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DAY THREE

"Last year saw some reduction in capacity at Lloyd's – not because they had less money but because they changed their view on cat exposure in Europe"
Tor Mellbye, Länsforsäkringar

MONTE CARLO 2012 FROM GLOBAL REINSURANCE MAGAZINE

RENDEZ-VOUS

THEY SAID…

'Reinsurance is entering challenging times, because it will be difficult to get the right price from the get-go'
Hans Guenther, Endurance

'We think we can provide a good service compared with some of the smaller companies [in the USA]'
Andrew Hitchings, Cooper Gay

Lloyd's urged not to stifle innovation

The more stringent business controls at Lloyd's are to be applauded, but they should not come at the expense of innovation and entrepreneurship, says Canopius chief executive Inga Beale.

If innovation is stifled, she says, the Lloyd's market share could shrink further, giving brokers less reason to place business there.

Beale said: "The Lloyd's share of the overall global insurance market is decreasing. We rely on the brokers to bring the business into Lloyd's.

"If Lloyd's continues to shrink that makes it very difficult for us as a player within Lloyd's.

"The challenge is to bring back the innovation and the entrepreneurship that made Lloyd's successful in the first place."

Beale said that the increasing controls imposed by the Lloyd's franchise board are welcome, as Canopius wants

Beale: The challenge is to bring back innovation and entrepreneurship

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OUT AND ABOUT

Enjoying the festivites at the triple threat parties last night

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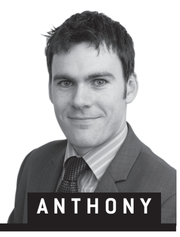
BEN


LAUREN


ALEX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Ice and art collided at last night's Rendez-Vous welcome party
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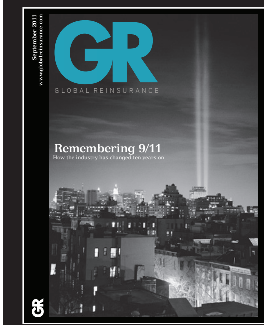

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Africa Re to bid for Tower Group

BY ALEX WRIGHT
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Africa Re is lining up a bid for Tower Group, *Global Reinsurance* understands.

New York-based Tower, which provides diversified property and casualty insurance products and services to small to mid-sized businesses, is seen as a good fit for Africa Re, which is keen to make a push into established western markets, according to sources.

Terms of the bid have not yet been disclosed.

Tower invested $75m to acquire a 10.7% stake in Canopius Group last month.

More talk than action on capital

- Plentiful traditional capacity could stifle demand
- Number of traditional reinsurers is staying constant

BY BEN DYSON
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There is more talk than action about the increasing influence of capital markets capacity on the reinsurance markets, according to Swedish insurer Länsforsäkringar's reinsurance general manager Tor Mellbye.

While capital markets capacity plays an important role, Mellbye contends that the ready availability of traditional reinsurance capacity may negate the need for additional sources for smaller programmes.

Speaking to *Global Reinsurance* yesterday, Mellbye said: "The capital markets are useful for very big programmes or when you have big need for some diversification.

"If you have big cat capacity needs it might make sense. But I think in today's market there is so much capacity and fairly low prices."

He added: "I think there is quite a lot of talk."

Mellbye noted that the number of traditional reinsurers is staying constant, with exits being offset by newcomers to the market. However, he noted that there had been some reduction in European property-catastrophe capacity in Europe.

"Last year you saw some reduction in capacity at Lloyd's – not because they had less money but because they changed their view on cat exposure in Europe," he said.

Tor Mellbye: "There's a lot of talk"

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MATCH OF THE DAY

RVS vs Canopius

Monday night bore witness to another round of parties, with yet more champagne and a multitude of fluorescent canapés. The evening kicked off with the official Rendez-Vous cocktail party at the Fairmont, which was made all the more interesting by a chef with a penchant for ice-sculpting. Lloyd's then entertained guests the Hotel de Paris, before it was the turn of Canopius to woo visitors on the roof of the Hermitage. However, even the spectacular view couldn't get the party going and numbers waned as reinsurers used the early evening to attend private dinners.

RVS: 1, CANOPIUS: 0

STATS CORNER

$302bn
LOSSES IN 2011
Overall losses for H1 2011 had already amounted to $302bn and insured losses to just under $82bn, compared to $26bn and $12bn respectively in 2012.

