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ILS Bermuda Executive Roundtable 2015

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Presented by: Tom Johansmeyer
Assistant Vice President,
Reinsurance Services, ISO

For more information about
our reinsurance services,
contact Tom Johansmeyer
at +1 201 469 3140 or
tjohansmeyer@iso.com.



FOREWORD

Welcome to the first Artemis ILS Bermuda Executive Roundtable, in which our participants discuss burning issues affecting the sector, with an eye on innovation and what the future might hold for ILS in Bermuda, and beyond.

As the ILS asset class continues down its impressive growth path, expanding its influence on the global insurance and reinsurance industry, Bermuda has developed itself into a mature, and world leading hub for ILS business.

With other jurisdictions across the globe starting to realise the benefits that facilitating ILS business offers, prominent executives and representatives of the Bermuda ILS market, along with some of their key partners and clients, came together with Artemis to discuss what Bermuda can, and should be doing to maintain and advance its position as a leading ILS domicile.

Furthermore, with the expanding investor and sponsor base in ILS showing increasing sophistication and understanding of the asset class, participants were keen to discuss how the Bermuda, and wider ILS market can influence trends that are shaping the risk transfer industry, such as the insurance protection gap.

The need to increase efficiency and remain relevant has been a persistent theme throughout the insurance and reinsurance landscape, as margins have been compressed, in part due to the rise of alternative reinsurance capital.

And that same desire to improve efficiency, and the need to remain relevant has fast become a necessity for the ILS market as well, in Bermuda, and across the globe, with Roundtable participants eager to exchange views on this matter.

The time of debating the ILS markets' longevity and resolve are behind us, it seems, and the market appears set on improving efficiency, and expanding its presence into new risks, and new geographies, with Bermuda ready to continue driving innovation in the space.

Steve Evans
Owner and Editor in Chief, Artemis





BACK ROW, LEFT TO RIGHT: Brad Adderley - Partner of Appleby, Joseph Louwagie - Assistant Vice President of PCS, Steve Evans - Editor of Artemis, Paul Schultz- CEO of Aon Securities, Samir Shah - formerly of AIG, Claude Lefebvre - CUO of Hamilton Re, John Williams - President of Armour Group.

FRONT ROW, LEFT TO RIGHT: Axel Wichmann - Senior Underwriter of Hannover Re, Jason Carne - formerly of KPMG, Kathleen Faries Head of Bermuda, Tokio Millennium Re AG, Tom Johansmeyer Assistant Vice President of Verisk/ISO, John Seo - Managing Principle of Fermat Capital, Des Potter - Managing Director of GC Securities, Henry Kingham - Divisional Director of Willis Re.



PARTICIPANT INDEX

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- CH Steve Evans**, Owner and Editor in Chief, Artemis.bm.
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- JC Jason Carne**, formerly of KPMG.
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- BA Brad Adderley**, Partner, Corporate, Appleby, Bermuda.
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- SS Samir Shah**, formerly of AIG.
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- DP Des Potter**, Managing Director, Head of GC Securities EMEA, Guy Carpenter.
-
- PS Paul Schultz**, Chief Executive Officer, Aon Securities.
-
- CL Claude Lefebvre**, Chief Underwriting Officer, Casualty & Specialty, Hamilton Re.
-
- KF Kathleen Faries**, Head of Bermuda, Tokio Millennium Re AG.
-
- HK Henry Kingham**, Divisional Director, Willis Re.
-
- JW John Williams**, Founder and President, Armour Group Holdings Limited.
-
- AW Axel Wichmann**, Senior Underwriter, Hannover Re.
-
- JS John Seo**, Co-founder and a Managing Principal at Fermat Capital Management, LLC.
-
- TJ Tom Johansmeyer**, Assistant Vice President, Reinsurance Services, ISO.
-
- JL Joseph Louwagie**, Assistant Vice President, Property Claim Services.
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How innovative has Bermuda been in developing a leading ILS hub and what role should it play in developing a global ILS market?



