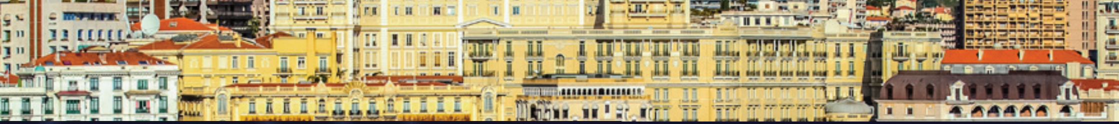

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Artemis Monte Carlo Executive Roundtable 2019

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FOREWORD

Welcome to the fourth Artemis Monte Carlo Reinsurance Rendezvous Roundtable, which featured discussions and insights from insurance, reinsurance, and insurance-linked securities (ILS) market participants around a range of industry topics and trends.

In the aftermath of consecutive heavy loss years and subsequent loss creep, which adversely impacted numerous players across the ILS and broader risk transfer sector, the initial discussion focused on the response of the ILS community, investor appetite and the fact that ongoing change across the space is perhaps more cyclical than structural.

Market experts explored demand for proportional business, the desire to give investors more risk and longer-term deals, as well as trigger points, the potential impact of Solvency II, and whether low interest rates will generate increased demand across the space.

In spite of the recent loss experience, the ILS sector continues to expand and both investors and managers have shown their commitment to the property catastrophe arena. While participants agreed that ILS can play an increasing role in the nat cat space, the potential for ILS to play in other, emerging areas such as cyber risk, was also debated during the event.

Market dynamics over the past several quarters offered a real test of the structural features of the ILS asset class, and roundtable participants highlighted that the recent claims experience served as an important education for an industry that continues to learn through the reserving process.

Looking forward to 2020 and beyond, and participants called for a continuation of disciplined underwriting amid retro market challenges, and a continued push across the risk transfer space for a more efficient cost of capital, and more efficient operating models.

Steve Evans
Owner and Editor in Chief, Artemis

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FROM LEFT TO RIGHT, BACK ROW:
Rhodri Lane – *Aon Securities*, Steve Evans – *Artemis*, Richard Boyd – *Allianz Global Corporate & Specialty*, Ben Rubin – *AXIS Capital*, Brad Chance – *Veraton Capital Management*, Clark Hontz – *Beach & Associates (Bermuda)*

FROM LEFT TO RIGHT, FRONT ROW:
Luca Albertini – *Leadenhall Capital Partners*, Tom Johansmeyer – *PCS*, David Govrin, *Third Point Re USA*, Jutta Kath, *Schroder Secquaero*, John Williams – *Armour Group Holdings*

PARTICIPANT INDEX

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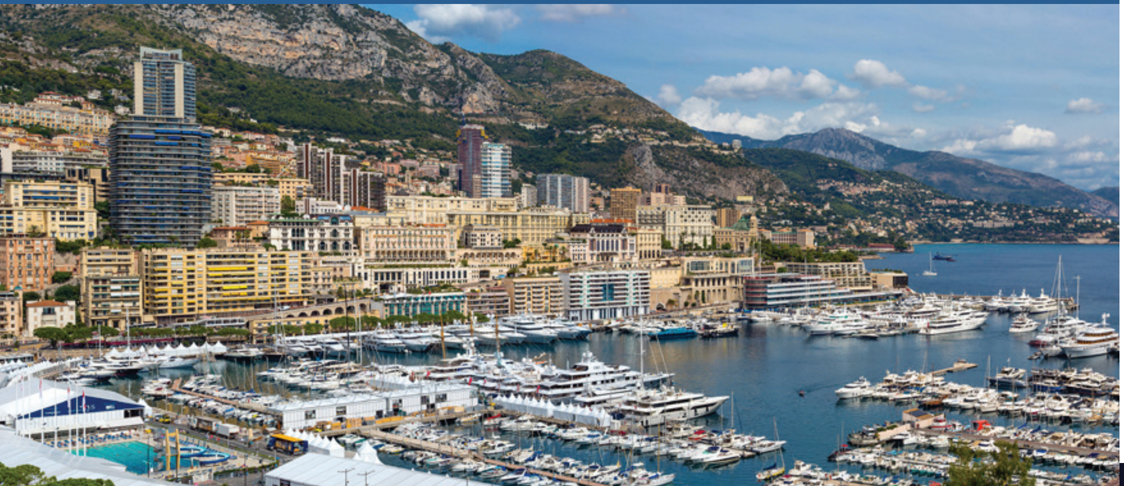
Clark Hontz, President, Beach & Associates (Bermuda)

John Williams, President, Armour Group Holdings

Tom Johansmeyer, Head, PCS



STEVE EVANS

To start, let's discuss market conditions and more specifically the response of the ILS community to the losses in both 2017 and 2018.

