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CONTENTS — PAGE NOS.

NEWS AT JBB

GREETINGS OF THE SEASON !!!

Diwali Night was organised for our colleagues and we all had a whimsical night. The participation was overwhelming from all the strata of the organisation. We could find the hidden treasures of talent within JBB and their performance made the party a splendid one.

Everyone attending the party enjoyed and had a good head-start for the Diwali celebration. We are sure all our readers had a good time as well during this auspicious time.

HAPPY DIWALI TO ALL… and thanks to all our colleagues to make this event a grand SUCCESS!!!

Some of the live moments to share…

ON "WRITE" SIDE

In depth: Reinsurance reaches crunch time as challenges mount (Part II)

It is not all gloom for reinsurers, though. In terms of capital, they are at or close to an all-time high of $585bn at the end of June on Aon Benfield's figures. Even significant cat losses are likely to cause serious damage to profitability rather than solvency or financial solidity.

Alternative capital

Convergence capital continues to exert a significant impact on the market but the new money has not had it all its own way. Hedge fund-backed reinsurers Greenlight Capital Re and Third Point Re have had a miserable 12 months and this new model of operation, which looked so strong not that long ago, now appears to be in trouble, to the extent that S&P titled a recent report "Hedge fund reinsurers: dead or alive?".

Set against the arrival of Fidelis, ABR Re, Aligned Re and Harrington Re into this corner of the market are the departures last year of AQR Re and Pac Re, while XL and fund manager Oaktree have decided not to pursue the plan to form another new player, Alloy Re.

Although the recent entrants have racked up above-average premium growth their underwriting and investing performance has not been as impressive. On the underwriting side, loss and acquisition expense ratios have both been too high, S&P said. The reinsurers have typically targeted low-margin, low-severity reinsurance but the experience has been poor.

And on the investment side, their riskier alternative strategies have proved unsuccessful over the past two years, leading to a negative RoE of 3.5% last year, according to S&P. And if interest rates start to rise, traditional insurers will become more price competitive in the low-margin, low-volatility lines of business than they are at the moment, putting the hedge fund reinsurance model under further – perhaps terminal – pressure, the rating agency said.

For buyers, the temptation is to view the changes the reinsurance market has undergone as representation of a permanent shift that means cheap cover will be the norm for the future. Even if a mega-catastrophe hits, convergence will still be keen to provide capacity at low prices. This suggests the traditional reinsurance model has disappeared forever.

An alternative view is the changes are cyclical rather than fundamental and a combination of circumstances could coincide to trigger another, conventional hard market. A recent JLT Re viewpoint publication argued three indicators suggested a hard market was not unthinkable: moderation of reserve redundancies moving to deficiencies; a slowdown in the infusion of new third-party capital; and shortfalls on the investment side forcing companies to react.

For JLT Re, this is the time insurers should maximise their reinsurance use. Price reductions have made reinsurance a more efficient form of contingent capital than debt, equity or an insurer’s own capital, the broker said. Increased reinsurance spend can minimise volatility and protect insureds’ balance sheets under extreme scenarios that take in major natural catastrophe or manmade loss, macroeconomic shock leading to inflation or combinations of events.

Looking for likely winners and losers over the next few years, most observers expect the larger, more diversified reinsurers to outperform the rest of the market, generating a higher rate of growth and delivering stronger results. In a recent note, Fitch underlined the success of the larger players. “At group level, earnings for the four [continental European] reinsurers have shown less volatility versus smaller, less diversified reinsurers in years with high catastrophe losses,” the rating agency said.

The arrival of alternative capital has brought benefits as well as challenges to the traditional market. Many companies have chosen to work with the new capital and also used it to make the most of the capacity available for property cat risk. One clear sign of this trend is the increase in retrocession costs several companies have disclosed this year.

