Greenlight Capital Re appoints Burton chief executive

Brokers find organic growth in tough market conditions

Re/insurers ‘cannot expect all insurtech projects to be successful’

Insurance Day is transforming to meet your needs

The new Insurance Day website has been designed around our readers’ preferences and usage – so it’s fast, optimised for mobile, with smart navigation and personalisation.
Brokers find organic growth in tough market conditions

First-quarter figures find the leading firms reporting underlying growth and stronger profitability

Graham Village
Global markets editor

Brokers and revenue for the leading US quoted brokers grew faster than expenses over the first quarter, helping the sector post a double-digit increase in net profit compared with the same period of 2016.

Acquisitions provided a boost, at Arthur J Gallagher and Brown & Brown especially, but stronger than expected organic growth was the main driver of the performance. In particular, the brokers seem to have done well finding new business in the tough large commercial and reinsurance sectors of the market, despite the difficult trading conditions and rating environment.

The firms kept a tight control on expenses, with Willis Towers Watson achieving a slight reduction in salaries and benefits for the quarter.

Of the five groups providing detailed first-quarter figures, only Aon recorded a weaker loss and that was because of the start of its restructuring and cost-cutting plan following the decision to sell its outsourcing business to Blackstone. Net proceeds were about $3bn and the group has earmarked $900m of that for restructuring and related costs, taking a charge of $144m in the first quarter.

Willis Towers Watson is also in the midst of an extensive restructuring programme associated with the integration of the previously separate Willis and Towers Watson businesses. It intends to cut costs by $125m within the three-year timeframe of the programme.

The group also expects the merger will produce some large revenue synergies across its entire operations, including a $200m boost for large US corporate property and casualty business.

As margins are squeezed for many lines of business, all the major brokers are targeting specialist and growth areas for development. Aon said it plans to invest $2.1bn of the proceeds from the sale of its outsourcing business in high-growth areas and for shareholder return.

Marsh & McLennan Companies (MMC) similarly focuses on higher-growth areas that cover geographic regions like Latin America and Africa, market segments such as alternative capital and the agency sector, and capabilities such as data and analytical work. As at the end of last year, more than 25% of the group's total revenue of $13bn came from these growth areas, MMC said.

The broking sector continues to attract considerable interest from investors, despite the relatively weak growth prospects and the pressure from insurtech ventures. Takeover activity in North America spiked during the first three months, according to analyst Optis Partners. It identified 178 acquisitions during the period, the highest quarterly total ever, with all types of buyer showing increased appetite for deals.

The private equity market remains the most active investor segment, accounting for more than half of all takeovers. The biggest deal of the first quarter was the announcement of the takeover of USI Insurance Services by KKR and Canada's Caisse de Dépôt et Placement du Québec for $4.3bn. The seller is investment firm One Corp, USI, based in New York, has annual revenue of $1bn and is a top-20 broker but the full purchase price is indicative of the high valuations in the broking sector.

Companies House tomorrow analyses the broking sector’s performance over the quarter in further detail and takes a look at acquisition trends and the threat of disintermediation.
Greenlight Capital Re appoints Burton chief executive

Hedge fund reinsurer names former SAC Re chief to succeed Bart Hedges

Simon Burton has been named as the full-time successor to Bart Hedges as chief executive of Greenlight Capital Re. He will take over from interim chief executive, Leonard Goldberg, on July 1.

Goldberg has temporarily held the position since Hedges departed during the first quarter following 11 years with the company.

Burton was previously chief executive of SAC Re, which later became Hamilton Insurance Group following its acquisition by a consortium led by Brian Duperreault in late 2013.

Before SAC Re, he held a number of positions at Lancashire Group, including serving as chief executive of its Bermuda subsidiary. Earlier in his career he spent a decade with Financial Solutions International, an underwriting division of Ace Limited, eventually becoming president.

Following Burton’s arrival, Goldberg will remain on the company’s board of directors.

The hedge fund reinsurer endured a tough first quarter, with earnings down 70% on the back of an underwriting loss and lower investment returns.

The Cayman Islands-based firm reported net income of $8.4m for the three months to the end of March compared with $28.7m a year earlier. It booked an underwriting loss of $200,000 for the quarter, down from $3.7m in the first quarter of 2016.

The company increased its underwriting volumes in the first quarter, with gross written premiums rising 18% to $197.2m.

The Cayman Islands-based firm had a tough Q1

LMA forms members’ agents committee

The Lloyd’s Market Association (LMA) has formed a committee to represent the interests of providers and advisers of third-party capital at Lloyd’s, writes Michael Faulkner.

The members’ agents committee will be chaired by Graham White, non-executive director of Argenta Holdings. It will meet for the first time on June 16.

Committee members will come from the members’ agencies Alpha, Argenta and Hannover, with additional attendees invited as appropriate.

The committee’s role will be to advise on issues that affect the members’ agent community, including high-level policy matters and operational issues.

