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Crunch time as London market boards assess PPL recommendation this week

p3

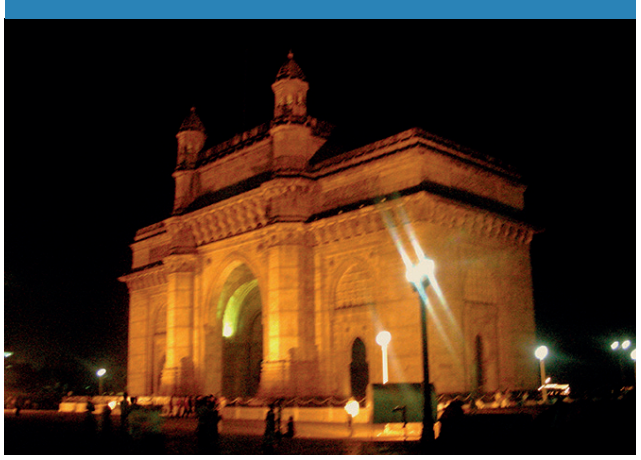
Liberty Specialty Markets to write on Lloyd's Dubai platform

p3

Ace and XL drag down Bermuda market's 2014 profit

p2

Asia



India amends insurance bill p3

Special report: Index-linked securities

Insurers vs ILS funds: unfair competition p4-7

Legal

Warnings over conflicts and compensations limits in draft riot bill p8

NEWS

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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 London and Bermuda Summits are exclusive networking conferences for senior executives; meanwhile, the London Market Awards recognise and celebrate the very best in the industry. The new Insurance Technology Congress provides a unique focus on how IT is helping to transform the London market.

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Ace and XL drag down Bermuda market's 2014 profit

Graham Village
Global markets editor

Big merger and acquisition deals are set to transform the composition of the Bermudian market this year, as the leading companies look to protect and extend their position in the face of increasing competition.

At least the sector heads into uncharted waters on the back of several years of exceptional performance, including a net profit of $10.7bn in 2014 for 20 of the main companies commonly associated with the Bermudian market.

The total was down about 12% on the previous year, reflecting a general downturn, although the sample was distorted slightly by developments at the two largest players, Ace and XL, covered in *Insurance Day*'s analysis because of their long association with the Bermudian market.

Ace suffered heavy realised investment losses, while XL took various charges as it completed the sale of its life reinsurance operations, in run-off since 2009.

Stripping out those two companies leaves the remaining Bermudians with a collective net profit increase for the year of about 5%, despite all the talk of crisis within the market.

Investment income fell, and realised investment gains were well down, but underwriting profit climbed nearly 7%, driven by yet another year of low major loss activity. The Bermudians suffered cat losses of about $1.1bn last year, down from the already low level of $1.8bn in 2013.

Still, margins are under pressure and the market has reacted by reducing the amount of catastrophic reinsurance it writes in favour of other reinsurance lines, additional primary business, as well as new markets such as agriculture and US excess and surplus lines.

But the big news of the past few months has been a spike in acquisitions that will concentrate power even more within the Bermudian sector.

Interestingly, two of the three largest deals are all-Bermudian affairs: the $11bn PartnerRe-Axis combination and RenaissanceRe's $1.9bn takeover of Platinum. The third deal is XL's $4.3bn purchase of Catlin.

The tables give a pro-forma picture of how these three combinations affect two key measurements in the market: gross premiums and shareholders' funds. The second table makes no allowance for acquisition deals other companies have made that will inflate their figures this year, not to mention any other takeovers yet to be announced.

On the as-if figures, the market has three groups with shareholders' funds of more than $10bn and three groups writing more than $10bn in annual gross premium.

Nobody should be surprised at the restructuring taking place. It is now six years since the global financial trauma of 2008 pushed the Bermudian sector to an unaccustomed annual net loss. Since then, the market has experienced abnormally benign major loss experience, with 2011 proving a slight exception.

Over the six years, the market has racked up collective profit of about $50bn. Combined ratios have fallen dramatically and even with a 6.4-percentage point deterioration, cat specialist RenRe booked a ratio of just 50.2% in 2014.

Falling rates, new risk-handling methods and underwriting consolidation are all part of the normal workings of a competitive market. Bermudian companies are reacting in various ways, including alliances with the new breed of alternative capital providers.

Our annual survey of the Bermudian market in tomorrow's Companies House looks in more detail at trends and performance in 2014.

