

Bermuda has the talent and flexibility to innovate, Bermuda roundtable agrees at Monte Carlo Rendez-Vous

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In attendance:

Brad Adderley, Managing partner, Appleby (Bermuda)

Peter Bell, Senior vice president, CEO & managing director, Everest Reinsurance (Bermuda)

Chris Bonard, Chief executive officer, Ed Broking Bermuda

Trevor Carvey, Chief executive officer, Conduit Re

Christian Dunleavy, Group chief underwriting officer, Aspen Insurance

David Govrin, Global chief underwriting officer & president, Americas Reinsurance, SiriusPoint

John Huff, President & chief executive officer, Association of Bermuda Insurers and Reinsurers

Brian Schneider, Senior director, global head of reinsurance, Fitch Ratings

Carlos Wong-Fupuy, Senior director, AM Best

The talent and innovation present in the Bermuda market means it again has a pivotal role to play in helping solve the current capacity crunch in the natural catastrophe business—but is unlikely that will happen through the formation of new, specialist, carriers as it has in the past.

That was the conclusion of a debate among nine senior leaders from the Bermuda market, which was held at the Monte Carlo Rendez-Vous yesterday (September 12), hosted by *Bermuda:Re+ILS* and sponsored by Aspen.

Participants in the annual Bermuda roundtable comprised executives from four large carriers, the Association of Bermuda Insurers and Reinsurers (ABIR), one broker, one lawyer and two rating agencies, offering a breadth of perspectives on the issue, which is a key talking point at Monte Carlo this year.

The debate covered market conditions in the reinsurance sector, with a strong focus on the property-cat space, the scope of new capacity to enter the market and what role Bermuda can play within that dynamic.

Christian Dunleavy of Aspen Insurance kickstarted the discussion by suggesting that, while the market is seeing continued hardening, it is not yet a hard market.

“It might be tripping into a hard market. The June/July renewal was the first time we saw some cedants unable to get capacity. So maybe it is on the cusp,” he said.

Dunleavy stressed that it is not a question of just looking at rates. “The profile of the risk has changed dramatically,” he said. “Investors are more averse to cat risk. That is partly because of climate change and partly due to poor results.”

Peter Bell of Everest Reinsurance (Bermuda), echoed these comments. “We will go into the 1/1 renewal harder than we were or as a true hard market. Capacity is flat or even down a little. It will create an issue.” He added that he feels rates are now close to what they were in 2011, but not yet 2006, when cat rates peaked.

David Govrin of SiriusPoint highlighted the issue that most of the losses borne by the market in the past five years have come from unmodelled secondary perils—as opposed to modelled primary perils—which are not priced into contracts.

This volatility, he said, has caused uncertainty among investors. “We have had five years of not making money on property-cat, which is meant to be one of the more profitable lines.

“Historically, if the industry was hit by a \$15 billion loss, it would have been a wind or earthquake event. Now, it is from smaller perils. The world has changed.”

Trevor Carvey of Conduit Re said that one underlying issue for the sector has been offering broader coverage in the past five to seven years. “Some policies were designed as a catch-all but the world has changed. I am not sure we are at the point yet where policies respond only to named perils but it might be discussed.”

Chris Bonard of Ed Broking Bermuda agreed that a lack of capacity would represent a big challenge for brokers in the market with a number of high-profile carriers having withdrawn from the space. “It will be a tough space. Our advice is to go early and look at the different tools available.”

Dunleavy argued that a reset is needed in terms of buyers’ expectations. “I have heard that buyers are fatigued. But how do they think we feel? It will be about capacity this year, not price.”

Where is the tipping point?

Against this context of tightening capacity, higher rates, but demand for coverage also increasing, Brad Adderley of Appleby (Bermuda) asked when the tipping point would come. He suggested that new, monoline reinsurers could potentially form on Bermuda, in the way they have in previous capacity crunches. “They enter the market for just three or four years and exit again,” he said.

The other participants agreed that capacity would again enter the industry, but not necessarily through dedicated cat players. There has been a flight to quality among investors, they concurred, and capital was more likely to enter through existing players, managers or balance sheet reinsurers with proven track records.

Carlos Wong-Fupuy of AM Best said that how and when capital enters the market will be determined by investor sentiment. “The capital is there, but it is not being deployed into cat risks,” he said. “There is investor fatigue. We have seen a number of projects with very interesting plans, but they are always downsized.”

He added that the traditional cycle, resulting in a tipping point, of a loss followed by a sharp uptick in rates followed by capacity entering the market and triggering a loss in underwriting discipline, has been broken this time.

“On this occasion, trapped capital scared investors, although the capital base was not eroded. The reaction this time has been much slower,” he said.

He added that one challenge for Bermuda cat players was their dependence on the retrocessional market, which has also retracted. In contrast, the very biggest reinsurers have less dependence on this segment of the market and can be more bullish as a result.

Brian Schneider of Fitch Ratings said these trends raise a fundamental question for the industry: “Where does cat risk belong? Is it in the capital markets or in traditional reinsurers?”

He added that he believes there is room in the market for specialist cat players, as long as they can achieve adequate diversification.

Govrin agreed that the question of where risk belongs is a good one. He reminded the panel that in the early days of insurance-linked securities (ILS), investors took only the peak perils. “Those bonds have always performed well,” he said. “The problem was that investors diversified away from the original idea into many other risks. They have ended up with the same problems as traditional reinsurers.”

Solutions

Turning to the question of how Bermuda helps solve some of these challenges, John Huff of the ABIR said it was important to remember the depth of the talent pool in Bermuda, combined with the concentration of capacity.

“Another way to see it is that cat is becoming a talent-intensive specialty, in the same way that cyber or political risk is, where carriers go in narrow and deep,” he said. “But Bermuda is the place to find that talent.”

Carvey agreed. “We were part of the Class of 2020. We started with some great talent, and we have hired a lot more. The quality of people in Bermuda is excellent,” he said.

Dunleavy echoed this. “The quality of the people in Bermuda within a square mile is unrivalled,” he said. “It is a place where very creative solutions are conceived. They can also often happen in the most serendipitous encounters. It is like nowhere else in that sense.”

Govrin added that another big advantage Bermuda has is its regulator: the Bermuda Monetary Authority (BMA). “It has a great regulatory framework, but is also pro-innovation, pro-business and very responsive,” he said. Carvey agreed: “The BMA has been a big part of Bermuda’s success.”

The panel touched on some other areas in which Bermuda has innovated, solving problems and offering solutions that have been of great value. Huff particularly noted its move into mortgage reinsurance. Bermuda now takes some 50 percent of this market, which he said makes a huge difference to many families in the US.

“Bermuda is well known for paying property-cat claims and helping communities revive after an event. The mortgage business is also such a unique opportunity. It helps families get on the housing ladder, which is especially hard in the context of inflation.”

Summing up, the panellists agreed that Bermuda’s innovation and flexibility meant it was well placed to help the market manage its challenges. Its talent and smart capacity, combined with the flexibility of its regulator the BMA, mean that it will remain an epicentre of risk transfer innovation going forward.

Monte Carlo Rendez-Vous, Aspen, ABIR, Roundtable, Renewals, Catastrophe, Property, ILS, Cyber, Specialty, Insurance, Reinsurance, Monte Carlo