$18bn
SALE PRICE
The amount the US Treasury plans to sell AIG shares for.

YOU'VE BEEN PAPPED!

Let's hope the champagne had as many bubbles as Canopius's banner

Above: sealing a deal; right: is that a virgin or a bloody mary?

The award for the loudest jacket and tie combo goes to…

One more for the collection…

Your intrepid *Daily* reporters battling the crowds and the canapes

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CATASTROPHE

Events like News Zealand's earthquake cost the industry $81.7bn in H1 2011

Industry profits are up despite 2011 cat losses

- Below-average cat losses of $12b for H1 2012
- European reinsurers out-perform Bermuda

Despite suffering one of the worst years on record for catastrophe losses, reinsurers have still come out of 2011 in a strong financial position.

The industry reported below-average cat losses of $12bn in the first half of 2012, compared to last year's first-half record of $81.7bn in insured losses, primarily from the Japanese tsunami and the New Zealand earthquake.

The sector's resilience has been reflected in a small overall profit achieved by net investment income and a modest level of realised capital, which, in turn, have offset underwriting losses.

Furthermore, AM Best's special report on the top 50 global reinsurers, released this week, said unrealised capital gains resulting from falling interest rates against fixed income portfolios have stabilised reinsurers' capital levels.

But while share repurchases have proved attractive to many reinsurers, they have been on a much lower scale than in previous years.

On a regional basis, the report found that European reinsurers' capitalisation held up better than those in Bermuda, however, underwriting performance between the two was similar despite two-thirds of the 2011 cat losses occurring outside the US.

The Europeans benefited from better penetration in Asia, and a significantly bigger capital base and a greater diversification in classes.

As a result of Bermuda being predominantly a property catastrophe market, and therefore more vulnerable to losses regardless of where they happen, Bermudian firms absorbed a larger relative share of losses last year than their European counterparts.

Best's findings were echoed by Moody's, which expects the long-awaited hardening of some primary insurance lines to stabilise reinsurance rates.

Moody's also revealed that reinsurers and new capital have been pushed towards cat risk as a result of few opportunities in casualty and life reinsurance and low interest rates.

Meanwhile non-life reinsurers, according to Fitch, improved their underwriting combined ratio to 88% in the first half of 2012 from 127.5% in the first half of 2011, contributing to a 6% growth in shareholders' equity since the end of last year.

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MARKET VIEW FROM QFCA

BY AKSHAY RANDEVA, DIRECTOR, STRATEGIC DEVELOPMENT, QATAR FINANCIAL CENTRE AUTHORITY

Middle Eastern reinsurance markets – the profitability challenge

According to the 3rd GCC Reinsurance Barometer, released yesterday by the QFC Authority, most executive interviewees consider current reinsurance prices in the Gulf region to be below the long-term average. Just a third of interviewees expect a moderate increase in average Gulf reinsurance pricing levels.

Against this backdrop, reinsurers' continued urge to grow in the Middle East may come as a surprise. A close inspection reveals that selective underwriters can achieve attractive risk-adjusted returns. Even though prices may be below technical levels – a view adopted by many survey participants – they are widely believed to be adequate given low loss experience.

Also, almost 50% of survey participants expect bottom lines to improve. This upbeat assessment is primarily driven by the expected longer-term impact of tightened terms and conditions as a result of the Arab Spring and the major Asian catastrophe losses in 2011. The latter are considered another incentive for reinsurers to expand into the Middle East in light of the region's perceived limited catastrophe exposure. This continued influx of capacity will limit the scope for price increases.

In summary, opportunistic reinsurers will not turn a quick buck in the Middle East, whereas those who underwrite selectively and take the time to understand the marketplace have more chance of being decently rewarded.

'Perhaps it is time to lay Solvency II to rest'

BEN DYSON

Solvency II has become ludicrous. There, I've said it. I'm not suggesting it is a bad idea. Basing the amount of capital you hold on the risk you take is essential in this business.

Nor am I saying that the status quo should remain. Solvency I desperately needs updating. Determining capital levels by premium income is next to useless.

However, the execution has been appalling. Not by the companies who have jumped through all the hoops they were asked to and diligently submitted their internal models for approval where applicable.

But by those responsible for drafting the legislation. What was a sound principle has been distorted by bureaucracy, politics and, frankly, a lack of knowledge about how the industry works. It has been so long in the making that it risks becoming outdated before it is released.