White said: “The committee and I are grateful to the LMA for sponsoring our efforts to ensure the specific issues of the third-party capital community are properly heard.

“In the initial phase of its operation, we anticipate the committee will act as a direct conduit for our views on the Lloyd’s capital planning timetable,” he added.

The committee will report to the LMA board.

David Gittings, chief executive of the LMA, said: “This forum will allow the many issues directly relevant to members’ agents and the capital providers they represent to be addressed.”

Re/insurers ‘cannot expect all insurtech projects to be successful’

The specialty insurance and reinsurance market must acknowledge that not all investments made in insurtech will prove profitable, an expert has said, writes Rebecca Hancock.

Jonathan Howe, UK insurance leader at PwC said the industry must accept that innovation is a “high-risk” activity. And he said companies must not always expect a quick return on insurtech projects and they needed to take a long term view of investments.

“There are no dead certs when it comes to innovation,” Howe told Insurance Day.

Howe urged the insurance industry to explore the different insurtech opportunities that are emerging and not be preoccupied with short-term fixes.

Re/insurers have been looking at various approaches from investing in innovation labs, to acquiring start-ups or developing talent internally. Howe said there was not a “right or wrong way” to approach insurtech.

Some re/insurers are looking to partner start-ups and new entrants from other sectors rather than trying to build capabilities in-house.

This approach could prove more cost-effective for companies looking to explore multiple technologies at one time, Howe said.

There has been much less product activity by insurtech companies in the areas of reinsurance and specialty lines of business. But Howe said this was beginning to change, as insurtech firms that initially focused on consumer and primary lines were beginning to shift their attention.

Howe attributed this to the insurtech industry “maturing” and, having built a deeper understanding of how technology can be applied to the sector, moving away from theories to actionable plans.

With insurtech firms focusing on areas such as artificial intelligence and predictive risk analytics, there was now the scope for re/insurers to transform and improve efficiencies in their business models, he continued.

A report published by PwC and insurtech firm Startupbootcamp last year highlighted the potential for start-ups to improve the industry.

The research, which is based on 1,300 start-ups internationally that focus on the insurance sector, showed more than one-third (35%) of these insurtech start-ups were focusing on ways to improve customer-facing technology and subsequently the existing relationship between insurer and customer.

The research, which is based on 1,300 start-ups internationally that focus on the insurance sector, showed more than one-third (35%) of these insurtech start-ups were focusing on ways to improve customer-facing technology and subsequently the existing relationship between insurer and customer.
Experts consider the implications of climate change on underwriting, regulation, risk modelling and asset management

Rahul Gosh, vice-president and senior credit officer, Moody’s Investors Service
The withdrawal of the US from the Paris Agreement will not stifle global efforts to reduce carbon emissions, given robust institutional and private sector momentum—including technological advancements—-which continues to drive sustainable and climate-smart policy-making. Policy-making at a state and local government level will also play an increasingly important role. Despite the US withdrawal from the Paris Agreement on 4 June, some US companies working to unwind the effects of the US withdrawal from the Paris Agreement have already begun to take action. Therefore, climate change-related risks are likely to remain for the foreseeable future.

In a global economic and political environment shaped by the policies of the Trump administration, in the US and other countries, the insurance industry is well-placed to play a vital role in mitigating climate change risks. US insurers are responding to climate change. There is potential for a rebooming of the insurance industry and a shift from a focus on traditional insurance products to a focus on climate change-related risks. This is a unique opportunity for the insurance industry and insurance companies to embed the true cost of climate change into their policies.

Bob Hirst, chief executive, Karen Clark & Company
At first glance, it would seem bizarre to urge the Trump administration to act on climate change. There is potential for climate change to have a significant impact on the insurance industry. The threat of climate change is real and the impact of climate change will continue to grow over time. The insurance industry is well-placed to play a vital role in mitigating climate change risks. Insurers can play a vital role in mitigating climate change risks. Insurers can help to reduce the impact of climate change by reducing their greenhouse gas emissions. Insurers can also play a vital role in mitigating climate change risks. Insurers can help to reduce the impact of climate change by reducing their greenhouse gas emissions. Insurers can also play a vital role in mitigating climate change risks. Insurers can help to reduce the impact of climate change by reducing their greenhouse gas emissions.

The major challenge with many emerging risks, such as climate change, is the impact on underwriting, regulation, risk modelling and asset management. The major challenge with many emerging risks, such as climate change, is the impact on underwriting, regulation, risk modelling and asset management. The major challenge with many emerging risks, such as climate change, is the impact on underwriting, regulation, risk modelling and asset management.