JUTTA KATH

We recently saw some good signs of recovery in the June and July renewals but I don't think that is enough. More improvements need to come as our investors are still asking some tough questions regarding rate increases. But at least there is some sort of movement.

LUCA ALBERTINI

The market is supply and demand, right. And, clearly, for a while we had more demand than supply of capital. It's clear that there are areas of the risk tower which are no longer coverable by reinsurers. So, there is a lot of scope for positive rate movements, but then at the same time there's not that much capital ready to be deployed.

RHODRI LANE

There's a lot of demand for capacity from cedants and we are working with investors to meet those needs. In particular, there is a lot of demand for proportional capacity and we are working to secure enough capacity to meet that demand. With respect to cat bonds the volume of cat bond limit purchased may be down this year, so far, but this has still been an active year in terms of number of issuances and the near term pipeline looks active.

Luca Albertini – **There are areas of the risk tower which are no longer coverable by reinsurers**

STEVE EVANS

Where does that leave the independent asset managers, who perhaps don't want so much proportional business?

JUTTA KATH

Getting into proportional business needs to be part of a balanced approach. It is a part of our portfolio but we have been looking very closely at whom to partner with, and that's a trend that will continue over-time. You can't just throw out capacity like there is no tomorrow, you need to be very selective. You need to look into the underlying data and perform a reality check. There is always a space for it, but I think that it needs to be part of the overall strategy.

LUCA ALBERTINI

I think to show investors the benefit of proportional will take a bit of time.

DAVID GOVRIN

Isn't part of it though in a quota share executed by an ILS fund, the investor is paying fees on top of fees and there may not be enough expected margin in the original business to support all of the fees over the long term?

I understand there is a fee but all of the fees may not be so transparent to the investor, especially when the underlying distribution is so skewed as it is with property catastrophe.

BEN RUBIN

There is tremendous value in proportional deals. We execute them in rated form, in collateralised form, and the value and alignment is delivered to the investor. Inherent leverage, diversification and access to businesses are critical. That is a great win for investors.

BRAD CHANCE

I think investors actually want more proportional deals because they want to see that they're paying losses at the same time cedents are paying losses. It just gives them another comfort level. This comfort level is now more important in light of the 2017 events from (i) loss development duration point of view (ii) unanticipated events such as California wildfire.

RICHARD BOYD

They are now demanding discipline from the managers and I think that's the difference in the last three years, that the discipline has returned to the market when selecting clients and selecting deals.

CLARK HONTZ

Also, from the brokering side, to focus on the excess of loss side of the business, we're seeing clients having to come to the table with a lot more thought put into what kind of structure is most effective in today's market, given adjusting exposures, improved modelling and things like that. And, they (investors) are competing with clients growing ability to retain their own risk, as opposed to ceding that risk to 3rd party capital. We run into that a lot right now.

Richard Boyd – **Discipline has returned to the market when selecting clients and selecting deals**

STEVE EVANS

Is part of this cyclical?

CLARK HONTZ

I don't think so, I think this is a more permanent future indictor of required terms and conditions of doing business in the ILS space. If a client wants to conduct business in the ILS market with a collateralised reinsurer, clients are going to have to accommodate the informational and data transparency needed. So I think it is a long-term shift.

JOHN WILLIAMS

What does the panel think about the possible return to multi-year structured quota shares with paybacks, and how does that align with investor appetite because of the possible duration mis-match between funds raised and risk duration?

Put another way does that mean that it's going to preclude some of the ILS funds participating on a multi-year structured quota share, or is it going to be utilised by fund managers to reinsure themselves? Potentially this may provide more access to capital, albeit at a higher price because you obviously won't buy or sell a structured deal unless you know you can get paid?