In its most recent analysis of the reinsurance market, issued last week, Aon Benfield said formation of sidecars, sponsorship of cat bonds and increased retro had all benefited reinsurers. The lower cat risk-transfer cost “has reduced the cost of their underwriting capital and allowed them to grow positions with key clients, while reducing many peak zone probable maximum losses relative to capital held”, the broker said. And reinsurers are gaining fee revenue from underwriting on behalf of new ventures backed by alternative capital.

Scor unveils Vision in Action

On announcing its new three-year plan, called Vision in Action, last week, Scor typified the confidence of the established reinsurers. The French reinsurance group is targeting a return on equity of at least 800 basis points over the five-year risk-free rate. For non-life business, it expects a combined ratio in the range of 95% to 98% and annual premium growth of 3% to 8%. For life, growth should be 5% to 6% over the period, while the targeted technical margin is 6.8% to 7% a year.

To Scor's way of thinking, long-term prospects are good for reinsurance for various reasons:

The risk universe is expanding rapidly;

Aversion to risk is rising;

Closing the huge protection gap will produce new business;

Reinsurance is less exposed than other industries to technological disruption;

The market will benefit when the macroeconomic position stabilises;

Potential for innovation in reinsurance is strong; and

The leading reinsurers have a proven track record of resilience to extreme events.

Table: Global reinsurance underwriting, first six months ($m)

	Net written premium 2015	Net written premium 2016	Combined ratio 2015 (%)	Combined ratio 2016 (%)	Underwriting result 2015	Underwriting result 2016	Net result 2015	Net result 2016
Advent	85	80	99.9	102.6	177	108	–	–
Alleghany Corp	2,237	2,657	88.4	92.4	–	–	¶389	¶396
Alleghany – reinsurance	1,659	2,067	88.6	94.4	242	187	308	232
Allianz – non–life reinsurance	†2,243	†2,790	–	–	62	67	–	–
Allied World Assurance Company	1,376	1,282	94	94.3	142	131	–	–
Allied World – reinsurance	595	509	85.4	81.5	73	69	134	228
Arch Capital	2,011	2,145	89.2	90.2	6	1	6	2
Arch – reinsurance	601	613	75.1	75.9	222	223	388	355
Argo Group	708	691	94.5	94.8	124	71	–	–
Arig	†117	†90	90.2	87.2	68	70	87	59
Aspen Insurance Holdings	1,408	1,525	91.2	96.2	*25	*9	9	2
Aspen – reinsurance	680	756	76	87.8	105	51	177	179
Atrium	–	8	76.3	97.3	148	103	–	–
Axis Capital	2,402	2,693	95.3	97.2	48	105	–	
Axis – reinsurance	1,431	1,693	85.5	89.3	158	109	219	158
Beazley	879	930	86	90	*11	*7	11	7
Berkshire Hathaway Re Group	†3,425	†3,895	–	–	*217	*206	133	129
Blue Capital	†20	†22	43.8	67.8	5	14	§(36)	§210
Brit¤¤¤	151	758	95.9	98	63	16	¶91	¶39
Chaucer – total	515	449	89.6	96.3	136	83	§291	§218
Chubb	8,860	13,634	88	90.6	138	149	–	–
Chubb – reinsurance	534	431	69.5	78.5	880	1,221	1623	1165
EMC Insurance Companies	†283	†289	96.6	100.3	383	271	–	–
EMC – reinsurance	66	62	87.6	90.7	*15	*6	29	21
Endurance Specialty Holdings	1,324	1,657	84.1	85.5	8	6	§16	§6
Endurance – reinsurance	830	1,046	73.8	77.9	164	189	193	212
Everest Re Group	2,360	2,336	85.5	90.7	211	161	40	188
Everest – reinsurance	1,756	1,628	¶¶74.6	¶¶75.0	370	235	532	327
Fairfax	3,586	4,169	91.6	94.5	16	-54	¶61	¶(19)
Farmers Re	‡1,126	‡759	98.6	107.1	60	44	–	–
General Re	†2,992	†2,779	–	–	*8	*(4)	17	2
Global Indemnity	272	242	96.9	101.7	13	-21	-64	-34
Greenlight Cap Re	219	253	107	107.8	-45	-3	593	539
Hannover Re	8,456	8,236	95.4	95.4	81	81	176	80
Hanover	2,509	2,366	96.4	96.2	–	–	§33	§49
Hiscox London Market	327	287	90.6	85.3	–	–	§94	§72

