THE TRADING FLOOR INTERVIEW

Marc Lauricella, TigerRisk Partners

Marc Lauricella, broker at TigerRisk Partners, specialises in the Florida market. He tells *Trading Risk* how Florida cedants are forcing carriers to become more bespoke.

1 What factors do you see shaping the market?

This June renewal was all about carriers protecting their client relationships. It's been ultra-competitive, certainly the most competitive I've seen.

Markets protected their client relationships by offering more flexibility. They were offering cat capacity more evenly across the entire client programmes and supporting a larger array of products – shared limit products, cascading layers, multi-year capacity.

You hear different views about what led to the decrease in cat pricing this year. Market pricing reflected the aggressive cat bond market coupled with the rated carriers protecting their franchise, their relationships. There's no doubt the cat bond market was moving pricing, but rated carriers weren't willing to lose business either, particularly their core client relationships. Further, many rated carriers were prepared to navigate this changing marketplace by buying more retro to de-risk their portfolios and improve their expected returns.

Clients expected pricing to decrease by at least 15 percent, but some initial quotes suggested rates would only fall about 10-15 percent. The delta between the highest and lowest quotes was the largest we've seen in a while. Ultimately, we were able to bring risk-adjusted rates down 20-25 percent. A few markets suggested that they would significantly reduce their support if pricing fell more than 15 percent; but when we released firm order terms at 20-25 percent down, these same markets continued and even increased their support.

Cedants are also less interested in markets which cherry-pick certain layers. So markets expanded their interest across more layers and products within programmes. Compared to last year's placements, we did see more markets expand their positions on upper layers. We also received much larger authorisations from several markets that were hoping that they could grow their relationships.

2 Where do you see the ILS market heading in the future?

The question is where is the bottom, and at what point do you get to a walkaway price?

Florida pricing is still viable but it's difficult to determine where this cycle of decreasing pricing ends. We are aware of a few programmes, particularly RPP [reinstatement premium protection] placements, which had to increase their firm order pricing to complete. So a floor was found on a few Florida placements at this renewal. Without a major loss, we do believe market pricing will decrease for mid-year placements in 2015, but not to the same degree as this year and last year. If programme loss ratios continue to increase, the velocity of new collateralised capital jumping into the reinsurance space will drop.

Ultimately, relationships still play a big part in this business. Cedants are increasingly looking for several larger core partners for their placements. This year, some markets approached us very early to try and tie up large bilateral transactions. Unique, one-off bespoke transactions will only increase as competition increases.

Markets which want to be considered a cedant's core partner will continue to expand their offering of cat products and flexibility. The capital providers that offered the most competitive quotes across all layers typically were given larger final lines at this renewal, relative to their authorisations.

But it's not just about price and line size, it's about delivering a solution and going a little outside your comfort zone. As collateralised markets continue to expand their support of shared limit covers, they will have business opportunities.

3 What keeps you awake at night?

What should be keeping us all awake is the fear of a major storm.

A significant cat event could greatly change the reinsurance market, creating a challenging situation for clients – particularly an unforeseen or unique cat event which generates a larger loss than modelled. This could potentially affect the collateralised investors' interest in recapitalising their position.

Another concerning development in the market is the growing focus on quantitative analysis and less interest in qualitative analysis, which is leading to less client differentiation and similar pricing for all clients.

Qualitative analysis requires more underwriting knowledge of the client's business and its operations. Assessing a company's financial strength, claims management capabilities and other important risk factors allows greater pricing differentiation across cedants. Markets which do not carry out qualitative underwriting of a reinsurance opportunity may realise a larger actual loss relative to what they modelled.

4 What improvements would you like to see in the market?

We would like to redesign the quoting process. At the moment, the process can lead to a false impression of actual market pricing for a client's reinsurance programme. Markets are unwilling to share their ultimate pricing for a programme, so the client does not always achieve the lowest clearing price.

We would also like to see continued improvement in property cat products to provide clients with more options to address their cat reinsurance and financial needs. More multi-year capacity being offered by both rated and collateralised markets would help companies better manage their future reinsurance capital needs.