Be a part of the discussions surrounding the Bermuda insurance market at the Insurance Day Summit Bermuda. Visit www.insurancedaysummit.com/bermuda

Table 1: the 10 largest Bermudian companies* in 2014, $m

	Gross written premium	Shareholders' funds
Ace Ltd	23,390	29,587
XL Group	8,094	11,439
Everest Re	5,749	7,451
PartnerRe	5,932	7,104
Arch Capital	4,760	6,130
Axis Capital	4,712	5,821
Validus	2,363	4,202
White Mountains	2,499	3,997
Catlin Group	5,966	3,992
RenaissanceRe	1,551	3,866
Total top 10	65,016	83,589

Table 2: the 10 largest Bermudian companies* in 2014 on pro-forma basis, $m

	Gross written premium	Shareholders' funds
Ace	23,390	29,587
XL plus Catlin	14,060	15,431
PartnerRe plus Axis	10,644	12,925
Everest	5,749	7,451
Arch	4,760	6,130
RenaissanceRe plus Platinum	2,060	5,604
Validus	2,363	4,202
White Mountains	2,499	3,997
Allied World	2,935	3,778
Aspen	2,903	3,419
Total top 10	71,363	92,525

Source: Company filings/Insurance Day database
*companies commonly associated with Bermuda, ranked by shareholders' funds

NEWS

Crunch time as London market boards assess PPL recommendation

Associations to decide whether to accept Ebix central placing platform

Michael Faulkner
Editor

The boards of the London market associations will meet this week to decide whether to select software company Ebix to develop a standardised electronic placing platform for the London market.

Ebix was selected as the preferred provider following a tender process overseen by Placing Platform Limited (PPL).

The Lloyd's Market Association's board will meet to consider the proposal today, while the board of the International Underwriting Association is due to meet on Wednesday (March 18) to consider the recommendation.

It was not immediately clear when the London and International Insurance Brokers' Association's board will meet.

The decision whether to accept the proposal will be make-or-break to the ambitions to introduce a central placing platform for the market to support both traditional face-to-face negotiations and pure electronic placements.

Last month, it emerged Ebix had beaten outsourcing giant Xchanging in the competitive tender, owing to its "tried and tested" technology.

The association boards will need to weigh up the cost to the market of implementing the Ebix system, whether the brokers will want to use it and the ease with which it can be integrated with back-office systems.

London: it will be decided this week whether Ebix will develop a standardised electronic placing platform for the London market

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LMA chief executive, David Gittings, told *Insurance Day*: "There's quite an aggressive roll-out plan [for the project]. I think it will be necessary for all the boards to agree if it is going to happen within the timescales envisaged."

Gittings said a pilot for terrorism business would commence "within weeks" of the system being approved, with other lines of business coming in sequentially over the next 18 months.

The tender process was launched at the end of September 2014 by PPL, which was set up in 2013 as a "central client" for e-trading after the London Market Group's (LMG) future process review concluded the market needed to improve its accessibility with a central placing platform.

Accenture was appointed to undertake a thorough assessment of the two service providers against a set of principles set by PPL, relating to technology, data ownership and expertise in e-placement.

"The solution provided by Ebix is one that is tried and tested, and has less of a risk profile than perhaps Xchanging's relatively untested solution," a source told *Insurance Day*.

"In contrast to Ebix, Xchanging's solution included a conglomerate of suppliers and there was some confusion as to how these components would come together."

The e-trading platform will allow business to flow into London from other countries around the world far more easily than before and without the same cost implication.

The initiative also ties in with a number of other proposals directed at modernising the London market, on which the LMG has recently consulted.

Initially, it is understood participation on the e-trading platform will be an opt-in process, but as the volume of business across the platform increases, a business case could arise for certain lines to be solely placed via the platform.

India amends insurance bill

India's parliament has amended its insurance act to further liberalise the Indian insurance market. The new amendments will enable foreign reinsurers, including Lloyd's, to establish onshore branches, *writes Alexis Burris*.

Lloyd's has worked closely with Indian authorities throughout the drafting process for the legislation.

The bill ensures that the Lloyd's structure can effectively operate within India.

Lloyd's will be continuing to work with the regulator to support the development of the framework to supervise foreign reinsurance branches under the legislation and make sure Lloyd's is effectively accommodated under the new laws.

John Nelson, Lloyd's chairman, said: "I warmly welcome the news that India's Parliament has now passed the Insurance Bill. This is great news for Lloyd's, as the Bill allows the Lloyd's market to operate in India. We are grateful to the Indian government and authorities for their support in reaching this point and look forward to working together as the legislation is implemented."

Liberty Specialty Markets to write on Lloyd's Dubai platform

Liberty Specialty Markets (LSM) has commenced business operations from the new Lloyd's platform in the Dubai International Financial Centre (DIFC), offering Lloyd's syndicate capacity for the first time, *writes Sophie Roberts*.

Subject to regulatory approval, Liberty is expected to start writing business on Lloyd's paper as of April 2015.

Lloyd's officially opened its specialist underwriting platform in Dubai on March 11. With the inclusion of Liberty Specialty Markets, 10 Lloyd's businesses are now trading in the DIFC. The move gives Liberty Specialty Markets, the specialty division of Liberty Mutual, its second office in the DIFC.

