GR
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DAY TWO

"Insurance awareness and the professionalism of reinsurers, insurers and brokers continue to improve"

QFCA chief executive Shashank Srivastava

MONTE CARLO 2012 FROM GLOBAL REINSURANCE MAGAZINE

RENDEZ-VOUS

Rivals still in fight for Flagstone Re

BY ALEX WRIGHT
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ANV Holdings chief executive Matt Fairfield believes there will inevitably be rival bidders for Flagstone Re.

ANV registered an interest in Flagstone prior to Validus Re having a $600m cash and stock bid accepted last month, but has since dropped that interest.

Fairfield, who is in Monte Carlo this week, told *Global Reinsurance* that competitors would be attracted because of the small cash component of the deal.

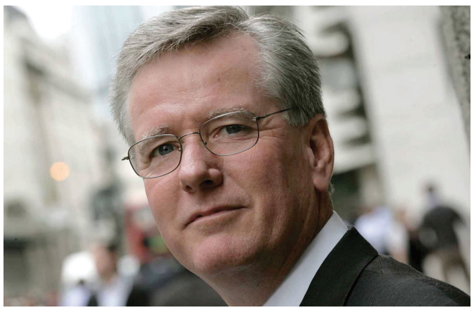
"I sent David Brown an email congratulating him on the deal and I think he was happy," he said.

"I wish [Validus chief executive] Mr (Ed) Noonan all the best. He said he would be prepared to fight for it and I guess that is what he might have to do. Other people are certainly going to put more cash in."

One thing in Validus's favour was approval of the deal from Flagstone's two main shareholders Trilantic Partners and Lightyear Capital, he said.

ANV recently completed its acquisition of Flagstone's

continued on page six



Ed Noonan: prepared to fight for Flagstone

THEY SAID...

'If inflation is worse than people expect, and interest rates go up faster than people expect, that will have an impact on the balance sheets"

David Flandro, Guy Carpenter

'Having one monolithic view of risk for the whole world based on a single model is not healthy'

Bill Keogh, EQECAT

OUT AND ABOUT

Is that canapé green?... admiring the delights on offer at Guy Carp's

Who wore the best pants last night?

TONIGHT
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INSIDE

As long as this is not fixed, we will hear the battle cry that we need to reduce insurers' costs and distribution costs. The source is not really working.

Manfried Seitz
Berkshire Hathaway

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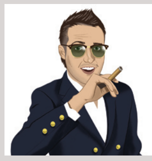

MONTE CARLO

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6. Port Palace Hotel
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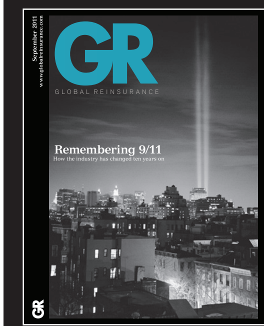

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NEWSQUEST Specialist Media

Premium in Gulf set to top $18bn next year

Srivastava: Market awareness and professionalism improving

BY LAUREN GOW
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Life and non-life premiums in the GCC region could total more than $18bn in 2013.

According to the Qatar Financial Centre Authority's (QFCA) third annual GCC reinsurance barometer, infrastructure and construction spending continues to be the region's main source of insurance demand. Current Qatari projects total $63bn, with a further $108bn expected in the next three years.

QFCA chief executive Shashank Srivastava said: "Insurance awareness and the professionalism of reinsurers, insurers and brokers continue to improve."

Reinsurance value chain is 'flawed'

- Primary pricing hitting reinsurers, say CEOs
- Problem is particularly acute in liability

BY BEN DYSON
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There are fundamental flaws in the (re)insurance value chain because of inadequate pricing in primary insurance, according to participants of Global Reinsurance's annual CEO breakfast roundtable.

The problem is particularly acute in liability. Investment income is a fundamental part of the business, and if yields are too low, premium rates need to rise to compensate. Failure to charge the right price has repercussions for everyone in the risk transfer process.

Speaking at the roundtable this morning, Berkshire Hathaway managing director of international reinsurance Manfred Seitz said change was needed in primary prices.

"Our business partners – primary companies – have to realised there is a flaw in the product," Seitz said. "The product is short in pricing when you look at liability policies. They have to beef up the pricing and it has to come through to reinsurance."

Swiss Re China managing director Robert Wiest agreed.

Manfred Seitz: The insurance pricing chain is fundamentally flawed

He said: "Fundamentally we have a flaw in the whole value chain. Changes in reinsurance pricing is only one of the elements that some people in the food chain are screaming for. That is the battle cry we hear every year. It is a fundamental issue that derives from the construction of the underlying products.

