NOVEMBER 2011

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MEETING OF MINDS

Conference season recognises tough months ahead

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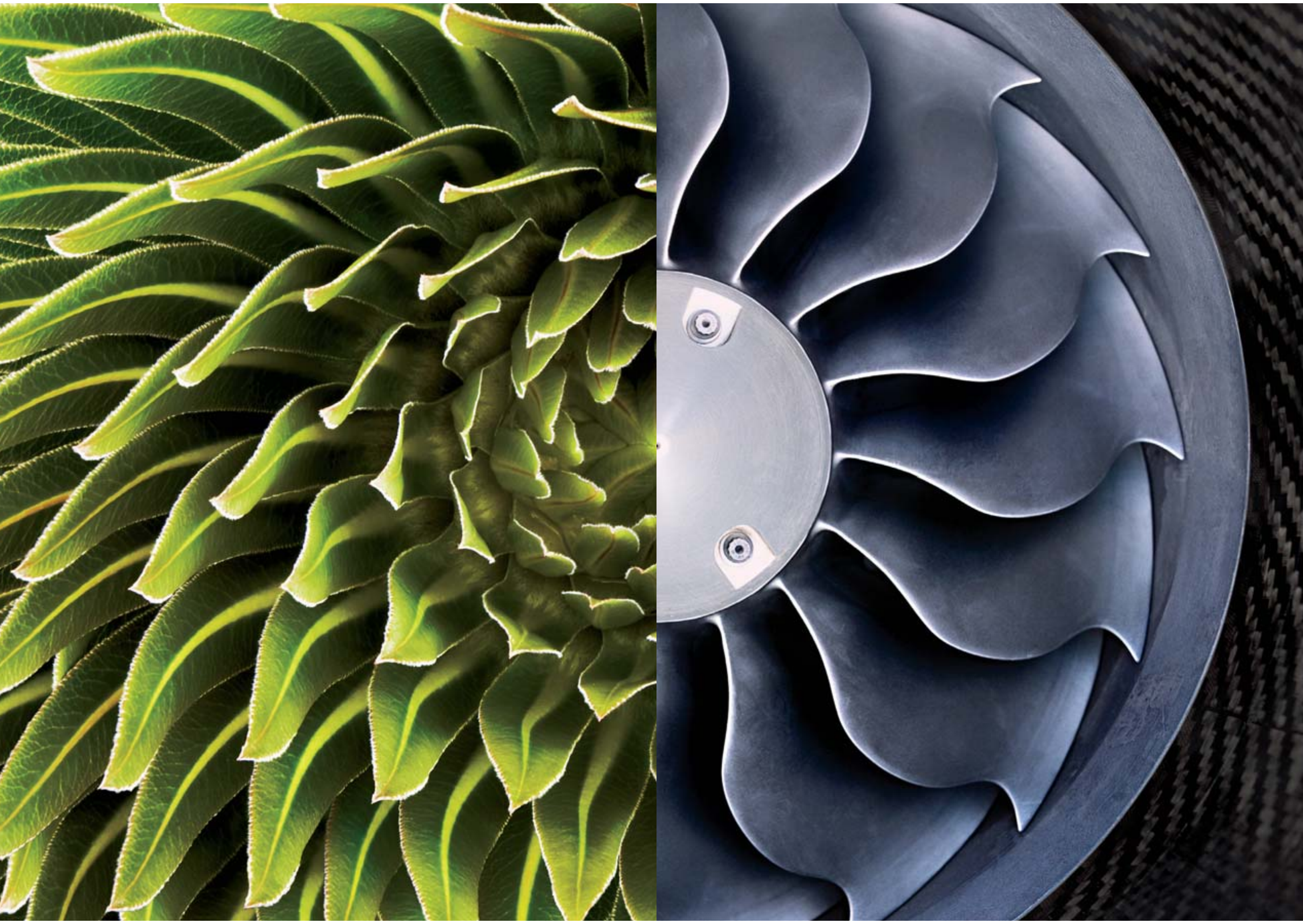

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Annual subscriptions:
UK £255 Airmail Europe £275.40 (E413.10) Airmail RoW £293.25 ($557.20). Remittances by cheque or international money order to be sent with order and made payable to World Business Media Ltd. Overseas cheques should be drawn in sterling.

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Average net circulation from 01/07/2009 to 30/06/2010: 10335

Published by World Business Media
© World Business Media Limited
ISSN 0048-7171

Printer: The Grange Press, Southwick
Member of the Audit Bureau of Circulations

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Fitch warns Italian default will hit nation's underwriters

Rating agency Fitch has said should the Italian government default on its debt Italian insurers would more then likely have to assume all or part of their losses

In a statement the firm said: "Contrary to what many commentators are predicting, Italian insurers may not be able to pass on most of the losses incurred from an unlikely default of Italian government debt.

"Based on our 'A+'/Negative rating of Italian sovereign debt, Fitch believes that Italian government bonds are a low default risk. However, in the extreme scenario of a sovereign default, the ability of insurers to pass losses on to policyholders would be significantly impaired, as the return on customer portfolios may be below the minimum promised to policyholders. Insurers would be liable for the additional losses."

Fitch highlighted that life products offered by Italian life insurance companies typically distribute 85% of any investment return to policyholders and keep 15% for the company. In many policies, the absolute return cannot be less than a minimum guarantee that the insurer is contractually obliged to pay. If the investment returns are below this minimum, the insurer must pay the guaranteed return from its equity.

The situation is worse for insurers in Italy compared with other jurisdictions, such as Germany, because there is not an explicit ability to defer profit sharing. This means there is no capital buffer from previous unrealised profits on the company's balance sheet.

Fitch added: "In the unlikely scenario of a sovereign default, the realised losses on Italian debt holdings could damage insurers' capital adequacy to a larger extent than the traditional profit-sharing split would suggest. This is one of the assumptions underpinning Fitch's Negative Outlook on the life and non-life sectors in Italy.

"Theoretically the insurers are also exposed to liquidity risk if policyholders start redeeming their policies early. We do not believe this to be a significant risk. The rate of policy lapse is around 8% and we see this as a structural feature of the market. Many policies are partially insulated from this risk through early redemption penalties."

Reinsurer announces aid agreement

USAID and Swiss Re have a three-year partnership to help vulnerable communities fight hunger, build resilience to climate change, and reduce the costs of natural disasters in the Americas, Africa and Asia.

The new partnership combines Swiss Re, expertise in risk management with two USAID efforts: The Global Climate Change Initiative, which aims in part to increase resilience to extreme climate events, and accelerate the global transition to a sustainable, low-carbon economy, and the Feed the Future Initiative, the United States Global Hunger and Food Security effort to help countries develop more resilient and productive agricultural sectors to address the root causes of hunger and under-nutrition.

"Private sector involvement is crucial to USAID's efforts to reduce poverty and foster long term economic development in the countries where we work," said USAID Administrator Rajiv Shah. "Swiss Re has been an industry leader in the development of innovative new products to address weather related risks. We welcome this opportunity to join forces to develop affordable, market-based tools to reduce climate vulnerability in poor communities."

This partnership follows USAID and Swiss Re's recent announcement to join Oxfam America and the World Food Program to expand the R4 Rural Resilience Initiative from Ethiopia to Senegal. It also builds on the two organizations' previous collaborations on pilots under the agency's Index Insurance Innovation Initiative, which invests in research and tests innovations that are improving USAID's understanding of how the poor and vulnerable can best use insurance to manage risk.

"Building insurance capacity in developing countries is a critical step to limiting the vulnerability to extreme weather events that impact so many livelihoods," said Walter Bell, Chairman of Swiss Re America Holding Corporation.

Byrne warns current model under threat

Haverford (Bermuda) Chairman Mark Byrne has told a conference of industry leaders that he believes the traditional model for reinsurance is now under threat.

Speaking at the Bermuda Re/Insurance 2011 Conference sponsored by Standard & Poor's and PwC Mr Byrne, who founded Flagstone Re, was taking part in a panel debate.

He said he believed that the reinsurers of the future would look to utilise a range of forms of capital and not just rely on its own balance sheet.

He told delegates: "The traditional model is probably broken. What is really highly valued is underwriting talent."


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London market remembers The Fallen

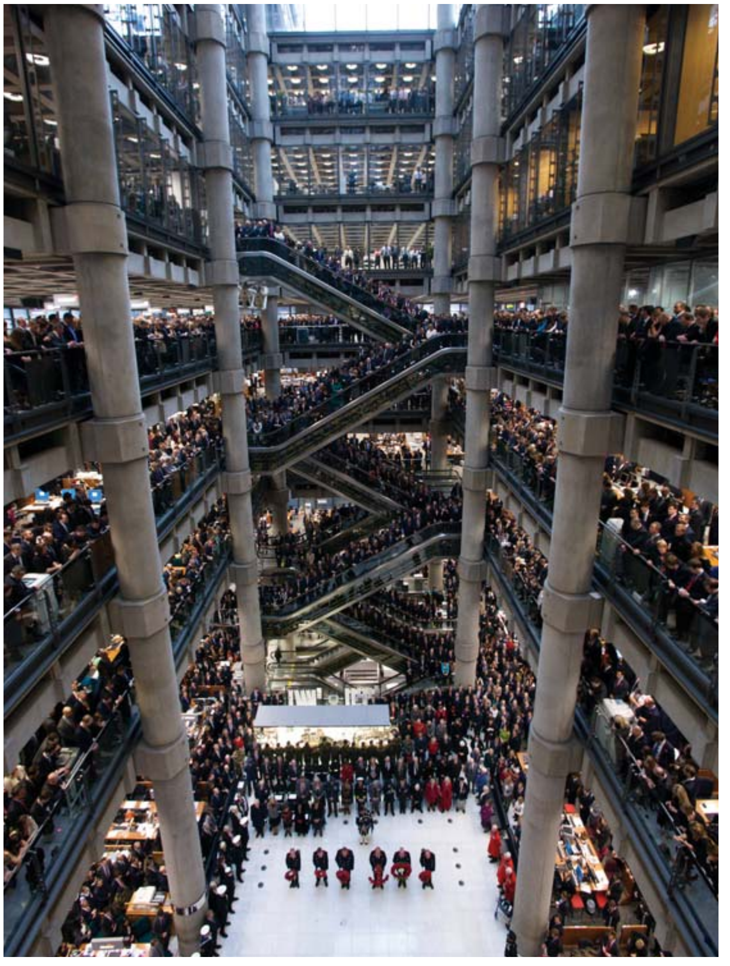
The Lloyd's market paused to remember those who have died in conflicts across the world earlier this month at its annual Remembrance Day service

The Lutine Bell was rung and the packed building observed a two-minute silence.

