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Reactions
Business intelligence for the global insurance market

BROKING BEYOND THE COMFORT ZONE

Reinsurance brokers have to embrace change and develop innovative risk transfer solutions for their clients, says Rod Fox, CEO of TigerRisk Partners

Many rebrokers say they are agnostic when it comes to capital, but anecdotally few actually are: why?

Being truly agnostic to all forms of capital requires three things: (1) a broad distribution of capabilities and relationships to provide clients with access to a range of capital providers; (2) technical capabilities and expertise to structure transactions that bridge the gap between risk and various forms of capital, and (3) integration and coordination among these same distribution and product experts to provide a holistic range of solutions to clients. Many of our competitors offer sophisticated options for #1 and #2 but fall short of #3 due to their "siloed" approach. Many of the world's largest rebroker organizations are siloed, and whether due to internal competition, credit, unfamiliarity, etc., the traditional rebroker team doesn't want to sell a product they are unfamiliar with for fear of looking uninformed. We have seen situations where a capital markets team will ignore a problem because the solution doesn't currently exist as a product on their shelves. Additionally, many rebrokers are protecting existing client relationships on the primary side or reinsurance side, sometimes even both. Disruption is usually more difficult than simply maintaining the status quo.

Another reason why the "agnostic" approach is bypassed is simply because decades have passed with traditional reinsurance staying "traditional". It's always easier for brokers to place legacy transactions year after year. The real challenge is improving the transaction, manipulating solutions to fit clients' evolving needs and growing the capital support. At TigerRisk we pride ourselves on our integrated approach to bringing our clients the optimal mix of capital, running the gamut from traditional reinsurance to sophisticated capital markets solutions and everything in between. We love working with clients who've had the same broker for over five years because there are so many opportunities to create unique and innovative solutions for them.

In what way has TigerRisk broken the rebroker mould since incepting 10 years ago?

We don't view ourselves as simply reinsurance brokers. Our vision is to be the premier risk-to-capital advisor on the planet. We are far less focused on merely finding capacity and placing business and are far more focused on finding the best solution for our clients. We've made heavy investments in analytics, technology, and hiring people who have innovation in their DNA. But perhaps most importantly, we've broken down the walls and silos that exist at traditional companies. When Tony Ursano joined TigerRisk to form TCMA (TigerRisk Capital Markets & Advisory), he also became President of our reinsurance brokerage business, TigerRisk Partners. All of our traditional reinsurance broker teams report to Tony. We don't have branch offices or divisions with separate budgetary goals. We have created a culture in which our teams are not concerned with protecting and renewing business. Instead, we are solely focused on innovating and providing clients with the best solution.

Why isn't traditional reinsurance always the answer?

Traditional reinsurance has its place. But for well-understood and well-modelled risks, capital, to a degree, has become a commodity. There are simply too many "links" in the value chain between the original risk and the end capital. Property CAT is the obvious example, but this universe is steadily expanding. In a world where capital providers are increasingly willing to assume risk directly from original underwriters – versus being two or three degrees removed from it – disintermediation is only a matter of time. Furthermore, there is a fundamental difference in respect to target returns between equity funded reinsurers and institutional investors such as pension funds looking for diversification and non-correlated risks.

The industry has been successful at resisting change and accepting potentially inefficient solutions to stay in their respective comfort zones. Simply repeating what was done last year or "renewing" in the traditional market, is now a default solution.

TigerRisk was formed to break out of this cycle of inefficiency. Our people are so focused on innovation that we approach every situation with a completely fresh set of ideas. It's in our clients' best interests to consider and leverage all forms of capital, both traditional and alternative, to deliver the best outcomes to their stakeholders.

What kind of alternative structures are available to expand clients' options?

TigerRisk introduced the idea of cascading coverage which has now been adopted across the market place. Cascading coverage effectively turns per-occurrence coverage into aggregate-like protection. Furthermore, we've seen more multifaceted aggregate solutions being considered as clients evaluate their portfolio against the last several years of loss activity.