"As long as this is not fixed, we will hear the battle cry that we need to reduce insurers' costs and distribution costs. The whole value chain needs to slim down because the source is not really working."

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MATCH OF THE DAY
The Elements vs Reinsurers

The elements sadly impacted on this year's regatta yet again, after the third round of this year's event was scuppered because of a lack of wind.

The race ended up taking place a few hours early due to the weather forecast, but this didn't stop PE Lys/Emyrates Arabie storming to victory after coming first and second respectively in the two rounds.

MDS JP Champion came in close behind and were most upset with the weather ... but bottles of french champagne helped quell tensions and focused minds on the evening's festivities.

THE ELEMENTS 1, REINSURERS 0

STATS CORNER

85%
WORLDWIDE LOSSES
Nearly 85% of total worldwide insured losses in 2012 were incurred on US shores because of tornado and wildfire outbreaks.

450
LOSSES IN H1 2012
A total of 450 natural hazard loss events occurred in the first six months of 2012, which is slightly above the six-month average of 395.

YOU'VE BEEN PAPPED!

Maybe the sign should read: "Please turn your phone off"

Surely these are the lariest pants in insurance? If you know better, tell us

Someone get me away from this conversation!

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APPOINTMENTS

Fosh: Upbeat about the future with the new team at Zurich

Novae Re set to finalise Zurich team 'jigsaw'

- New chief exec and CUO to be revealed soon
- Novae boss Fosh hails new-look team

BY BEN DYSON
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Novae Re will have the final part of its new-look Zurich team in place next week, *Global Reinsurance* can reveal.

Novae chief executive Matthew Fosh has moved swiftly to replace the team that quit in May and June, including chief executive Gunther Saacke and chief underwriting officer Willi Schuerch for Quateri reinsurer Q-Re.

Fosh, who arrived in Monte Carlo yesterday, told *GR* he had received verbal agreements from the two new members of the credit and surety team and expected to reveal them in a week.

"It is the final piece of the jigsaw," he said.

Fosh is upbeat about the future with the new team almost in place and is confident Novae Re will hold its own in the face of stiff competition from its former members at Q-Re.

Last month he axed the engineering division and part of the motor excess of loss division last month because of unprofitability.

Fosh has already lined up London market casualty reinsurance underwriter David May, who helped launch Lloyd's (re)insurer Ark in 2007, to manage the exit from motor liability reinsurance and run Novae Re's general liability book.

He will also appoint former Endurance underwriters Clive Hardy and Hannah Wagner to handle the agriculture operation.

Arch Bermuda's Philippe Chevereau will join as head of property and catastrophe along with New Re executive Sebastien Ricout.

Gareth Christopher and Vladislav Goryachev, both already in the team, will lead property per risk."

Meanwhile, Rob Preston has moved from London to Zurich permanently to oversee the reorganisation as managing director of Novae Zurich. He formerly ran Novae's political violence and kidnap and ransom/piracy unit.

Fosh said: "We are sending an unambiguous signal to the market that Novae Re is both central to our corporate plan and also in rude health."

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MARKET VIEW FROM QFCA

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

Middle Eastern reinsurance markets – a pocket of growth

Europe and North America still account for three quarters of the world's non-life insurance premiums, but penetration has been eroding over the past decade on the back of market saturation and perennial pressure on rates.

The outlook seems to be even more challenging as Europe is sliding back into recession and the US economy remains vulnerable.

Therefore, reinsurers seek to broaden their footprint in some rapidly growing emerging insurance markets such as the Middle East, one of the fastest growing markets in the world over the past 10 years. Based on a total non-life volume of $32bn, we estimate the region's reinsurance markets are worth close to $10bn.

In the Gulf region in particular, growth prospects remain bright given the vast pipeline of infrastructure and construction projects. At the same time, personal lines business (such as healthcare) is taking off. Reinsurance premiums and exposure are expected to continue outpacing GDP growth, a major finding of the just released 3rd QFC Authority reinsurance barometer, launched today at the Rendez-Vous de Septembre in Monte Carlo.

This growth momentum, combined with a low natural catastrophe exposure, makes the region attractive for reinsurers. Not surprisingly, the Barometer found that reinsurance capacity in the Gulf is set to expand further while carriers increasingly consider a local presence to capture opportunities on the ground.

‘One thing is for sure – the vibe has been upbeat’

BEN DYSON

My first Monte Carlo Rendez-Vous experience has lived up to its billing so far.