RICHARD BOYD

I think the current market conditions necessitate structured deals right now, because it's no longer easy to get away risk, and that goes back to that discipline point and that investors are demanding discipline from the managers, and managers are exhibiting that discipline when they're selecting risk. So potentially structured deals & run-off deals start to become in vogue.

BEN RUBIN

It would be very reasonable to think that a multi-year transaction could be part of any cedants' programme, but it has to be in the context of a broader capital management programme, as there has to be diversification. Reinsurance is a form of capital. For investors who have very long timeframes, it makes sense to align the duration of capital with the duration of liabilities.

CLARK HONTZ

When you go into multi-year transactions, accounting issues can emerge for clients, so it's important to measure those issues closely. Three years makes sense, but multiple reset events are needed as underlying businesses, exposures, territories change in a fairly short period of time, and so it becomes more complicated.

TOM JOHANSMEYER

You get tradability instead of resets. That leads into a whole host of other issues and you can get stuck with a stale asset. But, more thinking should go into the notion of being able to trade out of long-term instruments like that and have fixed income-style market price dynamics associated with it, rather than, traditional reinsurance solutions with annual resets and so on.

What is interesting is provocation. One thing missing from that 10-year structure, you need some sort of provocation throughout that process to stimulate trading, otherwise the only trading you are looking at is based on portfolio optimisation. If you've got a larger contract where stuff is likely to happen, which causes you trade or the need to trade, that gets more interesting.

STEVE EVANS

There's appetite to give investors more risk and longer-term deals, but how do you align that with what the end investors really want?

RICHARD BOYD

It also needs correct valuation of that liquidity and that has a value, and until people are willing to pay for that value, it won't happen. But I think the last couple of years have demonstrated the value that's inherent in liquidity that people are starting to get their heads round and realising there is a price for it.

TOM JOHANSMEYER

The problem is you need that critical mass to make liquidity realistic, and that is what we've always struggled with. There just isn't enough of this sort of risk out there that people can really experience liquidity. Which means brokers need to work a lot harder to originate risk.

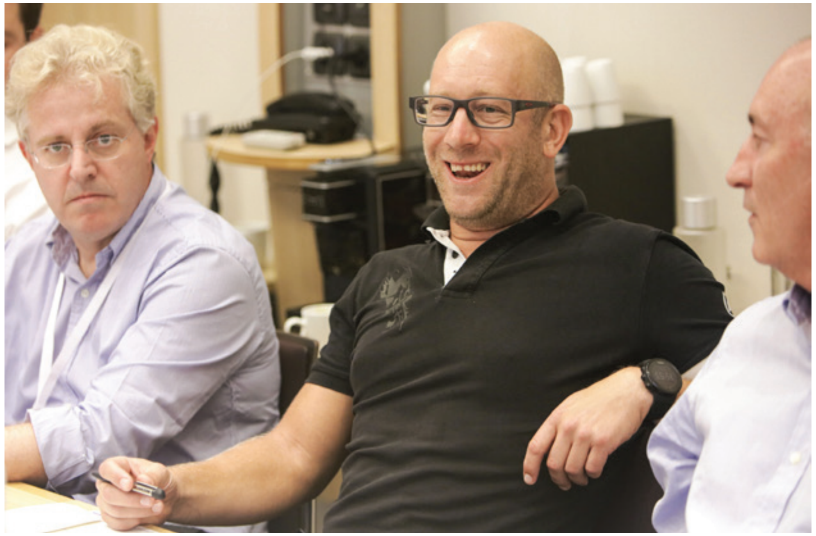
One of the enduring lessons of Irma should be that basis risk may not be as bad as the whole process of a loss dragging out for two or three years. Is it really less expensive to deal with that than it is to lose on basis risk? I'm curious to see. Basis risk might be worth it in the long run.

DAVID GOVRIN

You can start structurally with these things as well. If you're going to buy a binary trigger you're going to have more basis risk. You can solve a lot of issues with structure.

TOM JOHANSMEYER

What's interesting is that we trade ILWs in round numbers for no reason. $20 billion has always been talked about as a magical threshold, mostly because that is what is marketed. I get that ILWs are smooth and efficient and fast, and they should be and they need to be. But let's start thinking about structuring these solutions that meet actual needs out there, rather than forcing the client to adapt to the structure of what should be a smooth and efficient instrument.