Does the industry really need Solvency II? Solvency I might be inadequate because it is not risk-based, but which chief exec or finance officer worth their salt in this industry hold themselves to that standard? Many companies' capital bases are many times in excess of Solvency I requirements, and most use either their own risk-based capital models or those provided by third parties.

And some regulators, such as the UK's, already have risk-based capital requirements. Never mind the rating agencies, who have considerable influence over capital levels and also take a risk-based approach.

Those who have spent millions of dollars preparing for Solvency II might not like to hear it, but perhaps it is time to lay Solvency II to rest.

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Cooper Gay plans to grow US treaty team

- Firm hiring more staff for non-marine side
- Group seeking China trading licence

BY BEN DYSON
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Cooper Gay is looking to hire more people for its US treaty reinsurance operation to capitalise on opportunities from the acquisition of US wholesale broker Swett & Crawford in 2010.

The company poached Tom McGrath from Towers Watson last November and named him executive vice-president of its treaty reinsurance business in the USA. And in March this year it hired Joe Vaughan as assistant vice-president of US treaty reinsurance. It is now looking to expand the division further.

Cooper Gay's reinsurance chief executive Andrew Hitchings told *Global Reinsurance* at the Monte Carlo Rendez-Vous yesterday: "They are both mariners traditionally. We are looking to match that at least on the non-marine side."

He added: "We need more on the reinsurance side in the USA."

The combined group now handles a lot of US wholesale business, thanks to the acquisition of Swett & Crawford. Hitchings contends there is a good opportunity for Cooper Gay to sell reinsurance to Sweet & Crawford's wholesale clients. He also believes that there is room in the US reinsurance broking market for Cooper Gay.

He said: "We firmly believe there is space for a broker such as us to come in. We know the big three have huge market share. We are not looking to compete on the same playing field. We think we can provide a good service compared with some of the smaller companies out there and we will be investing to do that."

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Hitchings: "We need more on the reinsurance side in the USA"

The Cooper Gay Swett & Crawford Group as a whole is also looking to build on its presence in Asia.

The group is also working on obtaining an operating licence in China. The company has a branch office there.

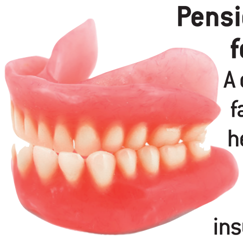
BELIEVE IT OR NOT

NUTS
Insurer turns down mental anguish claim

A British woman returning from a holiday abroad made an (unsuccessful) insurance claim after UK border control confiscated two coconuts she had returned with. She claimed for "mental anguish".

MONSTROUS
Whisky firm takes out cover over Nessie contest

Whisky company Cutty Sark decided to offer a $1.5 million prize to anyone who could capture the Loch Ness monster alive, but sneakily took out insurance to avoid ever having to pay out.



MAN OVERBOARD
Pensioner tries to claim for lost false teeth

A crafty pensioner whose false teeth fell out when he vomited over the side of a cruise ship put in a claim to his travel insurers for new dentures under 'lost baggage'.

Don't stifle us, LLoyd's urged

continued from page one

to work in a well-controlled market. But she added that it is essential to get the right balance. "If we are stifled by too many controls, checks and balances, we are not able to show our innovative flair and be entrepreneurial."

Beale stopped short of saying the current level of controls at Lloyd's is excessive. She added: "We want to remain firmly as a Lloyd's business."

Beale: Acquisitions

Canopius is now a top-10 player in Lloyd's, having completed its acquisition of fellow Lloyd's (re)insurer Omega on 21 August. The company aims to pare back some of the business underwritten at Omega that does not fit its underwriting criteria, but the combined entity will command £1bn of premium.

The deal will augment Canopius's US binding authority and property treaty business, and will give the company a presence in the USA it did not previously have through Omega's MGA-focused operation in Schaumberg, Illinois. The business is about to be renamed Canopius US.

The acquisition will also give Canopius a presence in US professional indemnity.

Beale indicated that Canopius is still on the lookout for further purchases.

She said: "There will be future activity so watch this space. We obviously have to digest the Omega acquisition and we're hoping to get that done this year, so that we're ready and everything is ready for the 2013 year of account."

Beale added that the 10.7% stake Tower Group has taken in Canopius as part of the Omega transaction "may lead to further things in the future".

"We are about growing and looking for new ideas and we know how difficult organic growth is, so there is likely to be acquisition ahead," Beale said.