Members of the Armed Forces joined underwriters, brokers, Names and staff at Lloyd's to pay their respects at the annual Wreath Laying Ceremony for Remembrance Day.

Lloyd's Chairman John Nelson and Lord Mayor of London Michael Bear headed the wreath laying party before the Book of Remembrance in the Lloyd's Underwriting Room. They were followed by Sir John Stuttard, Alderman for the Ward of Lime Street; and Rear Admiral Sir Jeremy De Halpert, Deputy Master of Trinity House – the charity dedicated to the safety, welfare and training of mariners.

The Lloyd's market has also offered its support to the armed forces through the London Poppy Day appeal. This year's appeal was the most successful yet, collecting nearly £450,000 in just 12 hours. The Lloyd's branch of the Royal British Legion has 300 members associated with the insurance market, is the last remaining 'trade branch' of the Legion and one of the most active branches.



Flagstone announces sale of two operations

Flagstone Reinsurance is to seek to divest two of its operations in an effort to realign the company in the way of a torrid catastrophe year

In a statement to announce the move the firm said the move designed to realign the company's "strategy and core capabilities". It is also aiming to reduce its cost structure. The move will see the reinsurer look to sell its Lloyd's Operations and Island Heritage operations this comes after Flagstone took the decision to close its offices in Dubai and Puerto Rico earlier this year.

Aon Benfield Securities and Evercore Partners have been retained to handle the sale of the two entities and if successful it will lower the group's underwriting premium by $300 million per year.

"We believe this business realignment will result in a more nimble, cost-effective, and opportunistic structure, allowing the Company to react quickly to market changes," said David Brown, Flagstone CEO. "These changes will not impact our strong technical, analytical focus and we will continue to provide exemplary service for our clients. Moving forward, our underwriting strategy will focus on our highly successful property and property catastrophe units, leveraging existing strengths to improve performance and move Flagstone back to one of the most competitive combined ratios in the market."

Mr. Brown continued, "We will also continue to aggressively reduce expenses and bring expense ratios to competitive levels. By significantly streamlining our cost structure, we expect to have enhanced financial flexibility to pursue future opportunities to deliver greater value. We believe transparency is the best policy and announcing these initiatives simultaneously, rather than piecemeal, is the best approach for our clients, employees, and shareholders."

Hard talk may lead to hard market but not higher prices

The reinsurance market has been on its travels in the past month with the Baden Baden meeting, the Singapore International Reinsurance Conference and the PCI conference in New Orleans all attracting record attendances.

The catastrophe-blighted year so far may be a driver for the demand to hear what the industry has to say but across the piece the messages were the same. The global economy shows no real sign of a meaningful recovery any time soon and the threat of inflation looms with the sovereign debt crisis in the eurozone threatening further contagion.

Delegates at PCI were told political risk is now a real threat in the USA in the run up to the presidential elections and that the regulations on the reinsurance market made it an increasingly tough market in which to do business.

In Singapore the expectations were for a more upbeat feel to proceedings. The theme was how to capitalise on Asian growth but the unfolding events in Thailand overshadowed the thought of opportunity as the market watched a natural catastrophe unfold in a country which had been thought of as Nat Cat free. The opportunities certainly exist in Asia but so do the catastrophe risks and the exposures will rise as the insurance penetration increases.

In Europe it is the fear of sovereign risk and rising inflation which dominates much of the thinking at a time when the primary markets are seeing business levels fall as policyholders feel the financial pinch.

There look to be tough times ahead for the market and while a rapid price rise across the board is not expected the hardening market is expected to come in the shape of a tightening of terms and conditions and reinsurers look to narrow the scope of their coverages in 2012.

Jon Guy, Editorial Director, Reinsurance magazine

ASIA ECONOMIES STILL AN ATTRACTION AS CAT LOSSES SHOW THEIR CLAWS

WORDS: Jon Guy

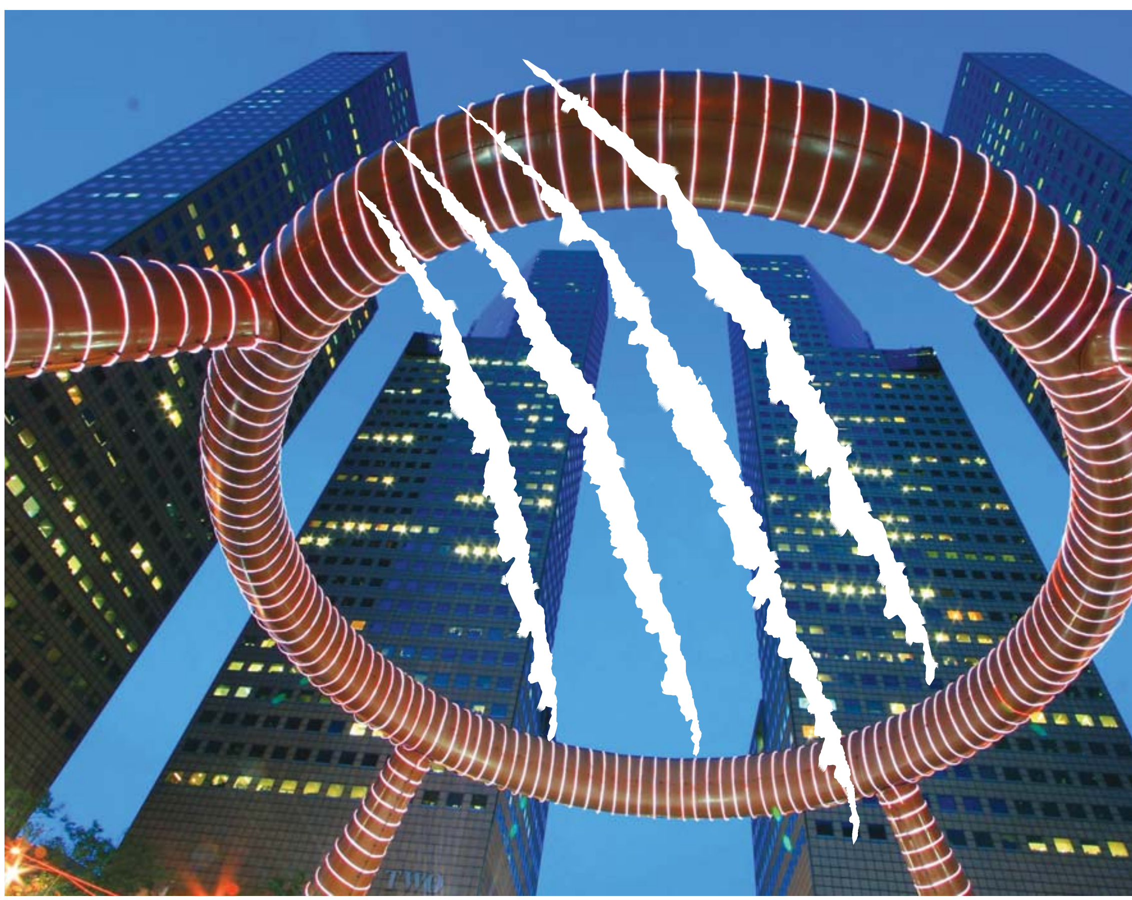
Over 800 delegates were in Singapore for the biennial Singapore International Reinsurance Conference (SIRC) and a range of industry leaders were on hand to provide their views on how to succeed in the world's fastest growing region

The 11th SIRC switched venues this year, with delegates heading for the impressive Marina Bay Sands Conference and Exhibition Centre. The centre and the 2,400 room hotel which dominates the local skyline also contains a casino which generates a greater revenue for its owners than its sister operation in Las Vegas.

However, as the SIRC opened the severe flooding in Thailand had some underwriters questioning just how big a gamble the drive for diversity into the Asian markets may prove to be.

Asia's cat losses over the past 18 months have been severe in economic terms but given the combination of low insurance penetration and the exclusion of some major cat risks from policies underwriters have been hurt but not incapacitated.

There was talk that the estimated $5 billion cost of the Thai flood could be the straw that breaks the camels back was in evidence but there was little from reinsurers to believe a knee-jerk rising of prices was on the way.



What is clear from the international community is that despite the huge opportunities which abound there is a growing sense that growth will need to come in a structured and cautious manner as there is little fat left from many underwriters to absorb a

THERE IS ALSO A HUGE GAP BETWEEN THE ECONOMIC LOSS AND INSURED LOSS ... WHICH WE ARE FAILING TO FILL AT PRESENT *MARTYN PARKER*

repeat of the year so far.

The opening day saw a debate on the issue of diversification in which brokers and underwriters had mixed views on the benefits.

The panel was chaired by Michael Butt OBE, Chairman of Axis Capital who said the catastrophe events of the past 18 months in the region had cost the re/insurance industry around 40 years of its annual Nat Cat premium for Asian risks.