JUTTA KATH

But shouldn't the trigger point always reflect the risk of the company?

TOM JOHANSMEYER

My point is that the trigger number should reflect something about the needs of the company and nobody can identify where the $20 billion came from.

CLARK HONTZ

Many years ago the industry started modelling exposures in a more detailed manner. As the industry developed these analysis, clients felt more comfortable matching their own exposures against that of the industry (even with the basis risk associated with index protection). If an index in the future were to be very transparent on how that index is developed and generated, basis risk would be minimized and more efficient structures would be available to trade.

DAVID GOVRIN

Exactly, create indices that are more transparent and modellable and then you should have more trading.

TOM JOHANSMEYER

Take the other side, because to a certain extent you also need models that reflect the indices. Because in reality, they talk to modellers all of the time who haven't spoken to us in years, and have models that are built independent of us and then wonder why they get a result on Jebi like they did, or on Irma, or on Maria. The reality is there has to be a lot more conversation across the industry, rather than waiting until something blows up and claiming a lack of transparency.

STEVE EVANS

Regarding the trigger point, how much influence do people think that Solvency II has or doesn't have?

JOHN WILLIAMS

As a run-off capital provider we have seen Solvency II driving capital requirement and their resulting capital allocation for anybody operating in Europe or Bermuda. So, I'm just interested about the cat forward looking markets and how much attention is paid to that and what the influences are in this respect? Are there significant differences between the U.S. and Europe from this point of view? Especially as the U.S. government recently signed a covered agreement with the EU. Do these regulatory requirements quickly flow through into the cat writing markets?

RICHARD BOYD

It goes back to the model question because those regulators are very reliant on the models and the expectation that when you're using them you know what the pros and cons of using them are.

CLARK HONTZ

The higher you go up on an index the less benefit you're going to get from buying reinsurance, when it comes to taking reinsurance credit on a balance sheet. And so, that is why we've seen most of our clients moving towards the ultimate net loss (UNL) space, who want to do more business with ILS providers, and those conservations are more focused on the collateral that is being used and what kind of terms and conditions are in the contract.

TOM JOHANSMEYER

I think there's a healthy balance that has got to happen here, I've never thought of the ILW as a first solution, it's a tactical solution based on specific needs of the market.

Tom Johansmeyer – **What we need to see is more origination from everywhere**

STEVE EVANS

And what about the investors, are they looking at ILWs for the diversification?

JUTTA KATH

I wouldn't say they are looking for it. They want to have a well-diversified portfolio and I don't think you can do that with just ILWs.

TOM JOHANSMEYER

I look at the map and see where I want to expand to, but there are some parts of the world where there just isn't a whole lot of opportunity.

Does anybody care about an Afghanistan / Pakistan index? Not at all. There just isn't enough insurance there for anybody to care. Argentina? Maybe. Chile gets interesting every so often when there's a loss, but two years post-loss in Chile and nobody is thinking about it anymore. So, what we need to see is more origination from everywhere.

JOHN WILLIAMS

For run-off transactions demand is driven by capital requirements. So globally we have seen a large increase in the number of transactions and the size of transactions. Pricing of our transactions has always got to be reconciled with the fact these are generally providing finality solutions and hence they have to be priced in that context.

STEVE EVANS

And this goes back to the earlier point about origination?

JOHN WILLIAMS

On distribution of our product, even though it's still eclectic, we're seeing a lot of investment by the mainstream brokers into talent now. It used to be mainly large accounting firms, investment banks and direct contacts but clearly the broking community has heavily invested in the market, the big brokers have made a pretty big push. I believe this investment in distribution is a further manifestation of the convergence of capital, risk and the capital markets.

The biggest question for any CEO in Europe now is what am I going to do with negative interest rates on lines of business with 5-year and longer average duration on reserves? By the way, it's not getting any better anytime soon.

STEVE EVANS

Is that where the growth in new markets is coming from, low interest rates?

JOHN WILLIAMS

Yes of course, it's about return on risk adjusted regulated capital. When we talk about Solvency II, it only came in in December 2016 and the insurance market is slow moving and very slow to adopt. So return on the capital requirements are the primary driver for re/insurers. The regulatory requirements of all Solvency II filers means they have now started modelling capital 'properly'. Previously unless you were very sophisticated, most firms didn't model capital with as much thought as they do now.