I think Bermuda's success goes back prior to the ILS convergence industry, and that success was built on sensible regulation, cooperation between industry and the regulator, a robust legal framework with right of appeal back to the UK and facilitating speed to market.

This has developed Bermuda into a mature and market leading infrastructure, which is very attractive to new companies. This infrastructure has been effectively supporting convergence for a long time and Bermuda has had hedge fund reinsurer/convergence companies like MaxRe and Stockton Re incorporate here some twenty years ago. So some of it is timing, and timing can be everything.

But I think staying responsive, listening to the market, being able to meet the needs of the market is absolutely the corner piece of why Bermuda has been successful and will be successful going forward.



Bermuda has definitely helped to develop the global insurance market. One of the major examples for me is not merely the fact that business has moved to Bermuda from other jurisdictions, but more importantly, that new products have been, and continue to be, developed in Bermuda. We've seen Kane (SAC) Limited publish that they've facilitated half a billion dollars of risk in 13 to 15 deals in the last three years. Well, I know that is equivalent to one or two cat bonds, but still that's 15 deals that were previously not done anywhere else in the world. Yet Bermuda was able to structure them in an efficient and timely manner, bringing something new to the market.



But what is important is that the BMA are open to listening to new ideas and responding to what the market needs. To me, how can you not choose Bermuda? If I can give you access to North America without having to put up collateral for cedent credit requirements, as well as access to Europe, I don't see how you can choose another jurisdiction - assuming the Bermuda Monetary Authority (BMA) continues its good questioning and sensible and prudent regulation of companies.

SAMIR SHAH

Beyond the infrastructure that's in Bermuda, I like coming to Bermuda because I find there's actually a lot of people I can talk to who are very innovative, there's a strong culture of that. It's hard to find this quite frankly in New York, and there's a bit of this in London as well.

In Bermuda, there's this accepted thinking that you always need to change, and so there are many people you don't have to convince, they are already thinking about these things and trying to find more efficient forms of risk transfer or innovative structures, it's quite common.

DES POTTER

I think Bermuda is doing a pretty good job at the moment. It's developing a real specialism in the way it authorises and supervises these segregated companies that are becoming the vehicle of choice to transfer risk to the capital markets.

But it can't rest on its laurels, the market is evolving rapidly, and new solutions are being developed outside of property cat, and Bermuda needs to stay abreast of these developments.

Bermuda is a great centre to transfer property cat risk to the capital markets, but it's not going to remain in this class.

PAUL SCHULTZ

So the way I think about Bermuda – it's had a favourable regulatory climate where the regulators have been willing to think about new structures and new processes. It's had industry expertise on the island for a long time.

But for me, the issue with Bermuda is in making sure the regulatory environment is moving fast enough to stay abreast of what's happening in the industry, and I am saying that capital already wants to enter the sector in a different way.

Regulators need to be cognisant of keeping pace with this change. It's happening in this space already, and I think Bermuda is in a great spot, but if it doesn't stay current and start to move quickly I think it's at risk.

DES POTTER

Other jurisdictions are waking up to what's happening in ILS and the growth of business in Bermuda. They will evolve their regulatory regime to be

Brad Adderley – To me, how can you not choose Bermuda?

commensurate with, or better than, Bermuda, so to maintain its relevance, Bermuda has got to stay ahead of the game.

I am not just talking about other offshore jurisdictions, I am talking about major hubs, be it London, be it Singapore, be it Beijing, wherever it is, all of these guys are waking up to the opportunity of having efficient regulation and legislation that enables them to manage risk in a capital efficient way.

Bermuda has a competitive advantage today, but it can't rest on its laurels, it's got to continue to evolve, it's really important for the key stakeholders of Bermuda to stay engaged with the industry and stay abreast of where the industry is going, and not get caught out by the speed of change.

A well-regulated market attracts capital. You speak to anybody in the Far East, about where capital is flowing; it flows to well regulated markets.

CLAUDE LEFEBVRE

Regulation in Bermuda has been pretty proactive.