"Do these figures mean good diversification or bad diversification and are we getting it wrong," he asked the panel.

Aon Benfield's Asia Pacific CEO Malcolm Steingold said the losses in the region would trigger a paradigm shift in how the market looks at natural catastrophe diversification.

"There are clearly good points and bad points to the use of natural catastrophe diversification," he explained. "There needs to be a different view on diversification and non correlated risk.

"I have always been told that Thailand is a non cat country yet that statement has been disproved in a very dramatic way in recent weeks. There is no cat free area of Asia."

Martyn Parker (pictured), Member of the Group Management Board at Swiss Re added every international reinsurer looked to have an Asian Nat Cat exposure and in future as the rise in insurance penetration in China for instance grew so would the demand for natural catastrophe cover.

"There is also a huge gap between the economic loss and insured loss," said Mr Parker. "If you look at the Japanese earthquake the economic loss is said to be $200 billion yet the insured loss is around $35 billion there is a gap which we are failing to fill at present."

The conference was opened by a speech from Deputy Managing Director of the Monetary Authority of Singapore Mr Ong Chong Tee who said the reinsurance industry needed to collect Asian specific data if it was to successfully address the opportunities and risks it presented.

Mr Ong said there were clearly opportunities for the re/insurance industry but that to make the best of those opportunities for the benefit of the industry and its clients they needed to acquire detailed risk information specific to Asia.

"There are good reasons to feel upbeat about Asia's prospects," he said.

Greater risk

Mr Ong said the estimates were that the Asian economies will account for half the world's GDP by 2050 and with that growth will come the requirement for the greater assumption of risk.

He added the industry needed to develop a greater understanding to the region's risks and not simply rely on the lessons and risk profiles from other areas of the globe.

Mr Ong said this may well mean a revisiting and revising of models and aggregation tools adding; "The region's growth is such that the industry cannot simply extrapolate historical data and believe it will deliver an accurate picture."

To that extent he welcomed moves in the region's universities to establish catastrophe risk facilities.

Cooper Gay Chairman Seymour Matthews told Reinsurance magazine: "Maybe the Thailand floods will be the straw that breaks the camel's back. There are estimates that the costs of the floods will be between $4bn-$5bn and that

is off an annual property premium income for the country of around $570 million. It creates a loss which is ten times the multiple of the annual premiums."

Mr Matthews added that with around 78 insurance companies in the country there was an expectation that some will be unable to survive the claims which will result from the floods and while the property damage was an immediate concern the issues for the health of those affected when the waters receded would have a latent effect on the final cost.

Mr Matthews also said that there was a growing level of risk exposures for the underwriting market in the region as economies recovered and businesses grew particularly in China and along its east coast.

Sustainable

In the keynote speech on the opening day of the SIRC Munich Re's Chairman of the Board of Management Dr Nikolas von Bomhard said re/insurers seeking to drive growth in Asian markets needed to do so on a sustainable basis.

Dr von Bomhard said the Asian markets were set to deliver economic growth in the years to come and with it the demand for risk mitigation.

However he added reinsurers needed to look at the longer term if the industry was to add real value and play a full role in the region's success.

"We are an industry where we are asked to deliver on agreements in some cases 10 years after they had been agreed," he said.

Dr von Bomhard (pictured) warned reinsurers and insurers needed not only to look at the risks they assume but also how they protect their reputation in the market.

He said: "Our reputation is vital to our business. We sell an intangible product. If a car manufacturer has an issue with reputation there is a car still there which can be seen and felt. We do not have such a product so reputation is so important in what we do."

Important role

He said the industry had a role to play in Asia talking with governments to highlight the ways in which risks can be mitigated before the event in a region where natural peril is constant.

"We as an insurance industry have an important role in advising governments to an extent in risk prevention," he told delegates. "Both in terms of advice and collaboration with governments we have a lot to say.

"We need to get away from the retroactive view and adopt a more proactive approach."

He said the Asian willingness to adopt and embrace the latest technology may well see the region adopt new ways of selling insurance such as the use of mobile phone technology and Dr von Bomhard said Asia had the potential to lead the world in the

adoption of new ways to market and transact insurance in future.

He said the global economic crisis, the effects of which were still being felt in Europe, continued to be a concern for the market and regulators alike but he said he firmly believed the reinsurance market did not pose a systemic risk to the global financial system.

"If we stick to the core roles that we as an industry perform then we do not pose a systemic risk," he told the conference.

Dr von Bomhard said the market should not take a short term approach to the region and its risks.

"We are in a long term business and we have a long term responsibility to our clients," he added. "In the new world in terms of regulation the value of reinsurance will be more transparent and valued by our clients."

He added that there needed to be transparency so the regulators can clearly understand the risk exposures and balance sheets but he added he hoped regulators would not simply take a snapshot at a given moment of time and overreact believing that like the industry's approach to underwriting regulators needed to take a longer term

WE ARE IN A LONG TERM BUSINESS AND WE HAVE A LONG TERM RESPONSIBILITY TO OUR CLIENTS *DR VON BOMHARD*

approach to the performance of underwriters.

The regional underwriters were also bullish about the opportunities weighed against the losses and the growing exposure levels.

Riadh Karray, CEO of Best Re said the region has seen a special year in terms of catastrophes.

"There is still two months to go so there is nothing to say that the challenges we have faced this year are over," he added.

Mr Karray said the issue of overcapacity in the market remained and was a major problem fore the market and its ability to drive pricing despite the losses.

"The fact is when you have capacity you want to service it and put it to you," he explained. This remained a key driver for the market and required a renewed focus on Enterprise risk management by underwriters.

In terms of his company Mr Karray said they were keen to continue to grow their books in Africa and with three regional offices there were opportunities particularly in northern Africa following he political upheaval and regime change during the Arab Spring.

He added however the market did need to address its pricing models as the Thailand floods illustrated in terms of the exposures compared to the premiums charged.

"We have to do something," said Mr Karray. "We need to price the exposures better otherwise the insurance and reinsurance companies are in effect subsidising industry while we do not benefit." □

MODEL BEHAVIOUR

With floods in Australia, earthquakes in New Zealand and Japan, and windstorms in New York, re/insurers have been forced to examine their exposures and the accuracy and use of catastrophe models have come under the microscope as **Jamie Dunkley** discovers

Swiss Re estimates re/insurers were forced to pay out about $70 billion (£43.5 billion) in claims during the first six months of the year alone. Against the backdrop of Europe's sovereign debt crisis, this has left many companies facing heavy losses – as well as being under pressure to improve their risk management processes ahead of the introduction of Solvency II.

Catastrophe modelling companies such as AIR Worldwide, RMS and Eqecat play an important role limiting disaster losses. However, experts have warned that an over reliance on them could eventually prove costly to the re/insurance industry.

Last month, Karen Clark, founder of AIR, insisted that catastrophe models should be used as a tool and not a complete answer to the calculation of exposures. She said that while the models had to be used, they should be seen as just one tool in the kit available to underwriters when it comes to assessing risk and exposure.

"Models should inform the risk management framework not form it," she said. "I can really feel the pain of the models and nowhere more than this year with some of the model updates.

"What we are doing now is coming into a new era. We are coming out of catastrophe models and into an era of catastrophe risk management. It is clear companies want their own view of risk."

David Lightfoot, head of GC Analytics at Guy Carpenter, insists models will remain an important part of re/insurers' armoury.

However, he added: "This year, we have been reminded about the significant amount of uncertainty inherent in catastrophic risk models. The causes of uncertainty range from the type perils not included in a model – such as tsunami not included in earthquake models – to material changes in assumptions that are reflected in new versions of vendor software."

This sentiment is echoed by Paul Miller, head of international catastrophe management at Aon Benfield

He said: "Catastrophe models are important tools that help companies manage their portfolios against future potential losses. However, there has been an increasing reliance on them being the answer rather than a guide. Companies should also be looking at their own risk histories.

"Every time an event occurs, models are being proved wrong. For instance, they may not cover floods in Australia or Tsunami's in Japan. There is a healthy scepticism building, although models still play an important role."

In recent months, re/insurers have shown they are prepared to challenge the guidelines set by risk modelling companies.

The introduction of RMS's new US wind model was a clear example of this. The model increases probable maximum losses (PML) for some US insurers by up to 100%.
Experts say that this could prompt ratings agencies to demand that re/insurers hold more capital against potential losses and encourage reinsurers to push insurers to accept

MILAN SIMIC

rate increases.

Last month, Hans-Dieter Rohlf, managing director of Hannover Re's North American treaty division, told reporters that two thirds of the company's clients had yet to fully recognise and respond to RMS 11.

The introduction of Solvency II has also altered the dynamic between risk modelling companies and re/insurers.

Information

Regulatory pressures are fuelling demand for a more in-depth evaluation of catastrophe models, according to Aon Benfield. It says users of model output need to be able to demonstrate a robust understanding of the inner workings of the so-called "black box" models.

Some industry insiders have also warned that unless modelling companies give underwriters greater information on the methodology for the model outputs re/insurers will not pass the Solvency II regulations.

Dickie Whitaker, a Drector at the Financial Services Knowledge Transfer Network, added: "We are at a key point of change in the use of catastrophe models at the moment. Version changes of key models are having significant impact on results and the needs of Solvency II are driving change in information required.

"Model users are asking more questions and vendors are having to balance the need to satisfy their clients with concern, we assume, about confidentiality, use of proprietary data and possible misinterpretation of these results."

One recent development has seen the creation of the new loss modelling platform, Oasis. This will allow academics, the user community and specialist modelling companies to test and experiment with data and models with new levels of transparency.