It has been operating a branch of its London insurance company in the region since 2006.

Final approval from the local regulator, the Dubai Financial Services Authority, will determine whether Liberty can operate from both platforms, writing business on behalf of both its company and its Lloyd's syndicate.

The new office will be led by Elie Bouchaaya, Middle East and North Africa senior vice-president and regional manager of Liberty.

John McCammon, Liberty Specialty Markets' head of international network offices, said: "Our companies market office has serviced the region well for some years.

"This initiative should allow us to take full advantage of the new Lloyd's platform, weighing up which lines of business are best written on which type of paper and allow us to offer our syndicate products from within the region for the first time."

The Lloyd's specialist underwriting platform will provide tailored risk solutions across the Middle East in range of specialty classes, including marine, energy, terrorism, political risk, professional and financial risks, aviation, and contingency.

"Over time, we'll expand the range of business lines available and strengthen the team," McCammon said. "Operating from the Lloyd's premises will provide Liberty with a more flexible underwriting platform in Dubai from which to grow, as well as more strategic options for our future."

SPECIAL REPORT/INDEX-LINKED SECURITIES

Insurers vs ILS funds: unfair competition

If insurers are to stay relevant in the modern world, they must find ways to compete with ILS funds for new classes of business, but they will need to be allowed the regulatory flexibility

Clive O'Connell
Goldberg Segalla

As economies develop, so do the risks that business face. In order to stay relevant to the commercial sector, insurers must adapt the products they offer to ensure they are the products their insureds want and need.

There are, however, challenges facing insurers in seeking to stay relevant and ILS funds are, on occasion, better suited to providing solutions to some of these new challenges.

A question arises as to whether insurers should be allowed more flexibility to enable them to compete with alternative capital providers and, if so, how.

Insurers can only sell insurance products. Insurance products have certain formal requirements. Among other things, insurance products require risk transfer, fortuity, insurable interest and a loss to be indemnified against.

At times, insurers have sought to move beyond these limitations. In the late 19th and early 20th centuries, "tonners" were developed as a means of writing marine perils where the "policyholder" had no insurable interest.

They were pure wagering agreements and rendered illegal by the Marine Insurance (Gambling Policies) Act 1909. Parliament did not relish the idea of people gambling on the wrecking of ships or the deaths of their crews.

Tonners continued outside the marine area and it was only in the early 1980s that aviation tonners were outlawed in Lloyd's.

Derivatives

More recently, insurers have looked at the possibility of writing derivatives, either as insurances of banks or on a standalone basis.

The credit default swap (CDS) crisis of 2008, which created such issues for AIG, was a direct result of this. The CDS crisis has seen a regulatory reaction, and Mark Carney, the Governor of the Bank of England, has cited the AIG affair as a reason why insurers should stick to insurance.

While the regulatory position is intelligible, it places insurers in a difficult position.

There are instances where derivative-style products provide customers with a better solution to their needs and insurers cannot provide these solutions.

For example, it is difficult to construct an insurance policy to protect against reputational risk. Defining the loss and how it is proved is complex. It would be much simpler to create a derivative product that depended simply on an index or other trigger and that would, when the trigger event occurred, simply pay out an agreed amount. Insurers cannot do this. Alternative capital providers, utilising special purpose vehicles (SPVs) located in jurisdictions of light regulation, can.

One of the challenges of microinsurance is the cost-effectiveness of claims adjustment. This can be avoided by creating a derivative-style product that will pay automatically in the event of a defined catastrophe. Again, this solution is impossible for a traditional insurer but not for alternative capital.

Another example would be a resort owner going to the alternative capital markets and purchasing a cover that will pay a pre-agreed amount immediately when a defined weather condition occurs. With an insurance policy, that resort owner would have to prove loss of profits arising from the weather condition. This takes time and may not always be possible.

Need for flexibility

Alternative capital providers, such as ILS finds, have the flexibility to provide these and other products. Insurers do not.

While one can understand that past abuses make regulators wary of insurers becoming involved in these areas, the damage done to the ability of insurers to innovate and to present an alternative to traditional products to policyholders, as well as to compete with non-traditional capital, is considerable.

The alternative capital providers are able to operate in a way that avoids regulation. Earlier abuses of the system by insurers also bypassed regulation.

With a derivative-style product, a resort owner can go to the alternative capital markets and purchase a cover that will pay a pre-agreed amount immediately when a defined weather condition occurs

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The question that arises is whether it might be more appropriate for insurers to be allowed to compete in a regulated environment. This would bring the transactions on shore and would allow regulators to ensure that an alternative is offered to customers by properly regulated insurers.