The BMA has worked very closely with local companies; Solvency II equivalence is on our doorstep. It's been a collaboration because everybody knows what's at stake here, and for us to continue to be relevant, and perhaps even dominant, we have to be at the forefront. The BMA has done a fantastic job of being an exemplary regulator.

KATHLEEN FARIES

We talk about innovation, but are we really being innovative? We are making it easy for capital to get into the market, but there has to be real technological innovation around how we deliver to the market. I think we think we're being innovative but how much are we really changing the way we do business.

We should be saying to ourselves, we are a leader today, absolutely, but if we are going to remain a leader we have to partner with as an example technology firms if we are serious about innovating around how we do business and becoming more efficient.

CLAUDE LEFEBVRE

The new capital is coming in, and it's a good thing. We have to realise that there's a lot of problems in the world. These are problems that are not solvable right now, and we need extra capital, we need cheaper capital, we need broader access to solve those problems.

Des Potter – Bermuda has a competitive advantage today, but it can't rest on its laurels, it's got to continue to evolve.

STEVE
EVANS

From the brokers' position, what do you expect to find in an ILS domicile and what do you need them to deliver for you?

HENRY
KINGHAM

I think the ease of transferring business in a timely manner is paramount to our clients. Some of the ILS funds heavily rely upon a Bermuda base for producing cat business, and are now looking to diversify to London for a specialty angle. I think London will fight to retain cat market share, and Bermuda is actively trying to do the same for specialty business.

CLAUDE
LEFEBVRE

There's no reason why the specialty market can't move here. There's plenty of specialty business that gets done on the Island and Bermuda itself has been proven to be a leader in innovation.

HENRY
KINGHAM

The perceived lack of a credible third party model in marine, energy and aviation has hindered ILS funds from entering these specialty markets.

STEVE
EVANS

A lack of models, or an over reliance on models, is often part of discussions surrounding the expansion of ILS, but without risk models, where would the industry be today?

JOHN
WILLIAMS

Coming back to Bermuda and how much do Bermuda, or do the funds rely on third-party models, which effectively is ceding some of their underwriting responsibility in a way, I am being controversial here too, to a third-party model which gives them a leverage to write business.

DES
POTTER

Leverage in the 80s was retro, then retro went, cynically some people would say that the modelling industry has created 'scientific' leverage to take the place of reinsurance leverage. I don't know what people think about ceding their underwriting responsibility to a third party model. I don't think anybody can say models have been proved right each time, when there's been a large loss.

CLAUDE
LEFEBVRE

The model is just another tool to articulate the risk, it gives you the number from which to try and evaluate the appropriate price. We are very critical of models, but without them we wouldn't have the market we have today. Models play a great role, and continue to evolve. Over time they will continue to improve with experience.

AXEL
WICHMANN

The model was never intended to be the gospel. If you look back to twenty years ago, the risk was never underwritten, but you couldn't have done this without some kind of tool. These accumulations now are massive, and without some kind of yardstick, some kind of apparatus to help you measure what you are undertaking, you have no chance.

If you look at what you get paid for in the NatCat space, in let's say the US for cat risk, we all believe that we don't need this extra margin, for that the model might be wrong.

Many have moved alongside, and in order to compete, they need to have the modelling expertise, whereas we all started with being behind the insurers, you trust the underwriting expertise of the manufacturer, of the franchise.

STEVE
EVANS

With models improving, what can Bermuda do to ensure it gets its share of new risk opportunities?

BRAD
ADDERLEY

I definitely see the next wave coming to Bermuda, probably from all of you. Partly because when you look at what's going on in Bermuda over the next year, through regulations and through the National Association of Insurance Commissioners (NAIC) approval, we will be able to reinsure onshore cats without having to put up Letters of Credit (LOC). Also, hopefully with Solvency II equivalency, Bermuda is going to be the only hub that has access to two of the largest insurance markets in the world.

JOHN
WILLIAMS

From the investor point of view we are in the ILS market, but we are providing non-catastrophe risk, so completely different to a lot of people. And in our business which predominantly is run off, we're in the largest centre in the world specifically for run off, you've got three of the largest single operators here, so Bermuda has been very open to innovation.