The major challenge with many emerging risks, such as climate change, is the impact on underwriting, regulation, risk modelling and asset management. The major challenge with many emerging risks, such as climate change, is the impact on underwriting, regulation, risk modelling and asset management. The major challenge with many emerging risks, such as climate change, is the impact on underwriting, regulation, risk modelling and asset management. The major challenge with many emerging risks, such as climate change, is the impact on underwriting, regulation, risk modelling and asset management. The major challenge with many emerging risks, such as climate change, is the impact on underwriting, regulation, risk modelling and asset management.
“Climate change clearly brings an additional dimension to catastrophe loss modelling, as we can no longer simply assume the occurrence-frequency of extreme events remains stable through time. Inevitably, this brings additional uncertainty to the quantification of catastrophe risks, as we will have shorter horizons of observations to compare with modelled results. However, we already encounter many of these challenges in modelling when we find multi-decadal shifts in event occurrence to Atlantic hurricane activity or even in the population of extreme windstorms that arrives in northeast Europe, where there has been an overall reduction in extreme storm activity since the 1990s.

“Two years ago, RMS was involved in the Lloyd's Business initiative, first in a technical advisory capacity, then to employ RMS proprietary hurricane wind and surge catastrophe models. We were considering both anticipated sea level rise and shifts in hurricane activity and intensity as derived from climate model projections to quantities in anticipated modelled losses for US coastal risks through to the end of this century. Continuity from p5

Robert Mair-Void, RMS

“Climate change clearly brings an additional dimension to catastrophe loss modelling, as we can no longer simply assume the occurrence-frequency of extreme events remains stable through time. Inevitably, this brings additional uncertainty to the quantification of catastrophe risks, as we will have shorter horizons of observations to compare with modelled results. However, we already encounter many of these challenges in modelling when we find multi-decadal shifts in event occurrence to Atlantic hurricane activity or even in the population of extreme windstorms that arrives in northeast Europe, where there has been an overall reduction in extreme storm activity since the 1990s.

“The main challenges to modelling climate risk relate to the substantial variability in the effects in risk modelling as previously unanticipated risks come to the fore and increasingly dominate along with the variability in the outcomes from the effects of climate change. This is why in our opinion it is important for insurers to understand their exposure to multiple of the cost directly associated with climate change. For example, if stricter carbon targets are realized, the insurance industry is likely to face a significant reduction in the attractiveness of reinvestment profits and loss model developers must make assumptions based on expert judgment rather than observed and verifiable data.

“Not surprisingly, when there is spare data and wide uncertainty in the models, there is low confidence in the model-generated loss estimates. Insurance loss models, including the cat models, are based on and rely upon data. The only way to reduce the uncertainty is to collect more data, which can only happen over time. No matter how many scientists work unrelentingly on the models, the wide uncertainty will remain. Attempting to project the future impacts of climate change on catastrophe events simply adds another layer of uncertainty to the models.

“Society has changed as a result of the models differen-

“an overall reduction in extreme storm activity since the 1990s.
More forecasts point to busy hurricane season ahead

Latest Colorado State University and Met Office forecasts indicate above-average season

Forecasters are continuing to suggest this year's Atlantic hurricane season will see above-average activity, with the Colorado State University (CSU) team the latest to increase its expectations for the number of storms this year.

The CSU forecast now suggests there will be 14 named storms, six hurricanes and two major hurricanes in the Atlantic basin 2017.

The university's April forecast was for 11 named storms during the season, with four hurricanes and two major hurricanes.

The UK Met Office has also issued its seasonal forecast, which has indicated 10 to 16 named storms and eight hurricanes.

Recent weeks have seen a series of forecasters suggest the Atlantic will see an above-average hurricane season this year.

The official National Oceanographic and Atmospheric Administration (NOAA) forecast has suggested a 45% probability of an above-average season.

In April major forecasters had indicated the season was set to see below-average activity, but a shift in expectations regarding the development of El Niño conditions subsequently caused revisions.

Speaking to Insurance Day last month, Eric Uhlhorn, principal scientist at AIR Worldwide, said earlier forecasts had been based on a significant El Niño event occurring during the summer months. A strong El Niño phase generally acts to suppress hurricane formation in the Atlantic basin.

"Now it is clear there is certainly not going to be a significant El Niño event, which could have a significant impact on Atlantic activity," he said.

SWIYA secures $4.9bn in funding going into storm season

The Texas Windstorm Insurance Association (TWIA), the state's last-resort coastal wind and hail insurer, has secured total funding of $4.9bn as it enters the June-through-November Atlantic hurricane season, writes John Shutt, Los Angeles.

The TWIA said the funding includes a $147m contribution for 2016 to its Catastrophe Reserve Trust Fund, raising the fund's balance to a record $740m, and $1.1bn in catastrophe bonds, including the recently issued $400m Alamo Re deal.

The TWIA's existing funding is enough to cover losses arising from a one-in-125-year storm season (or more than 99% of potential storm seasons on record) and far exceeds its legislated mandate to cover at least a 100-year storm.

The group said taking into account changes made to hurricane models, it has seen a reduction in its 100-year probable maximum loss for 2017 to $4.3bn from $4.7bn.