So, the regulatory changes have given management and the Boards of Directors the impetus to look at their capital stacks and take action and to do things. Then, of course, the slow burning secular change of declining interest rates just adds fuel to the fire. For instance you have $1 billion of reserves and you've got $300 million of capital, that $1300 million (reserves plus capital) is getting a negative return and you can't use the reducing capital portion elsewhere, so the run-off product and market becomes an attractive, sophisticated counter-party in order to optimise capital.

STEVE EVANS

Does that make an opportunity to use third-party capital for those deals as well?

JOHN WILLIAMS

From the investors view I think that they want a breakdown in total return so that they can assess the risk. I mean run-off is a different risk to the future event cat markets, and I think as investors become even more sophisticated they will require a higher rate of return on higher volatility insurance risk. So it makes sense to balance portfolios with an ILS cat manager and other insurance risk. The sophisticated investors will start to differentiate between managers who provide different types of risk.

JUTTA KATH

That process of differentiation has already started and one thing that has happened is that investors want to be provided with more bespoke solutions rather than off-the-shelf products. Products are depending on liquidity needs and currently you have to choose product A versus B. But, we are starting to see more demands for bespoke solutions. And then they are willing to commit, and commit at a decent size once convinced.

STEVE EVANS

If we are moving into another prolonged period of low interest rates and low yields, does that mean more interest generally in ILS?

LUCA ALBERTINI

The alternative space has now more options than the ILS. Now, the more the merrier but we are not the only alternative, however the low interest rate environment will clearly support us. What we have noticed is that where there are negative interest rates, investors still look like a positive outcome.

In some jurisdictions, we have seen investors going to higher risk strategies than would naturally fit their traditional risk appetite, although the last two years have shown the volatility embedded in the higher risk products. So, I would say low interest rates help us, negative interest rates may drive back some capital because at the end of the day in order to make a positive absolute return there is a higher level of risk taking for investors to be comfortable with, and I guess they would seek to adjust to higher volatility.

John Williams – **The sophisticated investors will start to differentiate between managers**

DAVID GOVRIN

Low interest rates should create more opportunity, not less.

BEN RUBIN

Moving closer to the risk and closer to the insured is the opportunity for companies like AXIS in the ILS space. We've done a couple of ILS transactions in insurance and that's a huge focal point for us.

DAVID GOVRIN

And as you drive primary pricing up because other than taking more asset risk there is nowhere else to generate adequate return on equity, other than the price you're charging for the insurance product. This will create more opportunity to develop structured products for investors seeking pure insurance risk as there should be more pure underwriting margin.

JOHN WILLIAMS

Going back to the liability crisis of the early-mid 1980s, it was followed by a super hard market. What do you do if you're an insurer or reinsurer and now the capital markets are looking to disintermediate and get directly to that risk, through various channels? This creates a very different competitive animal roaming the market looking to be guided through the insurance markets, which is very interesting and potentially very profitable.

STEVE EVANS

Getting closer to the risk is one way, but what other opportunities does the market need to find to feed interested investors?

LUCA ALBERTINI

People often ask me about this new initiative or about this other new product. My view, is that investors over the last two years want to come back in for the plain vanilla traditional ILS portfolio, and then if and when they want to increase allocations in a more stable market, then we can start assessing the merits of investing in something more esoteric, if they are open to it.

STEVE EVANS

And what about entering new lines of business and moving into other areas, is that perhaps where the opportunity is?

JUTTA KATH

Are new risks understood well enough in order to explain to investors in a fashion that they feel comfortable with? I doubt it. Right now there is a lot of talk about cyber but it looks a bit experimental from my perspective, I find it hard to go to the investor and explain with confidence that yes, this is a fully understood risk and adequately priced and we have compelling reasons to write it. Currently, we don't.

BEN RUBIN

AXIS is a leader in the cyber insurance market, as one might expect given our large presence in the market and our cyber underwriting expertise. The modeling of cyber risk is developing and it is important to use a multi-approach to underwriting. If you are aligned with your capital and your capital is supporting you to capture market opportunity, which with cyber is very real, you can generate attractive returns on capital. If you're aligned then it makes a lot of sense, but this all comes back to underwriting. Who you are underwriting, what the underlying risk is.