Now it's all about capital, we've moved on now to capital efficiency, and that's what we do, and I think everybody is looking at providing capital at the most

efficient level, and that's what Bermuda is very, very good at, and should continue to do.

What other jurisdiction has that international knowledge to be able to adopt and manage the regulatory process of their laws in such a way, to then go through the process to become Solvency II equivalent, especially the offshore market, it doesn't exist. So we understand that in Bermuda you cannot make silly mistakes about regulation and not have the support industries to help the market, you have to have well regulated, smart regulation, and the business will be efficient and come.

JOHN SEO

I think this is a very interesting point, because you are asking how can Bermuda do more to be part of the future, and I agree with everybody, the base is incredibly solid, it's very likely Bermuda will continue to be the centre of innovation in all future markets, whether it's traditional or alternative or however you want to label it.

I want to see Bermuda get more involved with the World Bank, with Washington DC, with government, there's a love hate relationship obviously, between the private market and what I will call government markets, but we have to remember that governments in the end are what compel people to buy insurance.



John Williams –
Everybody is looking at providing capital at the most efficient level, and that's what Bermuda is very, very good at.

STEVE EVANS

Now that we've touched on the protection gap, how influential do you feel Bermuda can be in bridging that gap, particularly in emerging economies and markets?

JOHN SEO

I think that if Bermuda makes an approach to governments or to organisations like the World Bank, I think they will have a lot of credibility in front of them and they will listen to the advice.

KATHLEEN FARIES

A lot of this is going to happen in partnerships, so I think Bermuda and the World Bank partnership was a great idea.

How can we partner with the World Bank? Should we also be partnering with London more actively on the ILS initiative in order to grow the market together?

BRAD ADDERLEY

What we need is for the BMA, when people come to us with new ideas for a new transaction, to allow us to do it in Bermuda. End of story. The African Risk Capacity (ARC) is an example of that.

It was the first time in over 20 years that a mutual company, operating as a not for profit organization, supported by "for profit organizations" and various governments was talking about pan-horizons; providing a protection gap not seen before with commercial markets involved.

So think about it that way - governments, not for profits, commercial markets, a risk not done before, available to 26 countries, in a country that to a certain degree, requires the education of monetary and finance authorities. Eventually, the insurance vehicle will be relocated to Africa, where really it should be because it is there to provide support for Africa disaster planning and finance needs. That is exactly what we've been talking about today and that is actually what is happening now.

I can tell you right now that because of the publications and articles, the people at the World Bank, the lawyers involved with that work for the World Bank and I, have been contacted by other countries saying, "We saw ARC. How can you help us structure the next similar deal in other countries?" By just being at the forefront, structures will always see Bermuda as a possibility. The instructing party wants to learn from our experiences so they approach us with their questions. That's exactly what happened.

We hope that the BMA will continue to allow us all to play in the sandbox so that we can continue to create new structures in Bermuda. To be honest it stems from the fact that if you do the first ARC in Bermuda the next innovative structure will come here also. By just being the first to do it, others are coming to Bermuda asking how we can help them structure and innovate the next deal.

JASON
CARNE

I think John's idea is a good one, Bermuda could reach out to the World Bank and Washington, I think it's a great idea, I really do.

To me the role of government in emerging economies is critical in providing insurance in whatever form that may take. So we have seen some progress, the World Bank has also been very proactive, but I don't think it's going to happen overnight. Governments really have to take a leadership role either in their own name, or through facilitating insurance in some of these emerging economies to help it grow and help it happen.

JOHN
SEO

This is going to sound very condescending but what governments will tell you is that they don't really understand insurance and reinsurance markets very well, they know what they are, they can read the Wikipedia page, but really there's not enough insider industry knowledge of these markets. So if you leave them to build government solutions, they don't know how to integrate them fully into the private market.

