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MONTE CARLO ROUNDTABLE

AUTUMN 2011



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ART and craft...

The convergence community definitely had its moment in the sun at the Monte Carlo Rendez-Vous this year amid an increasingly cloudy outlook for the reinsurance market.

ILS fundraising drives were among the few new initiatives on the cocktail conversation tab, with broker Willis and reinsurance entrepreneur Don Kramer among those leading ventures into the sector.

The function that ILS can play as a "pure" bet on reinsurance was highlighted by continuing turbulence in European stock markets during the week of the Rendez-Vous, which bodes well for the sector as it benefits from increased interest from institutional investors.

The established players may have been tempted to look on smugly at those touting for funds as they sit on their growing cash piles.

But as our roundtable illustrated, there is little complacency among the leading players in the sector.

This attitude of stewardship garnered praise from one industry veteran at another Rendez-Vous event as he vaunted the industry's artisanal nature.

Its cottage industry qualities helped it avoid the excesses seen in more mechanised securitisation markets during the boom, he said.

And the sector's crafting skills were called into use this year when natural catastrophes and modelling uncertainty combined to unsettle the public cat bond market in the middle of the year.

The market proved its flexibility as this stasis stimulated innovation to bring forth new products that blur the boundary between the private and public sectors, as well as expanding into new perils.

The players at the helm of these innovations clearly all have their own steer in mind, as a range of views emerged during the discussion on whether these developments are heading in the right direction.

The balance may have tipped further in the private sector's favour for now, but participants in our discussion vowed to prove the continuing importance of having access to publicly sold reinsurance risk.

Meanwhile, as the rate of convergence among the traditional and alternative reinsurance markets has picked up pace in 2011, our panellists can congratulate themselves on gaining an increasing voice in the mainstream.

As you'll see, they certainly have a lot to say with it.

Enjoy the read,

Fiona Robertson
Senior reporter,
Trading Risk

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The Monte Carlo roundtable 2011

Fiona Robertson

What are the key challenges you've faced this year?

John Seo

Model changes, along with the Japanese earthquake, threw up a lot of questions about how investors would react to those events. It has been a challenge for investors themselves. It's interesting the kinds of things that we hear being said about investors when we're investors ourselves.

I've been trying to get out more and communicate exactly where we're coming from and what we're thinking. We're making some headway in that. But mainly I realise how poor the lines of communication were between investors and potential sponsors of deals. It's a challenge that we're happy to meet and I think we have been meeting it.

Rupert Flatscher

We are a structurer and therefore of course we struggled with the new RMS Version 11.0, because we were in very constructive talks with primary sponsors in the US. After the new version was issued, they of course felt uncertain about how to proceed and what market prices investors would expect to assume risks. As an

investor, I would say we struggled most because we have not seen as many transactions as we would have wished. It was a pity that we have not seen as many transactions as at the beginning of the year.

Philippe Trahan

Certainly, the abundance of natural catastrophes that has hit the market has been beneficial in some ways, in that it has allowed us to test our internal loss reporting processes.

Tony Rettino

The key challenge has been reporting and transparency in the loss scenarios. When a loss event occurs, we analyse actual versus modelled losses for transactions we have analysed, including those we passed on. We also look at the speed and accuracy of reporting, which highlights buyers who are either unwilling or unable to provide transparency. And I hardly care whether they're unwilling or unable, either way I don't like it. We track these things and it influences our pricing going forward.

Loss events clarify things and so I hope that with every loss event, the market is getting better in terms of pricing for transparency and differences in actual versus modelled losses. But we've still got a way to go.

Sandro Kriesch

The Japanese earthquake was probably not the best start for our new operations. On the other hand, we were then faced with inflows rather than redemptions, which could partly be the effect of having educated our clients over the past three years. They have learned that the right time to invest is actually after an event in the insurance world. So we had the inflows but this was not supported by an active primary market in the cat bond space. That was another punch we had to roll with.

Andre Perez

I'll start with a positive challenge which has been very exciting: over the past seven months – definitely since the beginning of the year – we've seen capital flowing back to this market. Some of those that were interested back in 2005 are now coming back and sniffing around for new opportunities. These are the same people that in 2008 you couldn't talk to about reinsurance because they were too busy buying distressed debt at a great return. The challenge is going to be the ability to keep hiring talented individuals and grow the infrastructure.

Fiona Robertson

Where is this increasing investor interest going? Is the industry going to be able to deploy all this extra capital?

Tony Rettino

The flows we've seen are coming largely from the institutional market – and the great thing about that is they've done their homework. Those are the types of investors that we welcome into the asset class.

“One of the things driving uncertainty about parametric bonds is reliance on publicly available networks like the local meteorological offices”

Peter Nakada

We've advised certain clients over the past year to come in over time. We've advised others to hold some money back. In other environments, we've advised clients to come in quicker. It's about having an ongoing dialogue with your clients, not being afraid to turn money back and not being afraid to call money. This is a market where you've got to strike the right balance. People should have a base allocation to the space and they should have an opportunity to gear up in the space. The market can accommodate that very well.