Most of the big names have made their presence felt at the conference already and the quality and content of briefings (and cocktail parties) has not failed to disappoint either.

One thing is for sure – the vibe has certainly been upbeat. Quite different to that following last year’s cat losses.

But there have been a few notable absentees, particularly in the wake of some big deals being sealed, including the Validus Re takeover of Flagstone Re.

Meanwhile some of the Bermuda contingent stayed behind to be with their families as Tropical Storm Leslie approached.

In their place are more bankers and service providers than ever before, while the number of Insurance Linked Securities executives has doubled from last year, which is perhaps a sign of the times.

Headhunters have also been thick on the ground, with a reshuffle between several of the senior management teams expected to be completed at or soon after the conference.

Having worked in Bermuda in a former life for five years it is hard to imagine why I never ventured down to Monte Carlo before, but if it can deliver as it has done so far this year then I wouldn’t rule out making the trip again next year.

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EQECAT in move to share data with rivals

- Company hopes to finalise the deals in the next few months
- Latest version of RQE platform to make multiple-modelling easier

BY BEN DYSON
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Risk modelling firm EQECAT is poised to sign data-sharing deals with its main rivals RMS and AIR Worldwide to make it easier for clients to use multiple models.

Speaking to Global Reinsurance at the Monte Carlo Rendez-Vous yesterday, EQECAT president Bill Keogh said: “It is not finalised yet. We hope to make an announcement soon. It should be within the next few months.”

Keogh added that the latest version of EQECAT’s RQE catastrophe model platform, which is being launched in October, would also make it easier for clients to use multiple models.

He said: “The RQE platform that is coming out in October will have a greatly simplified ability to bring in exposure data from other modelling formats. We have completely rebuilt the input process and simplified the mapping. That is something our clients requested and we have been happy to do.”

The news comes as reinsurance brokers continue to call for clients to use multiple models and develop their own view of a risk rather than relying solely on external sources.

RMS and AIR have already responded to the calls. They announced a data-sharing deal in March, and observers felt it was only a matter of time before EQECAT followed suit.

Keogh contends that EQECAT was an advocate of clients using multiple models, having their own view of risk and striving to understand how the different models generate their outputs.

He said: “Having one monolithic view of risk for the whole world based on a single model is not healthy. There is so much uncertainty in the risk that it would really be impossible to have a consensus.”

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Keogh hopes to announce a data sharing deal “in the next few months”

BELIEVE IT OR NOT

BRICKED
Worker injured while lowering bricks from roof

An Australian bricklayer felt the full force of gravity while using a pulley system to lower 500lbs of bricks from a roof. After being yanked up six floors, the 136lb man let go of the rope and the bricks fell on him, breaking both legs and three vertebrae.

BIKINI-ED
Distracted young man wins insurance claim

A young British man had his medical expenses refunded after making a travel insurance claim for a broken nose sustained when he walked into a bus shelter. The man said he was distracted by a group of young women walking by, all wearing skimpy bikinis.

THE WHITE STUFF
Insurer pays up to snowless skier

A British woman received a full refund from her travel insurer for the price of her new skis after arriving in Switzerland and discovering her chalet was sans an all-important ingredient – snow.

INVESTMENTS

Bubble in highly rated bonds is major threat

- Interest rate risk contributes to low valuations
- US industry on cusp of having to bolster reserves

BY BEN DYSON
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(Re)insurers' flight to high-quality fixed-income investments to ward off the effects of the economic crisis is creating its own risks, says Guy Carpenter global head of business intelligence David Flandro.

By piling into highly rated government and corporate bonds, (re)insurers are exposing themselves to a short-term fall in the value of bond portfolios if there is an unexpected sustained increase in inflation and thus interest rates.

Such a capital drop would come at the same time as an increase in claims costs driven by the inflation.

Flandro said: "If inflation is worse than people expect, and interest rates go up faster than people expect, that will have an impact on the balance sheets of insurance and reinsurance companies, and we don't think everyone is examining this.

"Part of what's driving this is that everybody wants to buy high-grade fixed income securities, which means that companies are concentrated in this asset class and are therefore sensitive to movements in it."

He added: "In the early 2000s we had a stock market bubble. In the middle of the decade there was a real-estate bubble. Where do you think the bubble is now? It is a high-grade, fixed-income securities bubble."

The interest rate risk (re)insurers are bearing as a result of their flight to quality could be one of the reasons why the industry's shares trade at a discount to their book value and the industry might not have as much excess capital as it might seem. This, in turn, is preventing large rate reductions.