Governments would love to integrate government backstops and solutions into the private market; they would love to see the private market eventually take it away. Compulsory insurance is the bedrock of the industry. It's an unnatural thing actually, to buy insurance, we have heard that said over and over, so how it all starts is when the government just says, at a minimum, we are going to make some forms of insurance compulsory.

JOSEPH
LOUWAGIE

The mandatory purchases worked really well in Turkey with the TCIP; I think you got a 40% buy out of the earthquake insurance. I think where the opportunity for Bermuda is, is they can help play a role to educate governments so that they don't create this facility after a major catastrophe, and look at how CA got started after a major earthquake, look at the TCIP, and how it got started.

The only entity I am aware of that actually started on its own accord without a catastrophe happening is the PIED in Romania, which is similar to the TCIP in Turkey, and that was through education of the market, working closely with the government to put something in place without the need of a major earthquake to drive it forward.

JOHN
WILLIAMS

There's a lack of risk transfer in economies, within industries, protection for the capital that actually flows into those economies which often isn't protected.

The other thing is regulatory issues, it's all very well saying we would love to support Third World economies, I know over the last fifteen years people have been trying to do a lot of stuff in India, but because India is a closed market, they just haven't been able to do it, because they have been shut out.

It has to be a combination of partnership with the local insurance industry and the global insurance industry, in those particular countries where you want to do business.

CLAUDE
LEFEBVRE

Looking at the Third World economies, we're so dependent on them. A lot of our imports come out of these countries, and sometimes we don't provide them with the support they need to survive. I think it's almost a must that we have to enable these capabilities, to make sure these people can have normal lives so they can grow as well, because these small economies can destabilise ours, not just upset theirs.

SAMIR
SHAH

The World Bank has tried in many parts of the world, where they put in incredible infrastructure, and people will still not buy it, because this culture of insurance is still novel to them. They're thinking that if there's a huge disaster, I've got other things to worry about besides my property.

Typically we don't like governments getting involved, but it's hard to have just market forces by themselves.

If there's anything different about the way the risk capital is coming in now, it's that there is an opportunity to fundamentally expand the insurance market and close the protection gap that people talk about all the time.

TOM
JOHANSMEYER

The notion of the government providing a runway for that dynamic I think is fantastic, you do the big investment, the big risk that the private market would have had to monetise over 30 or 50 years, that's a lot, nobody is going to make that kind of investment, that's where government can make a difference.

But it's got to come with that sense of a maturity date where ultimately yes, you've got to go off and fly on your own. And I think the World Bank is heading in that direction with what they're doing, and I think that's how you change the world. You are taking economies, now you are providing different facilities for emergency financing, for companies or countries that wouldn't be able to handle that on their own, help develop those economies, and then one day you can run on your own, and you should, that's always got to be the goal.

Your developing markets, that's where the big wins are, that's what we should be focused on.

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**Tom Johansmeyer –
 Your developing
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JOHN
WILLIAMS

I think everybody would like to enter new risk markets, but it also has to be efficient from a regulatory point of view and perhaps Bermuda is again a place where you can do it through insurance and reinsurance structures, which you couldn't do through a banking structure or a pure investment structure.

STEVE
EVANS

So as well as accessing new risks, what can the ILS market do to extract more value and get closer to the ultimate source of the risk?

TOM
JOHANSMEYER

Let's go down the exchange traded road because I think we are going to go down there whether we want it or not. When we look at how we transfer risk right now and how much more effective it could be, and we tried exchange traded three years ago and bailed, and that's the most recent entry of a long list that tried and failed over the past thirty years or so. When you look at cat bond lite, it is the index trigger used, when you look at what it takes to get a cat bond lite done, what you have to invest to get 25, 20, 10 million of risk off your books, you've got to be mental if you think it's worth issuing a security for that, you should be trading in and out of that. And right now, that facility doesn't exist to move small amounts of risk easily onto or off your books.

HENRY
KINGHAM

There's other ways to reduce frictional costs rather than exchange trading risk. When we talk about trading on an exchange I think we need to discuss the primary goal, and is that liquidity or reducing frictional costs.

