Growth capital from growing reinsurer capital

Reinsurance buyers are benefiting as reinsurers move to incorporate alternative capital into their businesses, according to Bryon Ehrhart, CEO of Aon Benfield Americas.

How are reinsurers using the alternative capital to increase their value proposition to clients?

Reinsurers are accessing the alternative capital in order to lower their cost of underwriting capital, and the lower cost of reinsurer capital is, in large part, being passed on to our clients. This means that the cost of transferring catastrophe risk has decreased materially for cedants. Alternative capital has caused reinsurers to be more open-minded on difficult risks generally, in both property and casualty.

For 20 years we have led the development of insurance risk-focused alternative capital. It has been an important option for our clients, and in the past 36 months reinsurers have begun repositioning themselves to incorporate the value of alternative capital in their offerings. Clients very much value the traditional reinsurance relationship, and traditional reinsurers incorporating alternative capital will help to sustain these relationships.

What's next for this capital?

Many reinsurers have begun the relationship with alternative investors, certainly in the property catastrophe space, but there are sidecars that aren't just in this space. You can see the evolution in the relationship between investors and reinsurers, or investors and insurers, where they continue to focus on areas that are not correlated with interest rate risk, credit risk, or equity risk, and the insurance industry has many non-correlating risks that will be very interesting to investors over time. We believe we will see other lines incorporating alternative capital into underwriting capital.

What impact will the additional capital have on renewals?

It's a continuation of the trends that we've seen, where the cost of underwriting capital for our clients has reduced dramatically. Reinsurers have always had the challenge of providing underwriting capital, terms and conditions, and prices that are competitive with our clients' own cost of equity capital. Reinsurers have proved that value over many years, but today reinsurance capital is now commonly available at a third or a half of the cost of equity to our clients, so it's a highly accretive form of underwriting capital.

Bryon Ehrhart

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How are reinsurers helping your clients to solve their problems?

Reinsurers are more open-minded than ever to considering catastrophe and other difficult underwriting risks that our clients face, and this open-mindedness has led to innovation in terms of opening the minds of our clients to writing more business in places where they've been geographically restricted because of the catastrophic risk. Reinsurers help our clients increase underwriting capacity at the street level to write larger limits than they would otherwise be able to write for emerging classes of risk.

In terms of Aon Benfield, we've demonstrated leadership in areas other than just property cat globally—such as credit and agriculture—over the past year or two, and we're very proud of what we've achieved. We've helped our clients to grow in these areas and we have grown with our clients along the way.

What will be Aon Benfield Americas' focus over the next 12 months?

The theme of our reports this year has been growth capital from growing reinsurance capital and almost every client that we serve has ambitions to grow. Reinsurance is now at generational lows in price, so we will continue to help our clients with their growth and profits strategies and, where appropriate, incorporate reinsurance and alternative capital to help clients reach their goals.

In some cases this will be thinking differently about opening up areas of business that have been previously restricted—thinking about areas where frequency and severity combinations are not as well understood as their current lines of business. With reinsurance partners they can realise growth from those areas.

We can help that process for every line of business we serve. We have a growth strategy that's based on our clients' needs, and reinsurance capital is a significant feature in many of them. ■

Bryon Ehrhart is CEO of Aon Benfield Americas. He can be contacted at: bryon.ehrhart@aonbenfield.com

Legislative environment still a minefield for US insurers

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Sampson explained that PCI is working hard with State legislatures to ensure that the personal and financial safety of consumers, passengers, and drivers are protected in their interactions with transportation network companies (TNC)—companies such as Uber and Lyft.

On September 17, 2014, California passed a TNC bill that will protect the public by establishing reasonable insurance requirements for the TNCs and their drivers and creates a firewall that protects personal auto insurance policyholders from subsidising commercial activities.

"PCI worked very hard on this bill and we hope it will become a model law for other States," he said.

Sampson went on to speak of what he described as "the most important priority in 2014"—securing the reauthorisation of the Terrorism Risk Insurance Act (TRIA) before its expiry on December, 31, 2014. He said that PCI has played an important role in creating overwhelming bipartisan consensus for reauthorising TRIA, and spoke of the progress gained so far.

"In July the Senate voted 93–4 to reauthorise TRIA for seven years, which is miraculous considering the gridlock, and the House Financial Services Committee passed a version, which is another important step. This is a top priority for Congress coming back for the lame duck session," he said.

"PCI also continues to push back against the global regulatory convergence of insurance regulation that will not benefit consumers and fundamentally undermine the US State-based regulatory system."

Speaking specifically of the challenges facing reinsurers in the US, Sampson said that the alternative capital continues to increase competition and the low interest rate investment yield volatility continues to cause pressure, with profits having to come from the underwriting side.

He also said that political and terrorism risk is growing.

Speaking of trends for US reinsurers, he said: "Overall the reinsurance capacity is growing and loss experience is improving. In 2013 the combined ratio for global reinsurers was 89.6 percent, the best since 2009. There is also gradually increasing demand for cyber insurance, which creates new opportunities in the reinsurance markets as well."

A valuable event

As the PCI Annual Meeting gets under way, Sampson said that the event is more important than ever, and continues to go from strength to strength.

"Our annual meeting brings together more than 1,000 property-casualty executives, reinsurers, and brokers and more than 40 sponsors. An important element of the PCI Annual Meeting is the opportunity for PCI members to meet with reinsurers and brokers to negotiate contracts and discuss emerging issues in one place," he said.

"In addition, the meeting provides valuable information on industry trends, challenges, and opportunities. It is a unique opportunity for attendees and sponsors to network and talk with our media partners, conduct business, and gain knowledge on the global issues facing our industry."

The event has been firmly lodged in the industry's diary since its establishment, but there are evident changes that have shaped the event into the hugely successful gathering that it is today.

"Every year, I solicit input from some of our CEOs that serve on PCI's Executive Advisory Committee for planning the programme," explains Sampson.

"We take the time to plan a very thoughtful and informative meeting with keynote speakers who each bring a unique, informed perspective of leadership in our current environment. We also design panel sessions to address our members' most pressing concerns and what we believe will provide the greatest benefit as they position their businesses for success in a fluid regulatory and economic environment.

"Our hope is always that all of our meeting participants go home better equipped to look over the horizon and position their companies to address the challenging environment in which they operate." ■

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Munich Re US feels pressure on cat business

(Continued from bottom of page 1) casualty, specialty lines), and innovative solutions, can gain an advantage in this challenging market.

"Demand for risk transfer is becoming smarter and more challenging, and diversification and specialised risk expertise for complex tailored solutions are key," he said.

For Munich Re, this innovation and continued striving for profit has seen the reinsurer make use of its global partnerships to satisfy clients' needs.

"Munich Re is maintaining its clear, profit-oriented underwriting policy and accepts risk only with commensurate prices, terms and conditions. However, we also look at opportunities to offer innovative and tailored reinsurance solutions for clients where we combine our financial strength and significant capacity with expertise from all of our activities worldwide.

"These could be transactions offering solvency relief if the client needs capital at short notice, for example, or covers for new technologies," Levy said. ■