Insurers would be then be in a position to innovate and create products suited to their customers' needs. ■

Clive O'Connell is a partner, Goldberg Segalla

Q&A: Bermuda market

Bermuda Stock Exchange president and chief executive Greg Wojciechowski on the current state and future development of the ILS market on the island

What has been the impact of the changes made by the Bermuda Monetary Authority (BMA) to existing insurance legislation in Bermuda to make the process of setting up special purpose vehicles more straightforward?

In 2009, the BMA instituted regulation to make the process of establishing a special purpose insurer (SPI), the vehicle through which risk is transformed into a capital market instrument, more straightforward. The intent was to make the process more streamlined and applicable to this rapidly developing market segment and asset class.

There was an clear understanding that the increase in capital markets' interest in index-linked securities (ILS) was an evolutionary development in the industry and presented an opportunity for Bermuda to leverage its expertise and longevity in the speciality insurance industry.

By the end of 2010, a total of eight SPI licences had been issued, and this number grew to 29 by the end of 2011.

The Bermuda Stock Exchange (BSX) saw a 53% increase in its ILS listings from 77 in 2013 to 118 in 2014.

Meanwhile, the value of these securities grew to $15.91bn in 2014 from $9.71bn in the same period the previous year.

What are the considerations for the BSX in terms of ensuring that the listing of catastrophe bonds on the Exchange is both an efficient but well-regulated process? How have those considerations changed between 2009 and now?

The BSX has tried to strike the delicate balance of maintaining an environment that allows access to the market while having a commercially sensible regulatory approach. The application procedure to list is straightforward, and we have simplified the listing process for subsequent issues of securities pursuant to an existing programme already listed on the BSX, which positively impacts the

time it takes new tranches to get to market.

The BSX has promulgated regulations that are designed to contemplate the listing of insurance-related securities and these regulations, among other things, aim to ensure the market and investors are fully apprised of information in respect of the listed vehicle, to allow them the ability to make an informed investment decision, in addition to ensuring that pertinent information flows into the market for the duration of the vehicle's listing on the Exchange.

Similarly, what are the considerations for both the BSX and the BMA in terms encouraging the development as well as the regulatory oversight of the ancillary businesses and service providers that support the ILS sector?

Bermuda has a highly regarded regulatory framework, a sophisticated legal system based on English law, developed infrastructure and global companies with a physical presence.

The island has worked hard to create its reputation as a first-class international financial centre, which specialises in insurance but also supports a wide variety of other products, such as private wealth management, collective investment scheme servicing, and banking, not to mention tourism.

In this regard, the ILS sector works very closely with the BMA to ensure an environment that is conducive to the further development of this asset class continues.

Bermuda was the domicile of choice for 57% of ILS transactions in 2014. However, the island is facing increasing competition, both from more established offshore jurisdictions such as Cayman Islands, Guernsey and Dublin, as well as from newcomers such as Malta, Gibraltar, Puerto Rico for the creation, listing and servicing of ILS vehicles. How long will Bermuda be able to maintain its current dominance and what do you see as the main factors in Bermuda's favour?

Competition is increasing in this space. But we see this as healthy for Bermuda. This island has become the accepted model for reinsurance start-ups, as well as being the world's third-largest reinsurance market.

The aspiration is to do the same for the ILS sector. We want to blend the new capacity with the traditional in a manner that protects the overall integrity of the reinsurance product. Bermuda is doing this by ensuring our infrastructures are strong and sound, and that our regulatory standards are fit for purpose.

I would not like to speculate on what other jurisdictions are doing or going to do. But in Bermuda, we provide specialty insurance to a global audience and we have critical mass in a variety of areas that support the ILS industry.

The level of expertise and the available talent pool here is second to none. This has given us a head start. That said, we are not complacent and will continue to look at our offering to see that we are best in class and will continue to adapt and change to the needs of the market. ■

SPECIAL REPORT/INDEX-LINKED SECURITIES

Is Europe set for ILS growth?

Clive James of insurance captive manager Kane, and Mark Helyar of law firm Bedell Christin discuss whether there is room for European domiciles to gain a stronger foothold in the ILS market

Given the strong standing of Bermuda and Cayman, can Europe become a more prominent ILS location?

Clive James: Bermuda and Cayman have clearly established lead positions in the ILS market. They each demonstrate a strong track record in the structuring and management of ILS-related structures, offer an ILS-focused regulatory environment, and provide strong levels of market expertise. However, that does not mean there is not room for European domiciles to secure a much more prominent ILS foothold.

Dublin has already established a presence in the ILS sector, while Malta offers the potential to facilitate such transactions. Gibraltar has also recently entered the market with the recent publication of its ILS-related guidelines. However, the domicile in my view which currently offers the greatest potential for growth is Guernsey.

Mark Helyar: Guernsey continues to establish a strong presence in the ILS sector. Recent statistics from the Guernsey Financial Services Commission demonstrate the majority of new licensees over the past 12 months have been ILS-related structures, ranging from Sukuk-style collateralised vehicles to longevity transformers, and numerous collateralised reinsurance structures.