Mr Lightfoot added: "An emerging trend we see is for insurance companies to take more ownership of cat model results, just like they do when setting loss reserves.

DICKIE WHITAKER

KAREN CLARK

"This has been driven by several things, including Solvency II which encourages companies to continually improve their understanding of risk.

"I think this constant drive to know more about the insurance portfolio, including the potential losses of the portfolio is a central to a company's ability to drive sustainable, profitable growth."

Risk modelling companies insist they are working closely with clients and regulators to ensure a smooth transition to Solvency II.

Dialogue

Dr Milan Simic, Managing Director at AIR Worldwide, said: "There are two types of submissions companies need to make to prepare for Solvency II. One of these is the creation of the so-called internal model that would enable them to provide loss estimates and see the types of capital they would need to protect themselves against losses.

"Catastrophe models would be plugged in as one of the components of this internal model. In recent months, we have been talking to all the regulators and increasing dialogue with our own clients. As companies prepare for Solvency II they need to know more and more detail about risk and be sure they are protecting themselves sufficiently."

MODEL USERS ARE ASKING MORE QUESTIONS AND VENDORS ARE HAVING TO BALANCE THE NEED TO SATISFY THEIR CLIENTS WITH CONCERN, WE ASSUME, ABOUT CONFIDENTIALITY *DICKIE WHITAKER*

Most industry insiders now agree that re/insurers will need to demonstrate a deeper understanding of external catastrophe models as the deadline for Solvency II draws nearer. A failure to do so will increase the cost and duration of the internal model approval process and maybe even prevent passing the rules required under the new capital rules.

The relationship between re/insurers and risk modelling companies has arguably never been so important. ☐

FLATTERING TO DECEIVE

As reinsurers met in Baden Baden **Marc Jones** discovered for all the catastrophe losses the prevailing view remains the market is still flat and there is nothing on the horizon which points to any driver for change

The German city of Baden-Baden sits in a river valley with the rolling tree-lined hills of the Black Forest all around it, which is rather ironic given that the talk at this year's Baden-Baden Rendez-Vous was all of flatness.

Delegates at the event witnessed a steady stream of news conferences and presentations from various market leaders that all agreed on one overriding point – that whilst the market rates have stopped softening, on the other hand they have not hardened either, instead just flattening out.

Speakers at the Guy Carpenter symposium that started the event off on the Sunday were united in their belief that there has not yet been enough collective pain in the market to spark off an upturn in prices.

Christopher Hitchings, Senior Vice President of Research at analyst Keefe Bruyette & Woods, pointed out that in the 40 years that he has been watching the industry he has seen – and analysed – four market cycles, and that at present the key factors in market upturns are not yet present in the current one.

According to Mr Hitchings these factors include claims experience prompting a significant upturn in rates, significant capital stress, investor disenchantment at losses and finally what he described as 'management panic', as managers effectively press the panic button as

a result of the conditions they see around them.

Clement Booth (pictured above), Member of the Board of Management of Allianz SE, agreed with the other symposium speakers that the reinsurance cycle has not turned yet, and that there has so far been no significant movement in pricing. "Upturns happen when there has been a sufficient amount of pain," he told the assembled delegates, adding that the market does not seem to have reached that pain threshold yet.

The next day Tom Bolt, Director of Performance Management at Lloyd's, agreed with the emerging consensus at the event that the market had flattened out but was not seeing rates rise. Mr Bolt told Reinsurance that if the industry continues to be over-capitalised and is not hit by any unanticipated events then it should enter 2012 in a fairly good condition.

"We have had losses, but not ones that people hadn't anticipated via the various models," he said. "And there has been no really major event that has changed people's thinking. People have said that we need more pain to make the market harden. At the moment the pain needs to come from somewhere unexpected."

The Munich Re presentation on the Monday certainly highlighted the amount of pain that the market saw in 2011. Ludger Arnoldussen (pictured right), Member of Munich Re's Board of Management, pointed out at the event that so far the year has been a very costly one, especially thanks to the high level of natural catastrophe losses, such as the Christchurch earthquakes and the Tohoku earthquake and tsunami. But this has also been an extremely turbulent year for other reasons, such as the historically low level of interest rates in many countries, the ongoing problems in the Eurozone (which were rocking Italy as this article was being written), increasing political uncertainty, the changing regulatory framework and increasing accumulation risks. As a result investment income has been unreliable to say the least, and reinsurers might have to reflect the low-interest rate environment in their prices.

Mr Arnoldussen also identified a potential future problem for the reinsurance industry – the increasing level of business interconnectivity. With some companies such as car manufacturers becoming increasingly reliant on high-tech parts, any disruption to the supply of those parts – such as an earthquake in a place like Japan – can ripple down the chain and inflict financial damage in other parts of the world. Munich Re has identified a number of areas where contingent business interruption problems could emerge

in the future, such as places that make semiconductors (Japan, Taiwan, the US Pacific Northwest) and automotive suppliers (Japan again, the US Midwest, California) – and all of these face potential natural catastrophes.

Hans-Joachim Guenther, Chief Underwriting officer at Endurance, stressed to Reinsurance that the market certainly needed to keep its eye on the long-term picture, and that so far participants have been reluctant to step outside the crowd and change the market – again, discipline seems to be holding as reinsurers are feeling cautious.

However, Mr Guenther added a warning for the future, pointing out that at present the global economy is facing a combination of both high inflation and extremely low interest rates in many countries. Both of these are problems for insurers and reinsurers alike, as it means that the pricing of long tail risks becomes a challenge.

At present however, pricing remains flat. Thomas Witting, Managing Director, market executive Germany, Nordics and Baltics at Swiss Re told Reinsurance that clients have stopped requesting lower rates and instead are asking for rates to stay at their present levels.

"It's quiet at the moment – almost too quiet. We've seen equilibrium emerge in the market, with capacity still strong," Mr Witting said. "Reinsurance isn't particularly good at the moment, but then neither is it particularly bad. That said – it can't stay flat for ever."

With rates still largely flat and investment income uncertain, Kenrick Aldrich, Divisional Director of treaty reinsurance at United Insurance Brokers told Reinsurance that as a result some reinsurers are starting to look around for new business in old areas.

According to Mr Aldrich some reinsurers are looking again at regions that they might previously have written off as not being profitable enough and which they might not have looked at for some time. These include Russia, where interest in reinsurance business there slowed down several years ago due to the economic downturn, and a number of other countries.

So far there did not seem to be an increase in interest in Brazil again, Mr Aldrich said, but added that there does seem to be some additional focus on China, where marine business seems to have been benefiting from the ongoing development of the market there, with the market starting to mature as it writes more and more business.

China was also brought up by Seymour Matthews, Chairman of Reinsurance at Cooper Gay, who pointed out to Reinsurance that the 2011 Baden-Baden Rendez-Vous was the first year that the event has seen a significant number of Chinese participants. According to Mr Matthews it's even possible that in four or five years the market might be talking about east coast China risks in the same way that it currently talks about east coast USA risks.

Those participating at the Rendez-Vous were also given a stark reminder that every day is earthquake season – as delegates assembled on the Sunday the news of the 7.2 magnitude Lake Van earthquake in Eastern Turkey started to come in. Catastrophe risk modeller EQECAT later announced a preliminary estimate of insured losses from the quake as being in the range of $100 million to $200 million.

THE REINSURANCE MARKET IS MORE DISCIPLINED – THERE ARE NO EGREGIOUS EXAMPLES OF PEOPLE GOING OUT AND LOOSENING TERMS AND CONDITIONS *CHRIS KLEIN*

In the meantime the reinsurance market seems to be holding steady – at least for the time being. Chris Klein, Head of Sales Operations at Guy Carpenter, told Reinsurance that: "The reinsurance market is more disciplined – there are no egregious examples of people going out and loosening terms and conditions. However, much depends on the primary market, as one way that insurers can save money is to buy less reinsurance."

However, for the most eye-catching – and extremely accurate – comment at this year's Baden-Baden we have to return to the Guy Carpenter Symposium that started the event off. Allianz's Mr Booth pointed out that the bigger financial picture is important due to the fact that there has been a significant amount of political and financial unrest throughout the world. "The political landscapes have been changing, and this is something to watch," he said. "There also been the ongoing global financial crisis, which is the same one from 2008 albeit in a different aspect. In 2008 the financial markets were on fire. In 2011 the fire brigade itself is on fire." ☐

reinsurance
AWARDS WINNERS 2011

REINSURANCE MAGAZINE READERS GIVE THEIR VERDICT ON THE BEST IN THE BUSINESS

After two months of voting the readers of Reinsurance magazine across the world have had their say and the winners are announced

Aon Benfield and Scor scooped the overall honours in the 2011 Reinsurance Magazine Awards the results of which were announced this month.

The magazine's broker readership was asked to vote for the reinsurers they believed have delivered the best products and service over the past year and underwriters were asked to do the same with the brokers.

There were also two awards for the Reinsurance and Broking Initiatives of the Year.

In the reinsurance category Scor was voted Reinsurance Company of the Year with the Facultative Reinsurer of the Year award going to Munich Re. Swiss Re came top of the poll for Treaty Reinsurer of the Year.

The Reinsurance Initiative of the year was won by industry wide-European catastrophe data provider Perils. In September the organisation announced that the total limits placed based on its data had exceeded $2.5bn.

In the Broker categories Aon Benfield won Reinsurance Broker of the Year while Facultative Reinsurance Broker of the Year was won by Cooper Gay.

Guy Carpenter scored a double winning the Treaty Reinsurance Broker of the Year award and the Reinsurance Broker Initiative of the Year award for their collaboration with analytics provider Eagle Eye to create a tool to enable its clients to more effectively segment, select and price insurance risks.