JUTTA KATH

The first alignment that needs to happen is between the insured and the insurance company before you sell the policy. In cyber, especially, insurance should really be a last resort. You need to conduct due diligence in order to be sure that the interests are aligned.

TOM JOHANSMEYER

With a lot of large, complex risks there is a certain amount of leg work that has to be done, but I think it is worth doing. You look at the big guys, like Microsoft, yes there is always going to be information asymmetry, as with any big specialty risk, but I think it is worth it.

Take someone like Google or Amazon, who aren't looking at this as a way to take care of repairs and they aren't looking at it as a last resort either, they are looking at cyber as an important piece as an overall approach to risk management, which is why Google spent so many years building their tower. Big players like that want to create a risk management environment that can meet a wide range of smart risk management needs and both thinking and insurance is a big part of that.

These guys are begging for it right now and the insurance industry is pushing back, saying I don't understand this stuff.

RICHARD BOYD

The sophistication in the modelling is getting there, it is getting to a point where you can explain it to investors and you can put your hand on heart and say, this is well understood. There is a huge amount of investment going into how we understand the risk and how we model it, accumulate it and that in the end is going to lead to it being an investible product.

JOHN WILLIAMS

The other area of insurance history that is relevant is you can go back to the oil market in the l980s and 90s. Re/insurers were wary of insuring oil companies as their balance sheets were bigger than the insurance companies themselves. It's a very similar argument with the giant tech companies. A cautionary tale for the tech titans is after BP pulled out of the insurance market completely they had a huge run of large losses, including the big one, Deepwater which was a potentially life threating event for them. Part of the reason for their losses, and they owned up to it, was that they didn't have any third-party looking at their risk management process, because they weren't buying any insurance.

So, that is another reason for big tech and ILS managers and re/insurers to partner, because tech should be going to the risk takers of the world to get validation and partnership.

JUTTA KATH

It's a different service that an insurance company can provide, another leg to stand on. Insurance companies have true expertise in the area and should actively offer it. Perhaps a potential insured will come to the conclusion they don't even need insurance, as long as their risk management is ok.

TOM JOHANSMEYER

What's interesting though is that they believe they need insurance and they are working to build those towers. This isn't speculative. I think at this stage they are just trying to build out another part of their risk management strategy.

CLARK HONTZ

And how much premium would those companies buy for those policies? My point being, is that if you're talking about a trillion dollar company like Google, buying $400 million of limit, and what, they are going to spend $5 million - $10 million a premium – not even.

My point is that it's not necessarily a risk management decision from their perspective yet. It's like, let's be part of this potentially growing market and at the same time, if we're going to have a loss, then lets recover $400 million because we only spent $5 million on it. With that being said, the growth of Cyber is certainly dependant on new and large clients entering the market to purchase protection.

TOM JOHANSMEYER

I'm not sure I agree with that thinking though, as they could handle that with the cash they have easily. I think that there is a certain amount of risk management forethought going on here, because they are putting in more work than just the 3-4% rate on line, they are investing in growing their programmes and they are really trying to demonstrate that there is a value for insurance.

RICHARD BOYD

There is some truth there because it is not a lot of money they are spending, so it's somewhat a free option, I think it is somewhere between.

JUTTA KATH

We need to understand the motive and ask questions like "Are they trying to get educated and build a relationship just in case they venture into the market?" And keep in mind: Selling insurance policies is one thing, honouring the claims obligation quite another. Do companies like Google have the latter capability?

TOM JOHANSMEYER

I'm not sure I can get on board with the cynicism because the buying that they are doing wouldn't necessarily teach them what they would need to know to understand the business.

BRAD CHANCE

Look at cyber, there are ten people in the room right, we all have some sort of IOT connected device that once extrapolated out creates challenges in quantifying the risk outstanding. As with model outputs is a real challenge. Furthermore, if you are ascertaining risk at 2.5 rate on line, on a risk adjusted basis it doesn't make sense.

TOM JOHANSMEYER

As an insurer though is that the risk that you are trying to insure? I get what you're saying, but as an insurer looking at some of these cyber plays, you are not looking at a proliferation of devices taken exponentially.

