rich country that after almost two decades of economic mismanagement has become, for some analysts, virtually a failed state.



The interventionist, populist policies implemented by presidents Hugo Chávez and Nicolás Maduro have included the nationalisation of assets, currency manipulation, price and capital controls and other heterodox measures whose effects were minimised while oil prices were very high. Today, however, Venezuelans have to deal with sky-high inflation, a plunging currency, a deteriorating fiscal situation and daily privations such as the rationing of basic food staples on the shelves of supermarkets. GDP growth forecasts for 2015 have reached levels as dismal as -6.7%, as estimated by ECLAC, and -10%, according to the IMF.

"There is no light in the end of the tunnel for Venezuela," Casarin says. "Oil represents 98% of its exports; it imports almost everything else it consumes. When oil prices fall, Venezuela's ability to import what is needed falls to the same extent. And it has gone through a deindustrialisation process as well."

More worryingly, perhaps, is there seems to be little hope for change in the country. The insurance market has been a rare bright spot, having posted strong nominal premium growth in the past few years, driven by medical coverages in particular. But the sector has seen its own share of government meddling and the growth numbers have to be put into the context of the devaluation of the local currency and the effects of inflation, which some analysts believe could get as high as 200% in 2015.

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