Innovate to succeed

TigerRisk’s chief executive Rod Fox has seen a fair number of interesting times in the insurance and reinsurance industry, yet despite his long and distinguished career he finds the present an amazing time to be in the market.

Highly competitive conditions, brought about by the entry of a variety of capital market players into the reinsurance industry, has meant that many reinsurers have been left searching for an advantage in order to differentiate themselves from other companies. This, Fox says, is creating a highly innovative atmosphere in the reinsurance marketplace.

This new spirit of innovation is perhaps the most important theme in the market at the moment, changing an industry which can often be seen as too conservative.

“I think it is a fascinating time for the business,” Fox told Reactions.

“What we are seeing is a lot more innovation, and we are just scratching the surface on it. A little pet peeve of mine is that, in general, this can be a pretty staid and boring business. However, there is a lot of opportunity to innovate around the business.

“I think we are now starting to see some of that, so that is interesting for me.”

Fox says too much is made of the phrase “alternative capital” when reinsurers discuss the changing dynamics of the industry. He says that reinsurance is in its essence a business about providing capital and the fact that new capital is entering the business should not be seen as revolutionary or groundbreaking.

This new influx of capital is driving the innovation that Fox now sees in the reinsurance industry, and he says that innovation is levelling the playing field between larger and smaller players, with ideas beginning to become more important than size.

“More capital is coming in it is driving more innovation,” says Fox. “I think that is exciting and we are enjoying it and as a firm and we are thriving on it.

“We are now close to seven years old, so it’s not like we are the new kid on the block, but we are finding that you don’t have to be huge to have great ideas. It’s a more level playing field now so it’s good.”

Fox points out that the perceived threat posed to traditional reinsurers by the capital markets is not a new phenomenon. The capital markets have been involved in reinsurance investing for a number of years and will continue to be. However he says that perceptions may have changed about how committed new capital is to staying in the business long term.

“It’s been around a long time,” Fox said talking about new capital. “My partner Jim Stanard brought alternative capital to Renaissance Re 10 to 15 years ago. It’s not a new phenomenon.

“However, I think there is recognition that it is a part of the industry that is here to stay and I think also the recognition that there is dramatically more that can come in.

“It is driving efficiency and people have to really figure out what their competitive advantage is as they go forward.”

Additional capital in the market is something that worries a number of reinsurers. It scores highly on every survey about reinsurer concerns and is the talking point at almost all industry events. But Fox believes that the competition in the industry brought about by alternative capital, particularly in the catastrophe space, is forcing reinsurers into truly understanding their competitive advantage.

This is healthy for the market and will allow for more innovation, forcing reinsurers to do better and more creative business, rather than focusing on just catastrophe lines where profits have been good.

He says: “The other thing that I have talked about before is that everyone seems to focus on the catastrophe business, which is maybe only 10% of the global reinsurance market. But that’s the one that people talk about.

“Reinsurers were generating outsized returns in the cat business and there is also a realisation that with all the additional capital those returns are getting more normalised.”

Fox identifies specialty lines as an interesting play for the whole industry. He also notes that insurers now have to focus on writing better casualty business.

“There are multiple levels of insurers going into specialty lines,” says Fox. “There are primary insurers delving into specialty lines and there are reinsurers paying more attention to specialty lines. There is a recognition that you can’t just make your living in the cat business.

“I’ve also said for a couple of years that the industry has done a poor job selling casualty insurance. I don’t think the products have been particularly responsive and I don’t think we have spent enough time thinking through it.

“I think there is more of that happening today on the casualty side of the business and I think we are just scratching the surface, so it’s exciting.”