Another reason is that reserve releases are starting to dry up. Guy Carpenter has studied the SEC returns of US insurance companies. These show that the industry is on the cusp of having to start strengthening reserves. This, alongside interest rate rises, could lower capital.

Flandro said capital growth in the industry in 2011 mainly came from two sources: reserve releases and unrealised capital gains.

"Yes, there is a lot of excess capital in the sector, but we have to ask ourselves how tangible it really is." he said.

"Some of it isn't that tangible and that is why we don't think we have seen a wholesale decline in rates on line. People are still quite uncertain about the true economic levels of that capital and we have also just come through a big period of catastrophes, which still has people carefully examining their risk."

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THE FENCE

Death of the pricing cycle

CHRISTIAN MUMENTHALER, SWISS RE

This statement reminds me of a strategy week in 1999 when a management consultant brought forward the hypothesis of the end of pricing cycles. It would be a nice dream, probably for both insurers and reinsurers, but unfortunately the underlying causes for the cycle continue to exist.

VS

JOHN CAVANAGH, WILLIS RE

There doesn't seem to be any enthusiasm from a customer standpoint to increase prices – people are really feeling the pinch. The last thing they want to do is start paying increased insurance premiums. There hasn't been the sort of critical mass that would promote a universal turn.

Flagstone Re fight

continued from page one

Lloyd's of London platform and Fairfield believes Lloyd's will be able to utilise ANV's resources and experience in its own business plan.

On a wider scale, Fairfield said the impact of the Eurozone sovereign debt crisis would be significant on the market, with capital being eroded. And the implementation of Solvency II was already taking up a lot of time and money, he said.

"What will it take for the market and rates to change? Maybe it will happen when the stakeholders in our eco system realise that what we are doing is unsustainable and perhaps is the death knell for our business.

"It will be almost like the moment when Noah built the Ark."

'Bermuda is home of ILS'

Bermuda has become the "epicentre" of a global Insurance Linked Securities (ILS) market that is now worth $15bn, according to PwC.

PwC Bermuda's insurance leader Arthur Wightman said that a wave of catastrophe bond issuance was driving the growth, culminating in the formation of Bermuda-based special purpose insurer (SPI) Everglades Re. It was set up to underwrite $750m in cat bonds for Florida Citizens Property Insurance.

But the most interesting addition, he said, has been the establishment of asset management type companies like SAC Re, Third Point Re and CatCo.

"That consolidates the view that ILS and Bermuda go hand-in-hand," he said. "It is one of the growth areas in the market at the moment and I see it continuing to evolve."

Wightman said ILS now accounted for 12-15% of global catastrophe reinsurance capacity. Credit Suisse expects that number to double in the next two years, according to a research note it put out this month.

Reinsurance can be a grim business but it's not so bad that you can't smile for the camera… right?

"So, this guy walks into a bar..."

No, it's not Dr Who's Tardis or the monolith from *2001: A Space Oddessy*. The mystery glowing object is in fact one of the cube-shaped promotional units at Guy Carpenter's party last night

Keep your head

Such is the scarcity of hotel rooms in Monte Carlo this year that late arrivals are having to slum it in Nice, a good reinsurance chum reliably informs me. But among those who will be present, however, I have heard you can expect to see the odd headhunter or two cutting a top level secretive deal in the backstreets.

The better half

You have to hand it to the wives of reinsurance industry executives. Granted, there's a chance they can come along to posh dos such as this, but then they have to cope with a lot of market talk. I take my hat off to the wife of Guy Carpenter's Chris Klein, who after Chris's many years in the business now feels comfortable describing what her husband does in about four sentences. Given the length of some of the job titles at Guy Carpenter, let alone the job descriptions, I reckon that's pretty good going.

Get at job!

Occasionally, wives have to endure their reinsurance industry spouse's stints at home when they are whiling their way through their gardening leave between high-powered jobs. I hear Locke Lord partner Gavin Coull's wife was delighted when Gavin landed his job at the law firm – it got him out from under her feet.

SEND YOUR PICS AND QUOTES TO MONTY...
@GlobalReins

TONIGHT

GO TO … Busy, busy, busy… triple party threat starting with the official gathering on the Fairmont roof, followed by Canopius at the Hermitage, followed by Lloyd's…

SEE … The artistic food displays at the official bash are well worth photographing before they are devoured by hungry partygoers

DRINK … Plenty of l'eau between glasses of champers

AVOID … Any of the green canapes – we're not 100% what they are – better to be safe than sorry!

TOP TWEET

REINSURANCE: With Lax Regulation, a Risky Industry Flourishes Offshore nyti.ms/PZtJ8a