Hiscox Re	268	192	45.5	56	*420	443	204	262
Hiscox group	1,353	1,178	82.5	80.7	74	59	93	60
Lancashire	284	279	75.1	76.2	-9	-12	–	–
Maiden Holdings	1,427	1,443	98.7	98.7	–	–	80	100
Maiden – diversified reinsurance	439	448	102.3	103.2	28	29	65	77
Mapfre – reinsurance	2,271	2,519	95	96.8	24	67	24	67
Markel Corp	2,070	2,233	90	90	**1,596	**1,347	1,684	1,592
Markel reinsurance	532	629	94	84	198	183	282	239
Munich Re Group	27,539	26,186	–	–	44	16	26	75
Munich Re – reinsurance†††	15,016	14,375	92.8	94.3	1,985	1,633	2,075	1,555
Novae	557	470	89.8	96.1	129	74	§(145)	§195
OdysseyRe group	1,117	1,115	88.6	92.5	*3	*2	4	2
Oxbridge	†3	†5	26.5	66.6	167	-136	129	338
PartnerRe	2,976	2,755	86.7	101.7	–	–	§ (1)	§2
Polish Re	75	44	99.2	95.1	–	–	13	24
QBE Insurance Group	6,208	6,530	95.3	99	¤218	¤165	–	–
QBE – reinsurance	†378	†364	83	96.7	295	54	488	265
Qatar Re	†82	†164	97.7	95.8	–	–	§82	§30
RGA	4,153	4,504	–	–	159	231	338	121
RSA	4,729	4,081	96.4	94.3	**610	**556	365	305
RenaissanceRe Holdings	913	1,032	66.7	76.1	–	–	256	313
RenaissanceRe – reinsurance	¤737	¤836	§§43.2	§§46.2	225	169	241	264
Scor	6,497	6,799	90.9	93.8	16	-13	40	59
Sirius America	138	154	88.9	107.3	*53	*65	–	20
SolarStone	306	333	100.5	99	–	–	–	–
Swiss Re Group	16,499	18,681	88.9	98	21	-10	35	9
Swiss Re – reinsurance	††13,358	††14,712	88.3	97.2	*1,128	*(694)	2,260	1,866
Third Point Re	396	393	105.1	111.9	212	227	168	164
Toa Re America	182	196	88.9	104.3	-13	-32	66	2
Validus Holdings	1,599	1,733	78	82.5	–	–	33	27
Validus – Validus Re plus AlphaCat	1,037	1,143	¤¤70.7	¤¤69.4	254	202	239	262
WR Berkley Corp	3,119	3,306	94	94.2	256	160	–	–
WR Berkley – reinsurance	293	346	95.9	99.7	–	–	241	229
XL Group	3,937	5,784	89.5	94.3				
XL – reinsurance	1,446	2,500	74.6	89.9	356	277		

* net earned premium less claims and underwriting expenses
** technical result
***gross
† net earned
†† gross earned
†††net earned premium sum of life and non–life reinsurance (excludes Munich Health)
‡ gross written
‡‡ loss ratio
§ pre-tax result
§§ catastrophe reinsurance combined ratio shown. Specialty reinsurance 82.5% for 2015 period and 94.8% for 2016
¶ operating result
¶¶ US reinsurance division
¤ sum of catastrophe and specialty reinsurance divisions only
¤¤ Validus Re shown. AlphaCat 5.1% for 2014 period and 19.9% for 2015

¤¤¤2015 period June 5 to June 30, 2015 only

Currency conversion €1 = $1.1153 for 2015 and $1.1077 for 2016

£ = $ 1.5725 for 2015 and $1.3253 for 2016

Source: company filings/Insurance Day

… Concluded

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