Reinsurance Magazine Editor Jon Guy said; "We were delighted that so many of the market took time to play their part in the voting process. The aim was always to create a broad and independent view of which companies had delivered what their peers in the industry believed was a market leading performance.

"We would like to thank those who participated in the voting. Those who won can rightly say they have the respect and admiration of the market."

SCOR

REINSURER OF THE YEAR

Scor polled the most votes in the overall Reinsurer of the Year category and for Victor Peignet, CEO Scor Global P&C the success is down to the company's ability to communicate its direction and aims

"We were very clear over the company's strategy and we have sought to communicate with the market and I hope we have done so successfully.

"We are pleased to have won this award and thank those who voted for us."

Jon Guy with Victor Peignet, CEO Scor Global P&C

Munich RE

FACULTATIVE REINSURER OF THE YEAR

Munich Re won the Facultative Reinsurer of the Year award and Frank Buchsteiner MD Munich Re UK said the award had to be shared across both the front and the back office. "We are delighted to have won this award and it is a team effort. It is not just about underwriting it is about claims, about product development and it is a great reward for the hard work of all our teams."

Jonathan Trinder with Frank Buchsteiner, MD Munich Re UK

Swiss Re

TREATY REINSURER OF THE YEAR

Swiss Re won the Treaty Reinsurer of the Year award which was accepted by Russell Higginbotham, CEO Swiss Re UK. The category was very hard fought and Mr Higginbotham said the underwriter was and would continue to strive to meet the needs of the market and the changing risk landscape.

He added the company was grateful for the support shown by the market in voting them winners.

Jonathan Trinder with Russell Higginbotham CEO, Swiss Re UK

PERILS

REINSURANCE INITIATIVE OF THE YEAR

The Reinsurance Initiative of the Year was won by Perils, the independent Zurich-based company providing industry-wide European catastrophe insurance data. The company won the award just months after it revealed that the total limits placed based on the Perils industry loss index since the beginning of 2010 had exceeded $2.5bn. Luzi Hitz, CEO of PERILS, said: "This award is a further piece of great news for the company after our announcement on the limits placed based on our loss index at Monte Carlo in September. We are delighted to have been recognised in this way and I think it also shows that the market continues to look at the level of data and analytics that it requires."

Jonathan Trinder with Lutzi Hilts, CEO Perils

AON BENFIELD

REINSURANCE BROKER OF THE YEAR

Aon Benfield was voted overall Reinsurance Broker of the Year and Co- Chief Executive Dominic Christian said the company saw such awards as a vindication of the efforts the staff across the organisation put in to meet the needs of the clients and set the company apart from its peers.

"We are extremely pleased to have been voted overall reinsurance broker of the year," he said. "The aim of Aon Benfield is to deliver the highest level of service to our clients and work with them to meet their needs and to gain recognition in awards such as these is a real recognition for all the staff in the company."

Jon Guy with Dominic Christian, CEO Aon Benfield

COOPER GAY

FACULTATIVE REINSURANCE BROKER OF THE YEAR

Cooper Gay was awarded the Facultative Broker of the Year title and Chris Butcher, Chief Executive International at the firm said the company was delighted to have been recognised in the awards.

The broker has undergone a great deal of growth in the past 12 months and the category saw one of the largest number of votes across the awards and Cooper Gay emerged as a clear winner.

Jon Guy presents Chris Butcher, CEO International Cooper Gay with the Facultative Broker of the year award

GUY CARPENTER

REINSURANCE BROKER INITIATIVE OF THE YEAR

TREATY REINSURANCE BROKER OF THE YEAR

Guy Carpenter was the only firm to win two awards when it scooped the Treaty Reinsurance Broker and the Reinsurance Broker Initiative of the Year awards.

The Initiative award was one for the broker's collaboration with EagleEye Analytics, Inc., the provider of predictive analytics solutions to the property and casualty insurance industry. Under the alliance, exclusive within the reinsurance industry, the two firms collaborate to help Guy Carpenter's clients more effectively segment, select and price insurance risks through the use of EagleEye Analytics' web-based tools. In particular, Guy Carpenter's clients have access to EagleEye's Talon platform, which performs data analysis at multiple levels – coverage, risk or policy – and provides rapid results that enable companies to make faster more informed decisions.

Both were presented to Neil Frankland CEO European Operations Guy Carpenter who said: "We are very pleased and grateful to win these awards and would like to thank those who voted for us.

"We all work hard to deliver innovation and the tools to help our clients manage risk and it is good to be recognised for the efforts of our talented teams across the business."

Jonathan Trinder with Neil Frankland, CEO European Operations Guy Carpenter

Cats and Greek debt impact Munich Re

Munich Re reported a profit for the first three quarters of the year of €80 million as the cost of the global natural catastrophes and the ongoing economic crisis in Europe had an effect

The reinsurer said it had suffered a €3.6 billion cost of the natural catastrophes in the year so far but has also been forced into a significant write down of its investments in Greek debt as the Eurozone crisis continued.

CFO Jörg Schneider expressed his satisfaction with the Group's development given the difficult conditions: "Although our result was certainly affected by the capital-market and currency turbulence, our financial position has once again proved comparatively resilient. The low combined ratio in reinsurance in the third quarter and the satisfactory underwriting results in insurance and reinsurance are indicators that our core business is doing well."

The result of €80 million compares to a figure of €1.95 billion while the third quarter delivered a profit of €290 million compared to the 2010 figure of €761m for the same period In the first nine months, gross premiums written were up 9.1% against the previous year.

The cost of the natural catastrophes had been compounded by the continuing uncertainty on the capital markets.

The sharp decline in the price of Greek government bonds led to the reinsurer writing-down expenses of €933 million which in turn had a negative impact of €170 million net on the consolidated result, €45 million of which related to the third quarter. Negative currency translation effects burdened the result by €145 million for the first three quarters and by €342 million for the third quarter.

However the reinsurer said it had already taken steps to shield itself from further impact reducing its bonds from peripheral European states, instead purchasing bonds of financially strong states and corporate, while increasing its investments in "dynamically developing states to further spread its risks".

"With our broad diversification, we are well-positioned for different scenarios and thus less susceptible to fluctuations in individual markets", Mr Schneider added.

Looking at the overall result for the year he was still optimistic.

"We still envisage a positive consolidated result for 2011 as a whole. Munich Re will not be making a more concrete profit forecast than this because the final amount will be influenced considerably up to the last day of the year by the incidence of major losses and the volatility of the capital markets and exchange rates," he said.

Swiss Re will avoid any Greek tragedy as third quarter profits rise

Swiss Re reported a increase in third quarter net income to $1.3 billion adding it has no exposure to the Greek debt crisis

The underwriter's performance compares to $600 million profit for the same period last year with CEO Stephan Lippe saying the firm was focused on hitting its four year earning targets.

"I am pleased to announce another successful quarter for Swiss Re," he said. "Third-quarter Group results were excellent with a positive contribution from all segments. Our underlying earnings power is very strong and our conservative asset management approach is proving to be appropriate in these times of heightened financial market volatility."

He said the results had been supported by a "moderate natural catastrophe experience and positive one-offs".

The company's Property & Casualty activities saw an operating income of $1.0 billion slightly down on the same period of last year. Swiss Re said the result was based on a "very strong underlying performance, further reserve releases and a better-than-expected natural catastrophe experience in the quarter". The combined ratio increased to 80.8%.

"Given the heightened volatility in financial markets as a result of economic uncertainties, Swiss Re has and will continue to maintain a conservative asset management strategy," it stated. "Swiss Re's exposure to sovereign debt issued by peripheral eurozone countries remains very low at $74 million. The exposure to Greek sovereign debt is nil."

Mr Lippe added: "Our five-year financial targets announced in February 2011 are our most important priority and we are fully focused on achieving them."

Hannover says it has weathered the storms

Hannover Re's CEO says the underwriter remains on target for its projected full year profit despite being hit by the natural catastrophes and the global financial crisis

Ulrich Wallin said he was satisfied with the Group's net income for the first half of the year despite the impact of the year's natural catastrophes.

'Despite loss expenditure overshadowed by the severe natural catastrophe losses of the first quarter as well as a challenging capital market environment, we succeeded in generating Group net income for the first nine months of €381.7 million. This puts in place a good platform for achieving our profit target of at least €500 million for the full financial year', he said.

Gross written premium in total business increased by 6.0% as at 30 September 2011 to reach €9.1 billion (€8.6 billion). The level of retained premium was virtually unchanged at 90.7% (91.0%). Net premium climbed 5.5% to €7.9 billion (€7.5 billion).

The reinsurer reported an operating profit of €487.8 million which it said "fell short of the strong performance in the comparable period (€862.0 million) owing to the heavy burden of major losses in the first quarter and reduced profitability in life and health reinsurance".

Its statement said: "The situation on international reinsurance markets is broadly positive. In view of the substantial natural catastrophe events that occurred in the first quarter, the treaty renewals during the year brought the anticipated sharp surges in rates – especially under programmes that had suffered losses. In the area of casualty covers, however, at best moderate improvements in conditions can be observed for reinsurers, although the lowest point has now passed."

Gross premium in non-life reinsurance increased by 8.2% as at 30 September 2011 to €5.2 billion

The third quarter passed off relatively moderately in terms of major losses; at €118.0 million, the strain was below the expected level of €165 million. The largest single loss was hurricane 'Irene', with a net cost of €20.2 million for Hannover Re's account. In view of the exceptionally heavy major loss incidence in the first quarter, the net burden of major losses as at 30 September 2011 totalled €743.2 million – a figure in excess of the previous year (€554.1 million).

The combined ratio stood at 105.0% (99.0%), or 95.2% (98.2%) for the third quarter in isolation. The net underwriting result came in at -€229.2 million (€32.4 million).