We've also seen a trend towards emerging risks. Cyber is something that third-party capital and ILS have been thinking about and working on for some time. We also see more government-sponsored risk solutions looking to or towards the ILS or core capital market. We think there will be more transfer of risk from the public to the private sector, and we think ILS will play a key role in that transition.

How is the "alt" market evolving; what else is in the pipeline?

ILS investors continue to seek access to diversifying exposures and get as close as possible to the underlying risk. This includes transactions covering new lines of business such as cyber and other short-tail specialty classes, as well as investors moving further down the value chain and partnering directly with primary insurers and distributors of risk to create innovative facilities. We are also seeing many "end" institutional investors, such as pension and sovereign wealth funds, develop their own expertise to bypass traditional ILS managers and go direct to the underlying risk.

It's an expanding universe: are all rebrokers equipped for it; do they have the right tools?

The tools – the models, the structuring acumen, the legal expertise, and so on – are there. But having the right tools doesn't necessarily translate into creating an Amazing Client Experience which is something we obsess over at TigerRisk.
For TigerRisk, our key asset and the hallmark of our client's experience is our people. Their experience, energy, creativity, integrity and teamwork are really what's driven our success and allowed us to achieve excellence through superior innovation and performance. The intermediaries who will differentiate and succeed in this rapidly-evolving capital landscape are those with the ability and the buy-in across their whole organization to embrace change and develop innovative risk transfer solutions for their clients.

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But is it fair to say that sometimes traditional reinsurance techniques still have a place? For example, where long-tail exposures need addressing?

Absolutely. On the property side, we continue to execute traditional 1@100 CAT business, excess per risk, and quota shares. On the casualty side, we have a rapidly growing book of traditional QS and XOL, but recognize that traditional QS and XOL are not always the best solutions.

One good example of a key traditional reinsurance technique still in place is Reserve Cover Transactions. No longer considered an acknowledgement of failure, today they are viewed as a capital management tool for insurers looking to shed old liabilities. In the current marketplace insurers are being forced to scrutinize their businesses more carefully as earnings power is continually being squeezed. Sophisticated insurers are seeking ways to free-up capital where it drags on earnings and focus their efforts on projects that are core to their business. These same insurers also realize that transferring liabilities can result in a host of immediate financial benefits.

Furthermore, the reserve cover marketplace has been infused with new capital and counterparties interested in higher returns, which is consequentially driving pricing efficiencies and new solutions for a broad range of exposures.

Well-structured adverse development covers (ADCs) and loss portfolio transfers (LPTs) provide key benefits including: risk transfer, stabilization of earnings, capital relief, prospective underwriting and enhanced investment returns. It is crucial the buyer works with an experienced and specialized broker with the requisite analytics capability to determine both the optimal transaction structure as well as a marketing plan before approaching reinsurers/counterparties. Tiger Risk's Legacy Practice Team is recognized for creating innovative reinsurance structures that allow insurers to move forward from past underwriting challenges and reduce future volatility. You may have read that TigerRisk was appointed exclusive and strategic adviser for the largest reinsurance transaction in US history, namely the 2017 AIG ADC ($50bn xs $50bn) with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway. In April of this year, TigerRisk was adviser on the $400m reinsurance transaction between Arch Reinsurance Ltd. and Catalina General Insurance Ltd. This transaction provided Arch with both capital relief and the ability for management to focus on the growth of its insurance platform and underwriting activities.

So in a market with so many moving parts, what should clients expect of their rebroker?

Clients should expect their broker to fully embrace the fact that our business is evolving rapidly rather than relying on traditional advice and products. This means more holistic advice, more strategic thinking, better service, broader product offerings, and a relentless commitment to innovative thinking and challenging the status quo. Simply placing reinsurance is no longer enough.

Can TigerRisk remain independent and continue to differentiate itself over the next decade?

Yes, 2018 marks TigerRisk's 10-year anniversary. Being creative and nimble has been the bread and butter of our success. Everyone should have a Tiger on their team.