Are the domicile's ILS foundations sufficiently sturdy to support the growth of the sector?

James: For an ILS sector to thrive, not only must the regulators demonstrate a willingness to help the industry develop into an established component of the business environment, but also a willingness to provide a framework which encourages that development. In Guernsey, the regulators fully understand the nuances of the ILS market and have sought to create an environment conducive to ILS transactions.

Helyar: There is much technical ILS expertise in Guernsey, including insurance managers highly experienced in establishing a broad spectrum of ILS structures on a global basis. The domicile also benefits greatly from being able to offer tried and tested protected cell company (PCC) and incorporated cell company (ICC) legislation to facilitate such transactions.

These cell vehicles not only offer reduced transactional costs but also, given the level of familiarity with such structures, ensure the highest level of execution certainty. We also have a substantial investment fund market, with £219bn ($323bn) under management, which enables us to bring these two sectors together seamlessly. More importantly, we have a proven track record of innovation.

James: In my view, what will help boost the ILS standing of Guernsey is a 'test case' that puts these structures under the spotlight. Bermuda and Cayman have seen numerous such cases covering areas such as event triggers and whether a loss was a single or multiple events. A test case would provide an opportunity to demonstrate the robustness of the framework and the ability to manage challenging situations.

Looking at the growth of the European ILS sector, where do the opportunities lie for further expansion?

Helyar: There are many opportunities for developing the European risk transfer market. In recent months, we have looked at hybrid captives, where part of a share class is issued to third parties to enable them to invest in a company's risk management directly, also in new vehicles for value-in-life securitisation. We believe our skills in structuring for the investment market will enable us to bring better permanent capital vehicles to market that suit both reinsurers and long-term investors much better.

We know of some concern in the market, not only about naïve capital but about ILS being purchased by UCITS and other liquid vehicles, for which they are not best suited. Despite concerns about falling rates, there remains heavy demand for ILS investment and Guernsey is winning much new business from established jurisdictions.

James: To date, many of the European-related ILS transactions have focused on natural perils such as windstorm, earthquake and flood-related risks. Moving forward, however, not only will we see further growth in this space, but also expanding into other risk areas, such as the longevity market.

This market offers significant potential, as it is actuarially-based rather than modelled, therefore providing hard data upon which to make any ILS decisions. I would also say there is a better understanding of the nature of longevity swaps in Europe than in other regions, due to the strength of the marketplace.

Helyar: Longevity is certainly fast becoming the latest good news story for Guernsey. BT conducted the largest ever longevity transfer (£16bn) through its new Guernsey transformer vehicle in 2014 and Towers Watson has created its own Guernsey-based platform.

We have also recently created a similar standalone structure together with PwC and Artex. These are significant names in global financial services that are investing significant long-term business into the island, such that Guernsey has already become the "go to" solution provider for this business. We understand there is competitive pricing in the market for longevity risk and there is also potential to securitise these cells and introduce third-party investment, allowing for new types of ILS.

Do you think we will see the corporate arena establishing a stronger position within the European ILS market?

James: We would certainly expect the corporate market to play a more prominent role moving forward. We are already seeing ILS interest from the sector, but at a slightly lower level, with smaller trades.

There is particular interest from organisations that already have a captive in place and understand the benefits of the alternative markets. Where the reinsurance sector is not able to deliver the solution, ILS provides another possible route. If we can achieve sufficient levels of cost-effectiveness and process efficiency at the smaller end of the market, I fully believe the corporate arena can prove fertile ground.

Helyar: We can see from statistics that this business is growing at the fastest pace of any financial sector at present. Guernsey, as the leading offshore European provider, has also recently received an outstanding sovereign credit rating of AA+ and has no net debt, unlike many of its major offshore competitors currently on negative watch.

Our rating has only been this low because we are pegged to sterling, or would otherwise be triple-A. Rated companies and reinsurers are reliant on good sovereign ratings to underpin their own credit ratings and, as we have seen recently with Sagecor having to leave Barbados because of a sovereign downgrade, Guernsey represents a very solid strategic bet for rated reinsurers. ■

Clive Kane James is group chief operating officer at Kane, and Mark Helyar, is a partner at Bedell Cristin Guernsey

Collate

Collateralised reinsurance has overtaken cat bonds as the dominant source of ILS capacity and it is here to stay

Dominic Wheatley
Guernsey Finance

The attraction of reinsurance as an asset class has transformed the industry over the past five years. In the low interest rate environment, property catastrophe insurance business has offered stable returns that are uncorrelated to the wider financial markets.

As a result, a growing number of investors – including pension funds, high net worth individuals and sovereign wealth funds – have begun to allocate small percentages of their substantial assets to insurance risk, mostly catastrophe risk.

