Tipping point as large insurers set to buy more cover

Large insurance companies could be reaching a tipping point that sees them reverse the recent trend of retaining more risk and actually step back into the reinsurance market to buy more cover.

The contrarian view comes from TigerRisk CEO Rod Fox, who told *The Insurance Insider* that he is beginning to see early signs of a change in approach from reinsurance buyers at the biggest carriers.

"I think we're reaching that point. Everything moves in cycles and I believe that you're actually going to see more smart reinsurance purchased going forward rather than less," he said.

Insurance companies have been making a steady retreat from the reinsurance market over the last few years, starting in the casualty sector. This movement has gathered pace recently as several buyers have undertaken wholesale consolidation of their outwards treaties and reinsurer panels.

The trend has been driven by a desire to gain efficiencies by centralizing the process of buying reinsurance as well as a willingness to retain more underlying business that has been achieving rate improvements over the last three to four years.

At the same time, relatively benign underwriting conditions for short and long-tail risks means that balance sheets have swollen, giving insurers a greater degree of comfort when it comes to retaining risk.

"You have to dissect what's happening at the moment in the market. A lot of these big buyers, the large companies, have centralized their reinsurance purchasing and taken a more sophisticated view of risk. That's very smart, and I completely agree with it. And they've also reduced their purchases of reinsurance," he said.

"But I think we're now at the tipping point where you'll see those large buyers come back into the market for the appropriate product."

This wouldn't necessarily lead to a return of demand for the traditional reinsurance product, said Fox, as buyers would not look to purchase "the same old dog food".

Instead it would be demand for bespoke products, such as sophisticated aggregate products both in the property arena as well as whole account covers, he suggested.

It could also be demand for loss portfolio transfers, where insurers are looking to exit non-core lines of business, or for "21st century casualty products", or products that take into account the investment income embedded into the transaction.

"A lot of these companies have excess capital, but for smart bespoke products the equation becomes what is their cost of capital and can they find reinsurance products that are more efficient than their own cost of capital," Fox said.

"There is a point at which you should be buying externally even if you have excess capital," he continued. "We call it the Stanard Equation. It's based on your multiple of book value and price to earnings ratio compared to ceded marginal reinsurance cost.

"As a reinsurance broker you want to be bringing and developing these sophisticated ideas and helping those companies make themselves even more successful."

Rod Fox
CEO,
TigerRisk

$2.2bn OneBeacon-Armour Re deal still hasn't closed after two years

US insurer OneBeacon and Armour Re have been unable to secure the approvals needed to close their $2.2bn legacy deal, despite first announcing it two years ago.

In the most recent hold-up of the transaction on 6 October, the regulator asked for clarification on 13 points in the most recent submission from OneBeacon and legacy acquirer Armour Re.

This followed a public hearing, which was held by the Pennsylvania Insurance Department on 23 July, where evidence was submitted by OneBeacon, Armour Re and a coalition of policyholders that are opposing the deal.

A petition to intervene has been filed by a range of insureds opposed to the deal, including the Pennsylvania Manufacturers' Association (PMA), Crosby Valve, Procter and Gamble, Rockwell Automation and ITT Corporation.

The PMA submitted a report prepared by consultant Jonathan Terrell, who said that there are "inherent, glaring uncertainties" in the independent actuarial estimates on loss development provided by Towers Watson.

He also pointed to "the abysmal history of under reserving for long-tail claims by the insurance industry in general, and by OneBeacon in particular", noting elsewhere that the company has a "chronic history" of under reserving and is "still under reserved today" based on Towers Watson's numbers.

Terrell also criticized Armour Group, describing its financial condition as "lamentable and demonstrably weak", dismissing its disclosures as "sketchy" and questioning its ability to inject new capital if adverse development takes place.

Prior to this, OneBeacon said in a statement released ahead of the public hearing that it expected the deal to close in the second half of 2014.

And in its June submission, produced before the public hearing, OneBeacon said that the transaction has been structured "to provide adequate resources for the run-off companies", adding: "OneBeacon is confident it has determined those companies' liabilities through sophisticated and ongoing actuarial reviews."

The firm also emphasized that the bulk of the liabilities would continue to be reinsured by highly rated carriers after the closure of the transaction.

The initial announcement of the two companies' intention to enter into a deal was revealed in October 2012. Under the transaction Armour Re will acquire the run-off of OneBeacon's non-specialty businesses.

The portfolios involved in the deal had gross liabilities of $2.2bn, although this included major reinsurance recoverables from National Indemnity and other carriers.

Elsewhere, Armour Re has recently agreed a major legacy transaction with QBE to take on the liabilities from its run off Italian and Spanish medical malpractice books in excess of a reinsurance agreement.

OneBeacon and Armour Re declined to comment further.