TOM
JOHANSMEYER

The liquidity comes later; I think the first benefit you have to provide is the reduced frictional cost, because that's what you're getting out.

DES
POTTER

You are starting to get it in the ILW market, more and more is being executed in swap form, and you've got a semblance of it there. We are not that far away from someone developing credible indexes around loss ratios either.

Is that not how an exchange traded market develops? When you have the ILS funds hedging amongst themselves in financial contract form, where they don't have to prove a loss. If you look at the origins of the oil market and some of the other commodity markets, it all starts with a physical market trading amongst themselves and then the financial markets come in and offer positions once they are satisfied they have a credible reference point for price discovery.

AXEL
WICHMANN

But creating something that's very liquid, whether it's a rated exchange or other means in the secondary market, making it very efficient, making the rating more reliable so that more investors can come in.

TOM
JOHANSMEYER

That's where I think all of us, everybody, and yes, we're going to have frictional costs too, we need to earn our pay every day, we need to show we're earning it. I think there are plenty of opportunities, even in exchange traded environments, for us to earn our keep.

STEVE
EVANS

What must the ILS sector do to ensure it maintains, and improves its relevance and efficiency as a maturing asset class?

PAUL
SCHULTZ

To me, it's pretty simple. If in the distribution chain one of the links isn't adding any value, then that link is going to have to change to stay relevant, and if there's a new technology that can cause a process to happen quicker, faster, more efficiently, there will be change.

I think there are tremendous developments already happening in the industry, and as a broker we tend to see these developments before some of the other market participants.

If there's no value, it's just a cost, which in a market with compressing margins simply has to go away.

If you're not growing, if the pie's not growing, the alternative market can only get so big. It's the willingness to write new risks, and creating more innovative financial solutions for clients that's offering new growth opportunities.

AXEL
WICHMANN

We are just distributing a given pie of NatCat risks that's not really growing at the moment, and trying to distribute it in the most efficient way. In order to grow that pie we need to move to those areas where I think there is a still a certain reluctance from the ILS community to support us.

Part of it is creating a very liquid robust asset class, not an add-on to the very opaque, bespoke, reinsurance industry, the way collateralised reinsurance does. Although I understand why it happens, it's just often because we don't create enough product.

CLAUDE
LEFEBVRE

It's all about efficiency, really, and in the end, we are here to serve the customer. When the premiums are too high, somebody will find a way to offer it more cheaply. In the end, the consumer wins.

If the ILS market becomes a more affordable source of capital, if you can enhance distribution, I am sure you can reach out to more. The inefficiency of the market is impressive. There's got to be some innovation somewhere to improve that. This is where innovation needs to transform this industry to make it more exciting and enticing, and that will be through technology.

ILS is not an enemy. ILS is actually going to facilitate some of this, because it doesn't have the same cost to capital. It has increased access to market. I think you should embrace it; you should probably want to partner with it and bring it in house. I think it's all part of the solution, and that intersection between insured, insurer and ILS is going to be very powerful.

SAMIR SHAH

If you have a value chain where the insurance company says, we underwrite the risk, and then you have a reinsurance underwriter who says, we underwrite the risk, then you have a fund manager who is saying, we are underwriting the risk, well there's a lot of people being paid to underwrite risk, and it would be more efficient to have one rater, one reliable, credible rater of the risk.

This idea that everybody needs to be the underwriter of the risk and have their own model, if there's a real need for that, it's unfortunate, because it's creating a lot of friction in the value chain.

Now I am talking about having one rater of a risk, not one price. Everybody needs to price the risk in their own context, so the fund manager needs to price it in the context of all their other investment opportunities. That's obviously a job only the fund manager can do, and nobody can tell that fund manager what the price should be.

I realise on quota share that perhaps this is what they are suggesting, but I think I would like to distinguish, at least for myself, between who is in the best position to rate the risk, or think of it as coming up with expected loss, versus the cost of that risk, in terms of the cost of the capital.