As anticipated, the operating profit (EBIT) fell short of the comparable figure for the previous year (€633.4 million) at €332.9 million. Group net income totalled €295.0 million (€437.7 million).

"Bearing in mind that the major loss expenditure is €343 million higher than our expectation for the first nine months, this performance is thoroughly gratifying overall," explained Mr Wallin. "It is a testament to the underlying favourable development of our non-life reinsurance portfolio."

Resilient Scor still on track says Kessler

SCOR Chairman and CEO Dennis Kessler has praised the firm's resilience in the face of the year's catastrophe losses as the reinsurer broke the €2 billion for gross written premiums in a single quarter for the first time.

The quarter was also marked by the completion of the acquisition of Transamerica Re the contribution of which has been taken into account for the quarter's results from the 9 August completion date.

Scor reported gross written premiums of €2,021 million, up 14.7% compared to the same period of 2010.

Its global P&C operations recorded gross written premiums of €1.03 billion a 2.9% increase compared to the third quarter 2010, and up 7.4% at constant exchange rates. The net combined ratio was 94.8%.

Scor's global life gross written premiums increased by 30.5% on the previous year at €984 million, with the Transamerica Re business contributing €256 million.

Net income was €188 million, up 70.1% compared to the third quarter 2010 with a contribution of €108 million related to Transamerica Re.

Premium income for the first nine months of the year was €5.42 billion, up 8.0% compared to the first nine months of 2010.

Net income for the period was €228 million, compared to €267 million in the same period of 2010, with a total net pre-tax cost of €476 million for natural catastrophes occurring in the first nine months of the year

Mr Kessler said: "Having demonstrated its capacity to absorb a series of exceptionally intense natural catastrophes in the first half of 2011, SCOR has demonstrated considerable resilience this quarter in the face of a very fragile economic and financial environment. Since the beginning of the financial crisis in 2007, the effectiveness of SCOR's risk anticipation and management policy has enabled the Group to limit the impact of this environment on its shareholders, for instance by having no exposure to sovereign debt in peripheral European countries.
The finalisation of the Transamerica Re mortality portfolio acquisition in the third quarter, gives the Group a new dimension in the Life Reinsurance market.

NAIC approves new collateral rules

Reinsurance association leaders in the international markets have welcomed the latest moves to relax the current collateral requirements for international reinsurers operating in the US

WORDS:
Jon Guy

The National Association of Insurance Commissioners (NAIC) adopted revisions to the Credit for Reinsurance Model Law and Regulation, which modernises US state-based regulation of reinsurance by reducing reinsurance collateral requirements for non-US reinsurers.

Under the new rules which follow the likes of New York and Florida which have already announced a new regime for the level of collateral overseas reinsurers have to place in trust to conduct US business there will be a sliding scale which will allow state regulators to decide the percentage of the liabilities which must be submitted.

It seemingly brings to an end the 12 year debate within the NAIC on the collateral rules which were branded anti-competitive and restrictive by the international underwriting community.

Under the current NAIC Credit for Reinsurance Model Law & Regulation, in order for US ceding companies to receive reinsurance credit, the reinsurance must either be ceded to US licensed reinsurers or secured by collateral representing 100% of US liabilities for which the credit is recorded. The revisions to the reinsurance models would reduce these reinsurance collateral requirements for non-US licensed reinsurers domiciled in qualified jurisdictions.

The new changes will see:

- A state able to evaluate a reinsurer that applies for certification, and will assign a rating based on the evaluation. A certified reinsurer will be required to post collateral in an amount that corresponds with its assigned rating (0%, 10%, 20%, 50%, 75% or 100%), in order for a US ceding insurer to be allowed full credit for the reinsurance ceded.
- Each state will have the authority to certify reinsurers, or a commissioner has the authority to recognize the certification issued by another NAIC-accredited state.
- The NAIC will publish a list of qualified non-US jurisdictions. The commissioner must document any reasons for approving a jurisdiction not on this list.
- A new notification provision was added requiring a US ceding insurer to notify its domestic regulator if reinsurance ceded to an individual reinsurer or group of affiliated reinsurers exceeds certain specified amounts.

"The NAIC achieved unanimous support of the proposed reinsurance reforms with significant input and assistance from the domestic and international insurance community," said New Jersey Banking and Insurance Commissioner Thomas B. Considine, Chair of the NAIC Reinsurance Task Force, which drafted the revisions.

"The NAIC has worked diligently on this project for a number of years, and we believe we have delivered well-crafted legislation that will modernize reinsurance solvency regulation by the states," said Joseph Torti, III, Rhode Island Deputy Director and Superintendent of Insurance and Banking, and Chair of the NAIC Financial Condition Committee, which oversees the work of the Reinsurance Task Force.

In London International Underwriting Association CEO Dave Matcham welcomed the news.

"The IUA is very pleased that the NAIC has taken this important step in modernising US reinsurance regulation. The unanimous vote shows the breadth of support for these important improvements in US credit for reinsurance rules and for rationalising the collateral requirements applicable to non-US reinsurers who support the US market," he said. "We hope individual states will now act promptly to implement these new provisions."

Franklin Nutter, Reinsurance Association of America President added: "The RAA commends the NAIC for unanimously passing the credit for reinsurance model law changes. Modernization of reinsurance regulation, including collateral reform, is necessary and we applaud the NAIC for taking this important step. We look forward to working with the NAIC as they implement these changes and continue to review other areas for possible improvements."

The President of the Association of Bermuda Insurers and Reinsurers Bradley Kading said "We congratulate Commissioner Tom Considine for his leadership in completing the NAIC's work on a collateral reduction measure for financially strong, well regulated international reinsurers." ☐

US BECOMING A TOUGH PLACE TO DO BUSINESS SAYS PCI

There were record delegate numbers in New Orleans for the Property Casualty Insurance Association of America's (PCI) annual meeting and delegates were told the market is as tough as it has ever been. **Michael Black** reports on the key themes

Themes can so often make a conference and for the PCI this year its theme was "Decision Making in an Era of Uncertainty."

The event was in many ways shrouded in uncertainty for the delegates. Uncertainty as to what the full impact of the RMS v11 model changes would be on premiums and terms, uncertainty in terms of the reinsurance industry's ability to conduct business in the future as the regulatory regime changes may or may not come to pass, and finally uncertainty in a global economy which could have a profound effect on market size and revenues.

In his opening address PCI President and CEO Bob Sampson said the theme was "particularly salient" in today's uncertain world.

"Decisions are more complex than ever, and the risks are even greater. And so today, I'd like to discuss how uncertainty and political risk impact the business environment and how leaders can move from paralysis to action," he said. "We see uncertainty all around us, both natural and man-made, but the greatest uncertainty we face is the economic outlook.

"As Federal Reserve Chairman Ben Bernanke recently put it: 'This unemployment situation we have, the jobs situation, is really a national crisis. We've had close to 10 percent unemployment now for a number of years, and of the people who are unemployed, about 45 percent have been unemployed for 6 months or more. This is unheard of.'

Knock-on effect

He said the economic news in the United States was still troubling and this would and has had a knock-on effect for the property casualty underwriters.

Mr Sampson told the conference: "The property casualty industry sees this effect directly, from both a personal and commercial lines perspective. With respect to personal lines, individuals aren't making the big purchases such as a new car or house that drive premium growth.

Premium growth for insurers writing mostly personal lines slowed to 2.7 percent for the first half of 2011 from 3.5 percent for the first half of 2010. According to the latest Wall Street Journal forecasting survey."

"With commercial lines, we're seeing an increase in workers comp claims, and businesses aren't expanding or starting up," he added. "Those factors reduce the overall commercial risk exposure and negatively impact commercial lines growth and profitability. One positive note, if we exclude mortgage and financial guaranty insurers, net written premium growth for insurers writing predominantly commercial lines climbed to 2.9 percent in first-half 2011 from negative 3.1 percent in first-half 2010."

First of its kind

However he added one of the few certainties that remain constant is the growing regulatory burdens the property casualty industry faces.

PCI partnered with the Ward Group to conduct a first-of-its-kind survey on the real costs of regulation and corporate compliance. The study found that the total cost of compliance for insurers grew almost 18 percent from 2008 to 2010 and that 58 percent of companies believed new regulations will make it harder for their company to conduct business. For insurers with DPW of $500 million or less, the cost of compliance grew even faster at 36 percent.

Mr Sampson warned: "This trend is not limited to the insurance industry. Throughout the business community, there is a fear that it's becoming more difficult to do business in the United States."

He also warned that underwriters had to accept a difficult truth that the threat of political risk was simply not restricted to emerging nations.

"I would suggest to you that American companies now increasingly factor in political risk when making investment decisions right here at home," he explained. "I never thought I would say this about the U.S. But it's hard to ignore the evidence. When the EPA revokes previously issued permits for mining in West Virginia; or the National Labor Relations Board sues Boeing for building a plant in South Carolina; or more than a century's worth of established legal precedent regarding the position of secured creditors and bond holders was set aside in the GM-Chrysler bankruptcy/bailout, it's clear that there are political risks here at home. And it's not only happening at the federal level.

"As many of you know, following Hurricane Irene, several state insurance regulators either unilaterally waived the hurricane deductibles on wind-storm damage that are included in every state approved policy and rate filing; or they strong-armed P&C companies to waive the deductibles."

Mr Sampson added according to the study, uncertainty in the U.S. political environment is one of the most important factors affecting whether or not a company will invest in the U.S.

Elections

"So is there any end in sight to this era of uncertainty? Unfortunately, for the next 12 months, the answer is, 'not likely.' But there is one event on the horizon that will help provide some clarity," he concluded. "And that's the Presidential election next November, which promises to be a watershed moment in our country's history. The stakes are immensely high: the run-up to the election will drive the conversation for every other political and economic decision next year; the result of the election will chart our course as a nation for the next generation and beyond."