If you look at cyber as the world ending situation that you're trying to insure, personally, I'm not looking at that. But if you look at the Texas hail or even the Hurricane Irma of cyber, I think that is much more manageable. If you look at something like NotPetya, about $3 billion in insured loss, that's a good Texas hailstorm and that is about it, and that's not scary. There's certainly more than a dozen large risk losses in that blend of affirmative and non-affirmative cyber cat.

BRAD CHANCE

While cyber is interesting my point is that you cannot quantify the risk outstanding.

TOM JOHANSMEYER

Maybe not today but I don't think we are as far off as you'd think. And I think that we can understand the risk well enough to certainly provide reasonable protection for a reasonable return without taking on disproportionate risk. And, I think we are already doing that. So, we think there is a lot more of this out there than what most people realise, and we think it is probably more manageable than most people realise, because I think it has to be managed.

BEN RUBIN

Cyber is one of the most complex and potentially rewarding lines of business. We have grown our cyber book of business at 20% a year for some time. It has added a lot of value to our clients and generated returns. I understand the earlier point with regards to modelling, but risk can be analyzed and assessed using multiple benchmarks and models. If you can engineer your risk, then any risk can be insured.

RICHARD BOYD

The policy wordings and so on, it's old school underwriting, they don't cover that Armageddon scenario, so that shouldn't be the concern. It is day-to-day cyber risks that are being covered and can be understood, modelled and engineered. Being able to explain that to investors is what allows this to become an investible product.

STEVE EVANS

Moving away from cyber, what do people in the room feel the market needs to do as we move towards this renewal and into 2020?

RHODRI LANE

Investors will be looking for an attractive level of risk-adjust return. Further, transactions that are relatively straightforward in structure are more marketable in this environment. There's probably going to be a little swing back in the pendulum from high frequency transactions to more occurrence-based transactions, so less frequency-exposed transactions.

I think the clients are there and they certainly want to continue to access the space. It's an interesting year, issuance is down in terms of volume, but the number of deals out there is not all that light. That's positive for the market.

LUCA ALBERTINI

Clearly, the more premium the more investors feel happy with. Rates would help, yes, but learning through the reserving process and teaching through the reserving process as well.

What it seems to me has happened is that a lot of investors came into the space looking at what happened in the past, but it seems that not many looked at how we got there. Some people didn't focus on how we got to the final number and people didn't focus on the fact there was a Cat 5 that didn't hit, and then we have the events. So, it's actually a useful process to experience the development of claims whilst invested because actually it's more information and more education that makes us stronger in the end. Seeing how we get there and seeing how we can improve in the reserving area are important factors.

JUTTA KATH

There needs to be a phase of rebuilding confidence.

RHODRI LANE

The last several quarters have offered a real test of the structural features prevalent in the asset class. For the first 20 years of ILS there were only seven tranches of notes that were impacted or impaired from nat cats, excluding Lehman Brothers and excluding some other items. But through 2017-2018, we saw 25 or so bonds that are being priced as being impaired, so it's been a period that has highlighted the mechanism of ILS as well as investor resolve. For an ILS sponsor this should instil significant confidence as several transactions have been put to the test and these securities have responded as intended.

CLARK HONTZ

I think buyers would be much more comfortable with moderate pricing corrections year on year that are sustainable over a longer period of time with premiums reflecting risk as they change over time. That was the promise made years ago from the capital markets; when a big event or series of events happen there is going to be significant sources of capital coming in after that event or events, reducing the potential for volatile cycles, and I think we are not quite there yet. But with more sustainable pricing over the long-run we would be, I think.