An estimated 15% of total reinsurance capacity is now third-party capital, a figure that is in excess of 20% for the US market.

This so-called 'new money' is here to stay, according to Fitch Ratings, which warns that "the growth of alternative capital represents a structural change to which reinsurers will be forced to adapt".

Much of the new capital is being deployed into collateralised reinsurance. Unlike the 'promise to pay' traditional reinsurance market, here the risk underwritten is fully collateralised by institutional investors.

Sources of collateralised capacity include insurance linked securities (ILS) funds, hedge fund reinsurance companies and reinsurance sidecars. 2013 was the first time collateralised reinsurance overtook catastrophe (cat) bonds as the dominant source of ILS capacity.

Among its attractions are that it offers investors the ability to diver-

ralised Re takes centre stage

sify their exposures away from the peak US catastrophe zones – Florida wind, in particular – that dominate the cat bond market.

Collateralised markets use transformer vehicles, for example segregated accounts in a protected cell company (PCC) or incorporated cell company (ICC), that are usually not rated by the rating agencies - one reason why collateral is placed in advance. However, they are quicker, easier and more cost-effective than a standalone special purpose vehicle (SPV).

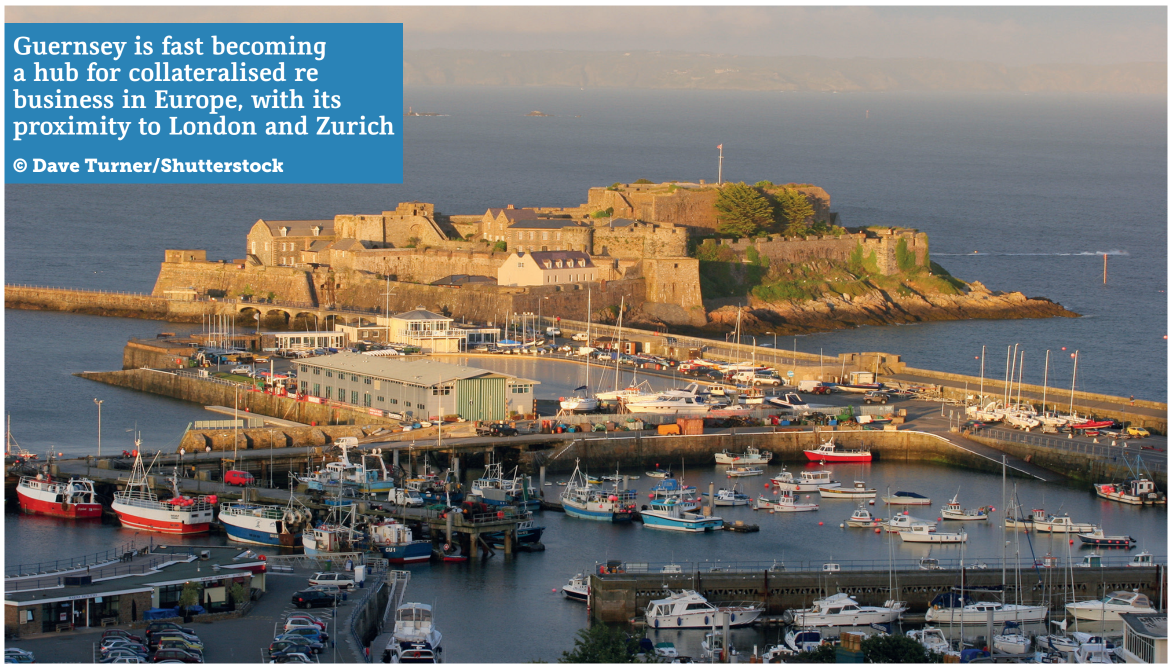
Expanding universe

While initially only the larger reinsurance buyers dipped their toes into the alternative market, the accessibility of collateralised re has seen this universe of buyers expand considerably, particularly as prices have come down.

In contrast to other forms of ILS, particularly cat bonds, cedants do not need a critical mass to access risk transfer in the form of collateralised reinsurance cover.

There are also no additional costs incurred in accessing collateralised capacity in comparison to traditional reinsurance purchases. The product is essentially the same as traditional reinsurance and from an execution perspective, is much easier to conclude than a full-blown catastrophe bond.

For many cedants, particularly those with catastrophe exposures, a mix of rated capacity and collateralised capacity is ideal, as it offers diversification in claims-paying capacity.



Guernsey is fast becoming a hub for collateralised re business in Europe, with its proximity to London and Zurich
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A growing number of collateralised capacity providers cater to the smaller insurance companies and mutuals that do not typically buy from the big ILS funds and also lack the scale to bring a cat bond to market. Reinsurance brokers are also increasingly offering both forms of cover at renewal dates.