KATHLEEN FARIES

We have always had this concept of either following someone with a quota share or for at least the funds that we work with, wanting to underwrite individual risks in order to pick and choose based on their individual risk view and risk appetite to build their optimal portfolio. The whole concept was that they didn't want to follow someone else, they wanted to say, we have our own risk view, and that's the value that we bring to the table, and to the investor, and we are going to pick and choose the risks that we think are going to build a better portfolio on a more efficient operating platform.

But now you're saying the circle is complete and there is a shift back to, well we have a lot of capital that we've got to deploy, so the easiest way to do that is to follow somebody on a quota share basis, we know that there are some players that do that in a very big way. It is kind of interesting to watch this evolution.

But if you are going to pay someone for something, what you are paying those fund managers for is to have their own risk view and expertise, and ability take a view on select portfolio for the investor. You can't really do that if you're doing quota shares, unless you are saying, I am underwriting the underwriter, but then you've got all the costs associated with all those bites of the apple. It has been so fascinating to watch the space evolve.

And now not only are they doing quota shares, but they are actually starting rated reinsurers, so now we really have gone full circle from being select and picking individual contracts on a much more capital efficient platform to, I am just going to be a rated reinsurer writing a leveraged portfolio.

JOHN SEO

At the investment manager level, it's actually not all about that; it's not all about the underwriting. It's actually, as Kathleen was touching on, recognising the fact that your clients, your investors are not necessarily in the same situation as the insurer or even the reinsurer in this value chain. That affects the pricing.

So there's not a perfect alignment of the interest, with the investors and the insurers and the reinsurers. I'm not talking about moral hazard, I am just talking about the way that investors expect to be compensated.

It's not just: I don't trust your underwriting. We know that the insurer, who owns the risk, typically knows most about the risk, not always, but they typically do. The reinsurer, there in the front lines, knows a tremendous amount about it, more than the ILS sector does, for sure. But ILS investment managers should know enough about the risk and these alignments of compensations and incentives to make an informed decision about what we will take or not take.

Do you think two reinsurers agree exactly on the numeric value of a risk? They don't, and they shouldn't, because reinsurers themselves are situated differently in the market. What one reinsurer considers a systemic risk in their book, another might actually consider idiosyncratic risk, so all that also changes when you come into the ILS side.



KATHLEEN
FARIES

Let's lay the regulatory issue on top of it as well, so even if you think the risk should be rated one way, you may not be able to get paid that rate, because of a regulatory or political issues.

DES
POTTER

This market does understand risk, and is getting a better understanding day by day. ILS investors have a good appreciation of the probability of nat cat risk and how that risk should be priced. It's not so much that they don't trust the underwriters, I think they find it very difficult to evaluate marine and aviation risk and therefore to price it. The reason is the recent frequency of large losses in the sectors, which makes risk evaluation and pricing even more challenging.

STEVE
EVANS

At a time of industry-wide consolidation, what can Bermuda do to ensure it retains its impressive talent-base, and also to ensure it continues to attract the next wave of expertise?

PAUL
SCHULTZ

Bermuda has to ensure that there's enough expertise on the island, and that the expertise doesn't simply pick-up and leave. We have already seen some people leave Bermuda, and we need to make sure that enough expertise remains, so that when capital does want to flow here, there are people who can manage and direct that capital.

This process has already started to happen; millennials are coming into the business, and as an example we as a firm have completely redesigned our London office in part to help millennials realise that it is an environment that is comparable to the Googles and Apples and so forth.

TOM
JOHNSMEYER

There will be redundancies, we need to retain talent on the island, not get them to come back later. We need to make it easier for people to make jobs, when that's where that M&A activity or redundancy happens, and if you're doing that on the island, you're providing a facility for incubation, which I think ILS Bermuda is ideal for, there's no better route for that.

We need to make it easy for people to start the new things we're not even thinking about yet, keep them here when the redundancy happens, make it easy for them to solve the problems that they may otherwise leave behind.

HENRY
KINGHAM

There's a generation of millennials based on the island and the reinsurance industry should be actively engaging that generation, be it reinsurers, the regulators or lawyers, in the form of scholarships to colleges. Bermuda should be actively encouraging this talent development.