Solvency II will lead to restructures

BY ALEX WRIGHT
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(Re)insurers will exit capital intensive and uneconomical business lines as a result of Solvency II.

Those were the findings of a panel discussion on Solvency II at Monte Carlo today hosted by PwC and chaired by PwC's global actuarial leader Bryan Joseph.

The panel concluded that a focus on core business and a need to finalise discontinued operations was expected to lead to significant restructuring as Solvency II became embedded in company operations.

Jospeh said: "As a result of Solvency II, we expect the increase in 'business rationalisation' will be noticeable. Activities such as mergers and acquisitions, insurance business transfers and managed exits, including schemes of arrangement, are all likely to increase as the consequences of Solvency II become more apparent to the industry."

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THE FENCE

Capital markets moving into reinsurance

TOBY ESSER, COOPER GAY
"I don't think that is realistic right now. I don't think there is a lot of competition from capital markets. It is something that we talk about but it is very spotty. There is a little bit in the reinsurance markets, but no more than in the past. "

VS

JOHN CAVANAGH, WILLIS RE
"The traditional reinsurance market is also changing its spots. A number of people are issuing cat bonds and they are also looking at investing in them as part of their asset side to complement their traditional risk-based portfolio. The lines are becoming blurred in that market. I see that as encouraging."

QUESTION TIME WITH... HANS GUENTHER, ENDURANCE SPECIALTY

What does the market look like?

HG: If I look at the overall market conditions, I would say it is less good because we have a lot of challenges ahead of us as an industry, both for the reinsurers and insurers.

The economic crisis is high on the agenda, with all the consequences of lacking or reduced growth prospects, which always causes hassle.

What I also see is a growing complexity in the risk we assume, particularly in areas which are difficult to price or model. The more complex the situation, the more likely it is 10 people have 12 opinions, which means the volatility of what the pricing tag looks like is increasing.

Which are the particularly challenging areas?

HG: Cedants will start to think more about how they can optimise their net accounts somewhat to generate artificial net premium growth because they retain more of their risks.

We also have a compressed margin situation, which leads into more uncertainty about what could be the right price.

I foresee that reinsurance is entering challenging times, because it will be difficult to get the right price from the get-go. But overall it is a development that started a couple of years ago and it might be accelerated by the eurozone sovereign debt crisis.

Monty IN MONTE

LAST NIGHT

YOU'VE BEEN PAPPED!

Nice to see a little bit of colour among all the grey suits

If you want to get ahead…you know how the saying goes. Plus it keeps the sun off

Not so much food, more a rainbow

Can you see what it is yet? We watched in awe at the ice carving at last night's welcoming party

The final word

Joe Plumeri has always had a bit of reputation for cracking the whip. My old chum Lloyd's chairman John Nelson reliably informed me at the market's official party last night that one of Plumeri's former workers turned up for work one day and was promptly asked by the Willis boss where his pen was, to which he replied: "It's on my pyjamas." Good to see you are maintaining that strong work ethic Joe.

The business

Canopius have continued their tradition of issuing new business cards for Monte Carlo. This year they have gone for an effervescing vitamin tablet with the tagline "fizzing with ambition". Not sure they'll prove as popular as 2010's football card style cards or the 2011 pictures of the senior team mid-jump, but the accompanying Canopius-branded fizzy vitamin pills will come in handy for party animals like me.

The kindest cut

I understand that after this year's sweltering heat, Endurance chief executive David Cash is keen to introduce men's shorts to the traditional Monte Carlo attire. As he hails from Bermuda, you might think he would plump for Bermuda shorts, but apparently he is keen to introduce a 'Monte-Carlo cut'. I'm definitely with David on this one, but not sure the Rendez-Vous is ready for my knobbly knees.

SEND YOUR PICS AND QUOTES TO...

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TONIGHT

GO TO ... White Mountain's (or is it Sirius?) party on the roof of the Hermitage. But remember it doesn't start until 11pm, in case you were thinking of an early night.

SEE ... How long it takes for everyone to finish their private dinners and get out to the parties.

DRINK ... Mojitos from Mojito Man at the SCOR lounge

AVOID ... Swiss Re anytime before midnight. Who wants to be the first at a party?

TOP TWEET

VIDEO: Why The Reinsurance Class of 2011 Failed To Show Up. S&P's Doug Ostermiller on #CMTVow.ly/dBJdw