There is also the argument that buying collateralised reinsurance reduces counterparty credit risk. Having funding sitting in a trust account can be very heartening and secure for a buyer at a time when a traditional counterparty could lose its 'A' rating.

Indeed, the impact of the new money on reinsurance rates on line is inevitably being felt. The influx of third-party capital and growth of alternative capacity has exerted downward pressure on pricing. While a challenge for reinsurance companies, softening rates are undeniably good news for cedants.

It is perhaps unsurprising that collateralised re has found a natural home in Bermuda, Cayman and Guernsey, domiciles that have well-established insurance markets. The existence of re/insurance expertise, investment funds, fund managers, brokers, captive managers and service providers has seen the alternative risk transfer market flourish in these centres.

While Bermuda and Cayman are ideally placed for capacity focused on US catastrophe perils, Guernsey is fast becoming a hub for collateralised re business in Europe, with its proximity to London and Zurich. This is reflected in the latest insurance registration figures, which show that 85 new international insurers were registered in Guernsey in the year to the end of December 2014.

PCCs and ICCs are leading the charge, many of them utilised by ILS specialists or reinsurers looking to transact reinsurance contracts on a fully-collateralised basis. Lloyd's re/insurer Barbican is one example. In September 2013, it launched a specialty reinsurer on the island to focus on business that could not be underwritten in the Lloyd's market.

It is worth noting that in Guernsey, collateralised re activities have not been restricted to property catastrophe risk. There are approximately 100 protected cells across four different PCC platforms writing fully collateralised reinsurance business to indemnify marine, crop, life and property catastrophe risks.

Protected cells have been used for writing collateralised re for around a decade and are still the vehicle of choice. That's testament to the robustness and efficiency of these structures.

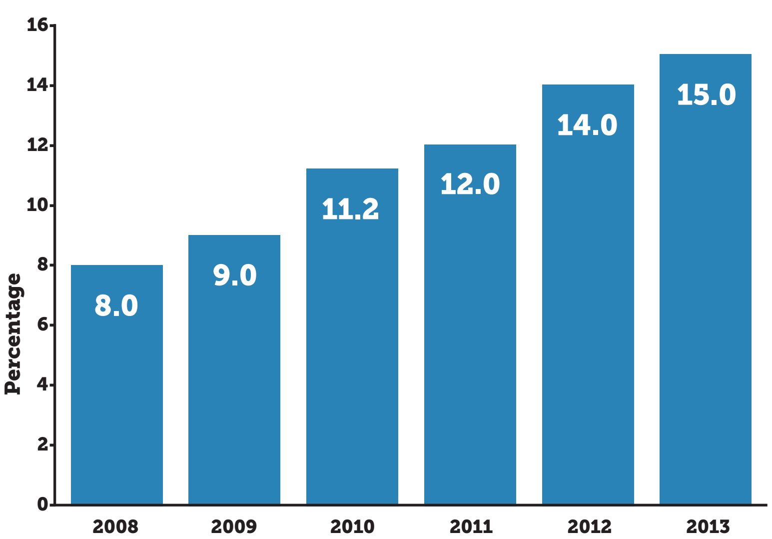
ICCs are now also being set up to conclude collateralised re but that tends to be dedicated platforms set up by a particular ILS fund, rather than an open market move towards incorporated cells as the structure of choice.

In Guernsey, the pre-authorisation of protected cells conducting collateralised business has improved timescales for investors looking to deploy capacity. Guernsey's regime is now being enhanced further by the imminent publication of specific guidance notes on the use of transformer vehicles for insurance and reinsurance business.

This is just the latest development in Guernsey that demonstrates the island's forward-thinking approach to providing an attractive domicile to ILS and, in particular, the fast-growing collateralised re sector. ■

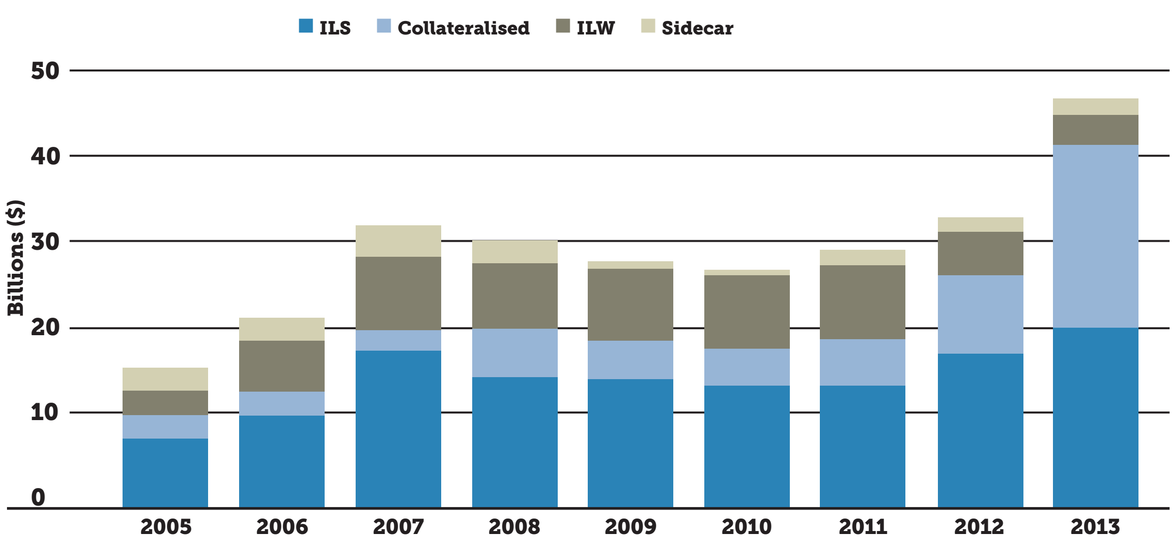
Dominic Wheatley is chief executive of Guernsey Finance