Jutta Kath –
There needs to be a phase of rebuilding confidence

RICHARD BOYD

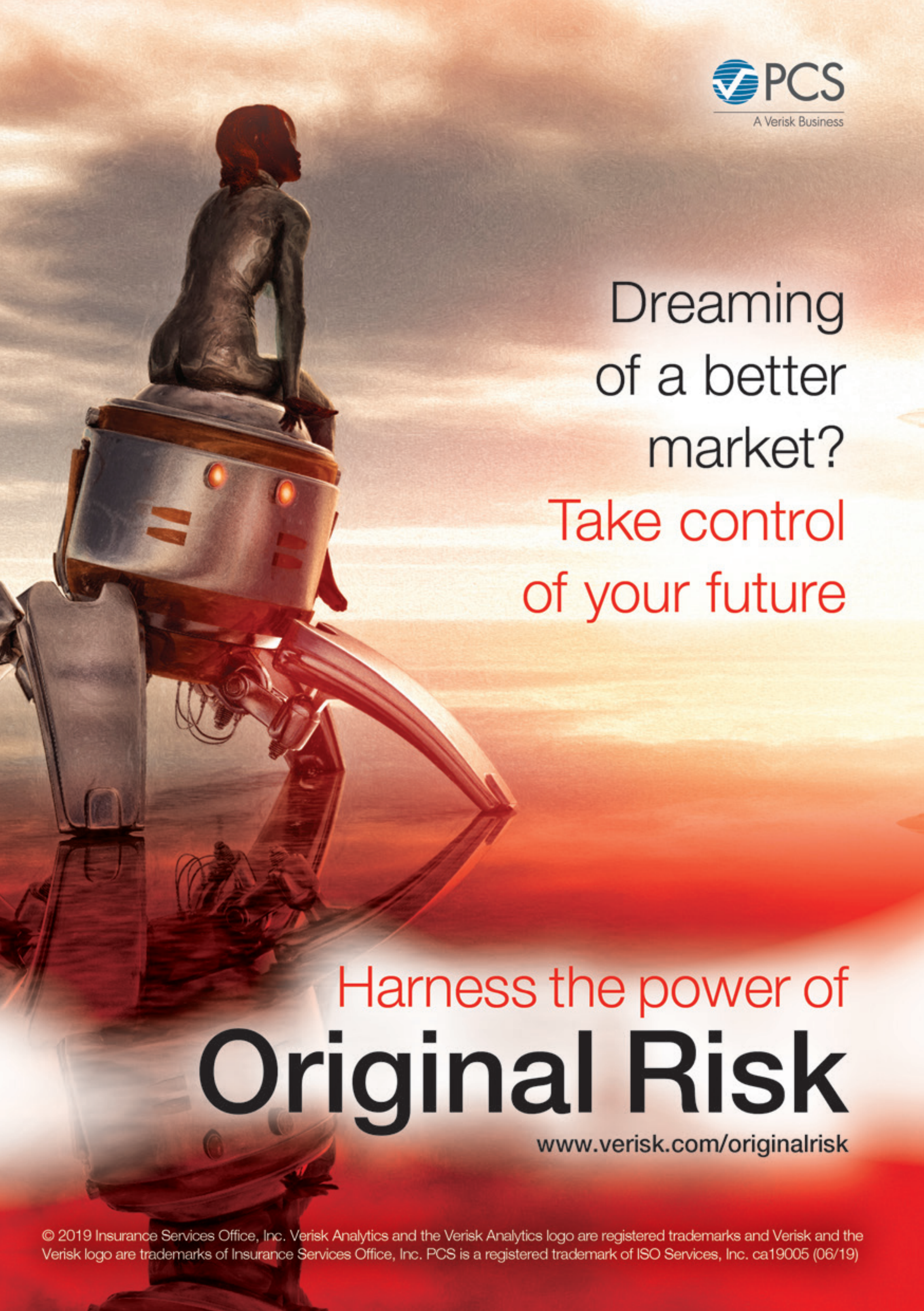
I think there has been a heavy over reliance on cheap retro that is not going to come back in the short term. And, everyone has learned that while that was great for an opportunistic trade, when it goes away it makes your life very hard, so as long as people remember that then they will need to maintain that underwriting discipline.

DAVID GOVRIN

We've got to stop talking about investors and alternative capital, there is risk and there is capital, and we need to talk about the best ways to match risk to capital. That's all it is. The capital can be from rated balance sheets or it can come via collateralized product or other hybrid products and structures, it doesn't matter, capital comes from lots of different sources and eventually structure and form will evolve to the most efficient form and products.

Right now, everyone from insurers to reinsurers to investors to ILS funds to brokers are vying for the fees associated with delivering capital to risk and we call it different things like traditional reinsurance or alternative capital. Ultimately, there will be less intermediation and operational expense between capital and risk and the market will evolve to generating the most return from matching capital to risk.

It is not educating one market or another market, it's just finding the right clearing price for risk from wherever it comes from and in the end, it will come from whoever has the most efficient cost of capital and delivered via the most efficient operating models. There is no alternative capital, it is just capital and risk.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