DES
POTTER

This wave of M&A has resulted in some experienced people leaving the island, but the depth of talent in underwriting and support services is, what makes Bermuda unique.

CLAUDE
LEFEBVRE

Apart from London, there's nowhere else in the world where you can access this pool of insurance talent, as efficiently as you can here, and that gives Bermuda a huge competitive advantage. But Bermuda has got to create the environment to maintain and regenerate that talent.

It's inevitable in this cycle. We're at a stage where M&A has to take place and there's nowhere to go, so it's going to happen, there's no other way about. But the amount of talent on the Island remains strong, we have a leading position in innovation, and we have a duty to keep that going and the smart people will remain.

They will want to flock back here, because the capital will flow and more companies will be formed and maybe newer people, smarter people, more innovative people, will come and join us.

BRAD
ADDERLEY

The hope is of course that the people who have been made redundant or lost their jobs because of M&A deals have ties to Bermuda already. That will set Bermuda up for when the next wave of capacity or capital comes in. What we have been seeing is when it comes to new formation, if they're in Bermuda, they will pick Bermuda. If that happens in the next two to three years hopefully it will help keep the talent on the Island. So it will be interesting to see what happens in the next 16 months.

How many CEOs who lost their jobs stay in Bermuda during their down time? Hopefully, they end up in new companies in Bermuda.

STEVE
EVANS

Finally then, as we're almost out of time, it would be great to hear some thoughts on what the future holds for the ILS space.

JOHN
WILLIAMS

We're going to see huge change over the next ten years; it's been a big change over the last ten. So I think the ILS market will grow and is growing, as specialty insurance and then everything else. Some say it's slow, it was slow ten years, fifteen years ago, nobody thought that they would be sitting here ten years ago. Although the barriers to entry are very high once the work's done, the financial resources are enormous. Good execution will be very interesting to observe.

CLAUDE
LEFEBVRE

We've got some big challenges, though. Insurance, in and of itself, is not sexy.

We are going to be moving with the next generation from an analog world to a truly digital world, and our business will be completely different from two generations ago.

DES
POTTER

The capital markets aren't going to take over insurance for a long, long while, or ever, because of the complexity of some insurance risk, though it can have a greater role than it has today.

The challenge, with ILS is, you've got to expand what you mean by that; today ILS is predominantly property cat risk.

This is not about making reinsurance cheaper and cheaper day after day after day; it's about growing the demand pie and then using capital markets' capacity to efficiently provide the support to those parts of the insurance market where it's needed.

SAMIR SHAH

There's a fundamental opportunity here now, in this timeframe, to use this alternative capital as a means to expand the insurance market as opposed to simply trying to reduce the cost of reinsurance, which is a very narrow objective. It would be unfortunate if that's all that happened.

Insurance may not be sexy, but I think what's sexy is disruption – people love that idea. I am convinced that there will be disruption. I have seen what's happened in banking; the disruption caused by shadow banking, market place lending and peer-to-peer lending, Insurance is ripe for it, and that's what will make it sexy.

JOHN SEO

The future of insurance is going to make the cutting edge today look old school.

KATHLEEN FARIES

What some of my generation probably don't realise is how quickly things are changing. When you think about 3D printing, cloud technology, big data mining, – all the things that are happening sort of underneath us – you can see the footprint of change coming.

However, by the time you start to recognize and feel the change, it is usually too late to react and change course – we will simply be dislocated and disrupted if we don't get ahead of the change.

TOM JOHNSMEYER

Also we should prepare for the day when ILS becomes old, boring and obsolete because there's a better approach, and that should be the goal, right, not to take something and protect or coexist with it, our goal shouldn't be to foster ILS, our goal should be to drive greater access to more efficient risk transfer and to generate the returns we need to, for the people who fund us.

John Seo –
The future of insurance is going to make the cutting edge today look old school.



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Key contact: Richard Lightowler, Head of Insurance,
T. (441) 294 2608 E. richardlightowler@kpmg.bm

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