In what was in many ways the most frank assessment of the risks the market faces, former Chairman of the US joint Chiefs of Staff, retired Marine General Peter Pace said there was one single risk which kept him awake at night and that was the threat posed to the United States and beyond by cyber-attack.

Gen. Pace told the conference the threat was one which could cause as much damage as a nuclear war if nations or terrorist organisations where able to attack infrastructure by sabotaging the technology which operated it.

He challenged the insurance market to estimate the damage which could be caused if a cyber attack shut down the power supply to the eastern United States for any prolonged period.

He warned the use of cyber attacks would allow small groups to launch attacks which could cause the level of disruption and damage which at present could only be created by nation states.

A panel of leading reinsurers ands reinsurance brokers came together to discuss the reinsurers' approach to the US market and Aon Benfield Analytics Bryon Ehrhart said he was surprised there had not been an increase in the demand for casualty programmes in the wake of the Deepwater Horizon loss which restricted on the main to BP's captive clearly highlighted the level of liability losses such an event could create even surpassing the onshore losses from Hurricane Katrina.

However Munich Re America's Tony Kuczinski said the time lag between the insurers and reinsurers when it came to the identification of new risks and emerging risk trends meant that the primary may had still to react to the implications of the Deepwater loss and he warned there was in his view a real concern over the fact that the insurers did not seem to be alive to the threat of inflation and the impact it would have on the market.

New Orleans is known as "the Big Easy" but delegates who headed back from Louisiana will have understood that the world easy cannot be used to describe any of the challenges for the US market in the coming months. □

NOVEMBER

Recruitment Moves

HANNOVER LIFE RE (UK) has revealed **David Brand** Managing Director, has advised them of his intention to retire from the company at the end of June 2012. Mr Brand has been at the company since 1988 and was appointed Managing Director of Hannover Life Re (UK) at the beginning of 2003. During this time he has successfully grown the business and established Hannover Life Re (UK) as one of the leading reinsurers in the UK Life Reinsurance marketplace. He will be replaced by **Stuart Hill** who is currently on secondment from Hannover Life Re (UK) as Managing Director of Hannover Life Re Africa.

GUY CARPENTER has announced the expansion of its risk management capabilities in the Asia Pacific region with a number of senior-level appointments. **Christian Schirmer** has been appointed Head of GC Analytics® – Asia Pacific based in Sydney. It has also strengthened its facultative, retrocessional and specialty practices in the region, with three senior brokers joining the firm's Singapore office, effective January 2012. **Lucinda Coleman** will join GC Fac®, Guy Carpenter's global facultative unit. **Brendan Plessis** will join as Head of Multinational and Retrocessional practice. **Richard Hakes** will head the firm's Marine and Energy practice in the Asia Pacific region. Prior to joining Guy Carpenter, Mr. Hakes was a Commercial Director at Cooper Gay in London. Guy Carpenter has also announced the appointment of **Desmond Potter** as Managing Director and Head of GC Securities M&A Advisory – EMEA. Based in London, Mr. Potter will report to Bill Kennedy, CEO of Global Analytics and Advisory.

RFIB has revealed that its CEO **Marshall King** will be leaving the company to pursue "another challenge". With immediate effect, Jonathan Turnbull, currently Group Chief Financial Officer, will take up the position of CEO. Mr Turnbull's appointment will be on an interim basis while RFIB works with the FSA regarding his permanent appointment. Mr Turnbull's successor will be **Nigel Cotton** who will be joining RFIB on 1 November 2011 as the company's Finance Director, subject to the FSA approving his appointment. Independent global broker BMS today announced that **Steve Galleger** has agreed to join its US based operations as Executive Vice President. His responsibilities will include helping BMS to drive the build out of its US reinsurance platform and to develop and deliver customised reinsurance and risk management solutions for Property, Casualty and Speciality insurers. He will be based in the Minneapolis office. Mr Galleger joins BMS after 21 years at Aon Benfield.

TOWERS WATSON has further strengthened its presence in the North American property reinsurance market by appointing broker **James Beresford** to its North American reinsurance business in London. Before joining Towers Watson, he spent 26 years at Guy Carpenter where he was a Managing Director and in the last four years acted as the sole London representative on their Florida Operating Council.

DLA PIPER today announces **Andrew Symons** will become a partner in its specialist Insurance & Reinsurance team, part of the firm's Litigation & Regulatory Group. Andrew has spent 16 years at CMS Cameron McKenna where he was a Partner in the Reinsurance and Insurance team. Andrew has a broad practice covering both reinsurance, in the marine, non-marine and aviation classes of business, and direct insurance for banks and financial institutions, marine, energy and property businesses. He undertakes work in the London, German, Swiss, Bermudan and US (re)insurance markets. The recruitment of Andrew will support DLA Piper's investment in the global insurance industry and enable the firm to further develop its London practice as a key centre of its international Insurance practice. Andrew is a well regarded practitioner in the market and has been commended by Chambers UK for his "intellectual capabilities and excellent grasp of all things reinsurance-related." Charles Gordon, London Head of Insurance & Reinsurance, said: "London is the world's major insurance centre and the market is one that continues to expand. The appointment of Andrew strengthens our existing Insurance and Reinsurance practice and his strong client relationships will enable us to expand into the banking and financial institutions insurance sector, a key growth area for the firm." Stephen Sly, DLA Piper's International Group Head for Litigation & Regulatory added: "We are very pleased that Andrew will be joining DLA Piper at a very exciting time for the firm. His strengths and market reputation perfectly complement our team. His appointment allows us to continue our drive to handle some of the most complex and demanding issues in the London and international insurance markets."

WILLIS GROUP HOLDINGS has announced the appointment of **Tim Wright** as Chief Executive Officer of Willis International, the company's business unit serving all of Willis' retail clients around the globe outside North America, the United Kingdom and Ireland. Sarah Turvill, currently Chairman of Willis International will remain in that post, working closely with Mr Wright in his new leadership role and helping to strengthen and grow the business unit in the regions where it operates. The appointment comes after David Margrett, currently CEO of Willis International, announced his departure to pursue other interests.

PARIBAS Insurance services group Parabis, is to expand its reinsurance offering with a series of senior appointments. Under the banner of Argent Audit & Legacy, Parabis has hired **John Halls** to head up the development of what the group sees as an emerging area of business.

Re/insurance market cannot ignore wind power growth

WORDS: André Finn

Compared to other energy sources such as oil & gas, hydro, nuclear and thermal power generation, the technology used in wind power has yet to fully reach a mature state and the main players in the sector are still trying to get a more comprehensive and nuanced idea of the risk involved

The relative immaturity of offshore and onshore wind turbine technology, coupled to the need for continuous improvement and rapid upscaling of turbine sizes and power outputs, presents challenges to the insurance and reinsurance markets, which rely on accurate information as well as historical performance data when pricing risk in this sector.

These on-going developments in terms of design, scale and output demands have implications for how insurance and reinsurance penetration emerges in this sector. This year, Munich Re announced it was insuring the guarantees which Fuhrländer, a German builder of wind power plants, gives to its customers. The manufacturer provides technical guarantees for five years and Munich Re is covering these guarantees and assuming the associated financial risk. It was reported that this was the first time that insurance of this kind had been provided.

Broadly speaking, underwriters face two major issues when trying to understand and price risk accurately in the wind turbine sector. The first is the need to be able to quickly assess the level of risk on the books. The second

is finding ways of managing the complex series of data on the risk.

There are a number of inter-related factors that need to be considered when writing risk in the wind sector. These include the types of turbines involved – which vary enormously – serial loss issues and locational factors with respect to natural hazards. Once underwriters have assessed the risk, they will have a clearer idea of the premium rates for insuring the assets. Adjustments for serial loss issues and natural hazard exposure may be accounted for in the premium or through specialist policy wordings.

Underwriters need to be aware that it is not possible to give blanket statements about the life span of wind turbines because of the variety of classes involved, and the fact that the technology is unproven over a significant operational history compared to that used in other sectors such as thermal power or oil & gas. Some turbines may last from 13 to 15 years, while others will go on for 25 years, but what happens to reliability rates over the lifespan of these machines? This underscores the critical importance for underwriters having access to more and continuing operational data to allow them to price risk accurately.

This has obvious implications for the issue of deductibles. Brokers are getting more aggressive in trying to pass more of the risk from the asset holders – the wind farm operators – to the insurers. For example, if the deductible level goes down from 30 days to 20 days, what is the additional risk?

Currently, most underwriters will use their own judgement on past events and their understanding of the risk, and any calculation may be performed analytically. Sciemus has develop a modelling tool, the WindRAT which allows underwriters to do multiple calculations based on different deductible levels that deliver much more accurate data on the level of risk involved, by simulating failure events over an insured period and applying the proposed deductibles to each and every event.

Database management is also a major issue for the market. Now, most underwriters are using systems where submissions are logged in an actuarial or database system. Given the time pressure that underwriters are under to get a quote out in a timely manner, extracting data in an effective manner can be difficult. What do you do if you have information about serial failure in a particular type of turbine, but your system does not have that functionality?

The experiential skills of risk professionals working in insurance and reinsurance will continue to be vitally important. But as the wind power sector matures and more data becomes available, it will become critical that tools are available to businesses to analyse and understand this information more accurately to allow them to make informed decisions about the risk involved. □

André Finn is Chief Executive Officer of Sciemus Ltd.