Graph 1: Global reinsurance – third-party capital as percentage of total reinsurance



Source: Guy Carpenter, AM Best research

Graph 2: Growth of ILS capacity



Source: Aon Benfield

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In 2011, some police forces and politicians would not acknowledge the events were a riot, making it a very difficult for victims to establish a valid claim, says Biba

Warnings over conflicts and compensations limits in draft riot bill

Biba blasts 'conflict of interest' in draft bill, while insurers face exposure from limits to compensation

Michael Faulkner
Editor

Lawyers and industry bodies have expressed concerns over government proposals to limit compensation in riot claims.

There were also warnings that allowing the police to determine whether an incident was a riot was a "conflict of interest" .

The Home Office published a draft Riot Compensation Bill last week in order to modernise the way in which businesses and individuals can claim compensation for losses caused by riots.

The draft bill, which will replace the "outdated" Riot (Damages) Act, which was written in 1886, ensures that it remains the responsibility of the police to provide compensation for riot damage, rather than leaving businesses and their insurers to cover the cost.

The British Insurance Brokers' Association (Biba) said it was "dismayed" that the Police and Crime Commissioners (PCCs) would retain the power to decide whether an incident is a riot, arguing this was "a fundamental conflict of interest".

The trade body argued the decision should rest with a separate panel of independent officials, given the problems experienced in 2011, where some police forces and politicians would not acknowledge the events were a riot, making it a very difficult for victims to establish a valid claim.

Graeme Trudgill, Biba's executive director, said: "It should be down to an independent body to decide if the claim was caused by a riot, not the Police and Crime Commissioners. This is fundamentally a conflict of interest.

"If the police cannot maintain the peace, then they should be liable to those victims who will rely on the compensation to get their businesses back up and running. This proposal from the Home Office is not in the interests of the victims, it is in the interests of the relevant police authority."

Concerns were also raised that businesses and insurers could be left exposed by the introduction of a compensation cap and the fact compensation for consequential losses would not be paid.

The proposals limit the amount of damages a claimant can claim from the police authorities in the event of riot to £1m ($1.47m).

Catherine Percy, partner at City law firm, RPC, which acted for insurers following the UK riots in 2011, said: "The new draft bill scraps a proposal to limit claimants to businesses with a turnover of less than £2m, a change which will be warmly welcomed. However, those with riot claims in excess of £1m will not now receive compensation over this sum.

> **"It should be down to an independent body to decide if the claim was caused by a riot, not the Police and Crime Commissioners. This is fundamentally a conflict of interest."**
>
> **Graeme Trudgill**
> **Executive director, Biba**

"The fact that claims for consequential loss will not be covered and will be expressly excluded may potentially leave businesses and their insurers without redress, if riots occur on the same level as the riots in August 2011," she added.

Biba welcomed the cap on claims not being connected to the turnover of a business as originally suggested. But it said the £1m cap may not be sufficient for mid-sized and larger businesses and could result in challenges for some businesses seeking higher insurance limits.

The trade body said it was also concerned that claims will be decided upon on a case-by-case basis, rather than riot areas being established, that motor vehicle compensation will be extremely limited and that consequential loss will not be recoverable

Mike Hallam, Biba's head of technical services, said: "Victims should be eligible to recover all costs to repair damage, including any excesses, as riot claims are clearly not their fault or within their control."

The draft Bill follows public consultation and, previously, an independent review of the Riot (Damages) Act by Neil Kinghan, who was commissioned by the government to assess whether the act was fit for purpose after London and other major cities were affected by serious public disorder in the summer of 2011.

Policing Minister Mike Penning said: "The draft Riot Compensation Bill will replace an act that is no longer fit for the 21st century with a system that is practical, flexible and will meet the needs of any future compensation claims."