Lloyd's threatens to get prescriptive over endorsements

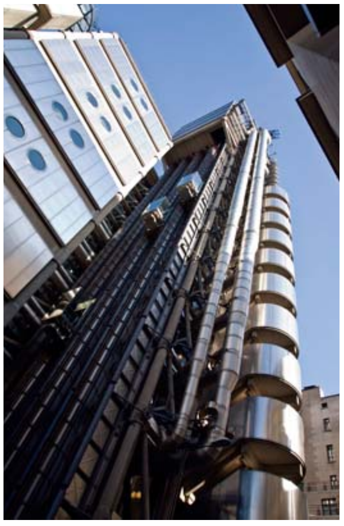
Getting consensus in the London Market for the use of new technology and process reform is a hard task and Lloyd's is considering becoming ever more prescriptive as it seeks to speed the momentum for the use of electronic endorsements

Managing agencies across the Lloyd's market received a letter this month from Lloyd's Market Association CEO David Gittings and Lloyd's Director of Market Operations and North America Sue Langley, which while praising the efforts the market has made in the use of e-endorsements also called for a greater effort to enhance the usage levels.

The market's CEO Richard Ward who has been a strong proponent of the need to enhance the use of technology to speed the flow of information across the market is said to be keen to see the market use the e-endorsement process on a wider basis which would cut down what Lloyd's sees as needless visits to the underwriting floor by brokers to carry out a task which would be more efficient if done electronically.

Lloyd's has said it will start to look at monitoring the turnaround time for e-endorsement request to the syndicates in an effort to identify the syndicates which are not meeting the agreed standards between the brokers and the underwriters at the outset of the project.

The market has in the past been forced to mandate the



use of other initiatives such as the London Market Slip and Electronic Claims Files and the feeling is that if no improvements are made the use of e-endorsements may well become mandatory as the market's leaders lose patience

A range of major initiatives in the past 15 years have foundered because of the lack of cohesive movement and Lloyd's and its peers in the London company market are keen to ensure that process reform is kept on track.

There is a perceived standoff between broker and underwriters with brokers claiming that the underwriters are not keen to invest in the systems to use the e-endorsements until the volume levels increase which is something the market cannot achieve until the systems are in place to enable the volume to be handled. It is this chicken and egg impasse which Lloyd's believes needs to be addressed.

There was however better news with the London insurance market's claims service revealed to have improved year-on-year since 2009 according to the latest study from research company Gracechurch Consulting.

Data from Gracechurch's study reveals that claims service has improved gradually since 2009. The research also reveals that there is a group of seven to eight high performing larger Lloyd's insurers whose claims service is improving much more rapidly than the average; in fact without these the performance is fairly flat.

Interestingly the study also shows that a gap has opened up between Lloyd's and the companies market with Lloyd's on average outperforming companies on service.

The study's findings were welcomed by Mr Gittings, whose organisation has been at the forefront of efforts to boost claims performance in the Lloyd's market.

Mr Gittings said: "This is again positive news for Lloyd's on claims – the study also highlights positive acceptance of ECF as delivering real benefits for brokers and client, showing that process improvements are contributing too – we must though keep up the pressure to make sure that we are the leading market in claims service – and recognised as such."

Gracechurch Managing Director Ben Bolton added: "When we first started measuring London claims service in 2005 it was distinctly mediocre; now looking at 2011 data an increasing number of insurers have the majority of their brokers rating their service as 'excellent' – that represents exemplary service for any market and shows what can be achieved."

However he also warned: "The average improvement is good news but service improvements are not consistent across the board and there is still a rump of poor claims service providers who seem reluctant to accept that great service is a vital component of London's high quality reputation; this is creating a real drag on the pace of improvement. The other issue is that insurers are often too modest about publicising good performance." □

FERMA renews campaign against reinsurance laws

The European associations which represents the continent's risk managers has launched another attack on the Brazilian regulators over the about face over the liberalisation of the country's reinsurance market. Within weeks of taking the helm new FERMA President has issued a series of recommendations to the country's regulator on ensuring the market remains open to all

The Federation of European Risk Management Associations (FERMA) has sent specific recommendations to the Brazilian insurance regulator SUSEP to limit the impact of regulations 225 and 232 on market capacity and security in the interest of business and insurance buyers.

FERMA said its actions followed an offer from SUSEP to open discussions with critics of the regulations which came into effect earlier this year.

FERMA has been campaigning for a relaxation of aspects of the regulations on behalf of its many members (European multinationals) who have business interests in Brazil and in support of the Brazilian risk management association, the Associação Brasileira de Gerência de Riscos (ABGR).

Brazil remains viewed as a major Latin American market and while underwriters have been loathe to voice their criticism the risk managers have no such qualms.

In 2007, the Brazilian Parliament abolished the monopoly control of local reinsurance market by the Instituto de Resseguros do Brasil (IRB) that dated from 1939 and phased in competition

from other domestic and multinational reinsurance companies. (Complementary Law 126). The move was seen as a major step and would open the doors to greater competition in the country's market increasing choice and products.

Within two years the market had grown substantially to include eight local reinsurers and 28 admitted reinsurers. From 16 January 2010, Brazilian insurers had been allowed to place 60 percent, and sometimes more, of any reinsurance abroad with pre-approved reinsurers.

However the executive branch of the country's National Board of Private Insurance (CNSP) enacted the two new resolutions in December 2010, which restricted the involvement of overseas reinsurers although it later relaxed a complete ban on inter-group cessions to allow up to 20 percent.

The move was criticised by FERMA at the time and after being invited to enter into dialogue with the Brazilian regulator the association has put forward a series of measurs they woud like to see implemented.

Among the measures that FERMA has told SUSEP that it wants to see are:

- Elimination or substantial redesign of the 20 percent limit on inter-group operations;
- A five or ten day time limit for reinsurers classed as local to accept or refuse a mandatory 40 percent cession before business can be placed with reinsurers in the admitted or eventual reinsurer categories.
- Requests for further information on this mandatory cession to be limited to one with a further three working days from the date that it received the offer for consideration.
- In all cases, the insurer to be responsible for claims negotiations and settlement.

These recommendations come in a letter sent this month by FERMA President Jorge Luzzi (pictured) to SUSEP. It stated that FERMA has received many representations of concern from risk managers, especially about the possible limits on capacity and threat to insurer security posed by the limits on the spreading of risk created by the regulations.

Mr Luzzi said: "We thank and welcome the offer by SUSEP of open discussion on regulations 225 and 232. The 20 percent limit on inter-group cessions could be very risky. If reinsurance which cannot be ceded to group companies goes straight into the international market, where similar risks are placed, there will be extra costs. These are likely to be passed on to the insurance buyer and there is the possibility of losing the mutuality concept."

FERMA said it accepted that the 40 percent compulsory cession to the eight local reinsurers will remain, but its members believe that this should be on a prompt first refusal basis to avoid unexpected changes in terms and conditions, Mr Luzzi said. □

1 All roads don't lead to reinsurance for Queensland

Details have been revealed about the extensive reinsurance programme which has been placed by Queensland's state government in the wake of the natural disasters which hit the region at the turn of the year.

The state has said it will pay $30 million a year to reinsure state assets; however it also confirmed that the reinsurance market was not willing to cover the state's road infrastructure.

The damage to the roads at the start of the year accounted for a sizable portion of the state's Aus $6 billion bill and the government hired Aon Benfield to place the programme to protect their assets from future events.

In September it announced that it had completed its search for natural disaster reinsurance coverage for the state's property assets.

Finance Minister Rachel Nolan said at the time: "The widespread devastation resulting from Queensland's summer of natural disasters was unprecedented, with almost three quarters of the state declared a disaster zone.

"Following this the Queensland Government went to market to seek expressions of interest for natural disaster reinsurance coverage for Queensland for state-owned property assets including roads.

"This extensive search, conducted with the assistance of Aon Risk Services, is now complete and we have secured a quote for some state-owned property assets such as schools and hospitals, however we have been unable to secure a quote for our extensive road network."

The government then said it would evaluate the various quotes and announced it had placed the programme at the start of the month.

Minister Nolan added the lack of success in mitigating the road risk was not unexpected and Queensland's roads will continue to be covered by the Natural Disaster Relief and Recovery Arrangements.

"The sheer size of Queensland's road network meant it was always going to be unlikely that we would be able to secure insurance to cover it in the case of a natural disaster," she added.

"We have always said that we would only be taking out reinsurance if it presents value for money.

"The Queensland Government has never been offered comprehensive reinsurance including roads and our extensive search has shown that to be the case once again."

The programme has been placed with "a number of international reinsurers", and will cover not only flood and windstorm but a range of other natural and man made perils including fire and terrorism risk.

The deal covers $54 billion worth of assets at an annual premium between $25 and $30 million, with a $50 million excess for natural peril and a $20 million excess for single events.

A $20 million excess would be paid for single events and $50 million for natural disasters.

In announcing the successful placement Queensland Premier Anna Bligh said: "There is no insurer anywhere in the world that will insure our road assets."

2 It hasn't been plane sailing for the Lloyd's conference teams

Hot in the heels of Lloyd's Director of Performance Management Tom Bolt's nightmare journey from London to Texas to attend the Houston Marine Insurance Seminar another of the market's senior executives fell foul of the travel gods last month.

Jose Ribero, Lloyd's Head of International Markets was on his way to the 11th Singapore International Reinsurance Conference but arrived at Heathrow to be caught up in the middle of the Qantas strike which grounded the Australian airline's fleet for two days.

Mr Ribero did however manage to find another flight and arrived within hours of the conference opening reception, calling in to check all was well with the Lloyd's team before heading off to his hotel to change.

The previous month Mr Bolt had been trapped on a train outside Heathrow Airport for some hours and missed a number off flights eventually having to fly to Washington then take a late night connection arriving in Houston just hours before he had to make his keynote speech.


*References the 2008 Forbes Tax Misery & Reform Index
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