Fiona Robertson

One of the areas that is expanding is the private market. Has this been a positive development? Is this where you'd like to see the market heading?

Tony Rettino

It's absolutely a positive development. Buyers of reinsurance all have a unique set of perspectives. To effectively service such buyers we need to be flexible in terms of the form of capacity and how we operate and there's not necessarily a right or wrong solution. It's just a different perspective and everyone's got different needs.

Rick Miller

To be candid, it is unclear where the private market begins and ends. What are you supposed to call this new form of execution? For our Oak Leaf Re trade it's not necessarily a "cat bond lite"; there's nothing light about the underwriting, the modelling work that goes into it and the documentation around it. It requires rolling up the sleeves and doing real big boy due diligence around both the cedant and the underlying risk.

Primarily, the design for having it within that private universe is to reduce the frictional costs so we can bring more cedants into the club. If the frictional cost of a traditional 144a cat bond, not including brokerage, is in excess of \$1.5mn dollars, there will be less issuance. If we can bring that cost down to \$300,000, more issuance will occur.

Andre Perez

One of the things I find pretty cool is that there is room for all these various structures in the market. The reason why there's room is because you have a very varied universe of investors. Specialist ILS investors do have modelling expertise and underwriting expertise. But then there's still room for parametric cat bonds because you have investors out there that don't have the level of sophistication, the level of modelling that will allow them to dig deeper into the analysis.

Private cat bonds allow some ILS funds that are traditionally investing in cat bonds to find a compromise to not writing illiquid collateralised reinsurance; it is a mix between a 144a cat bond and collateralised reinsurance, while still maintaining the tradability feature of a public cat bond. This tradability feature is attractive to some investors.

Liz Frederick

What you also see is the private market providing

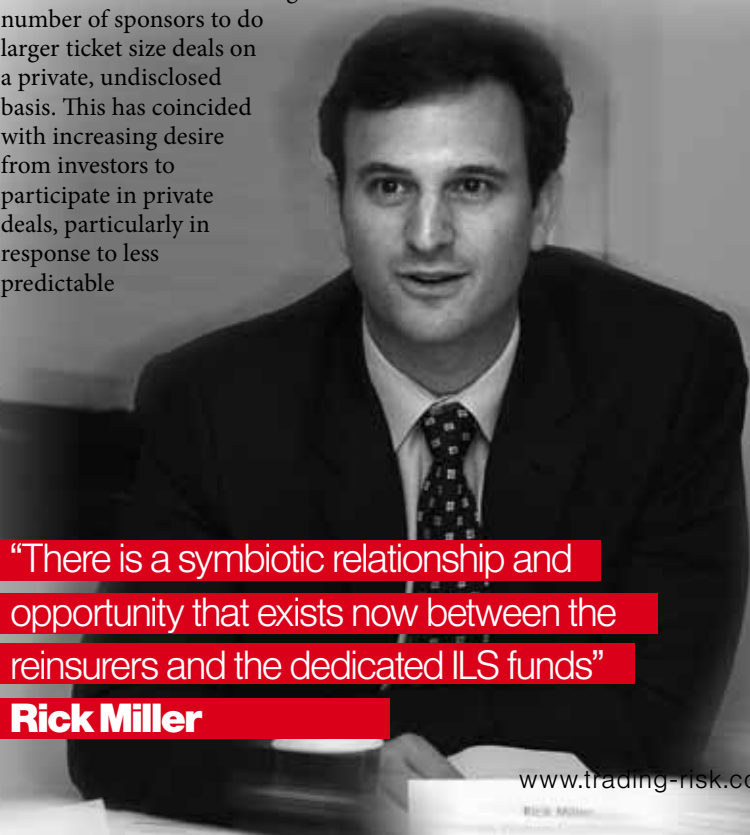
opportunities to people when the cat bond market stalls. There clearly is a lot of capital there and you want to make sure there are products for investors throughout times of trouble. What we've seen, certainly over the past five years, is there have been several events that have stalled the market at a time when there's been capital.

This spring was a lighter issuance time for cat bonds, yet a multitude of deals matured, therefore investors had money that they wanted to deploy. If we as an industry want to continue to grow, then we have to ensure there's more than just one product available. You don't want it to come to a screeching halt. You want to make sure that there's continued activity in the market. We've seen that this year: there wasn't as much activity in the cat bond side in the spring and yet there's been much more on the sidecar, private market side this year. The market as a whole is continuing to grow, even if one of the products is quiet.

Dan Brookman

It's important to be able to bring products to the investor base at different points throughout the year. The traditional reinsurance industry is obviously focused on key renewal dates at various points throughout the year – specifically January and June/July. However, that's not how the global capital markets typically allocate capital. Many asset allocators allocate to fund managers throughout the course of the year and it's important for the fund managers to have investment opportunities that coincide with their cash inflows. We've been successful this year in working with sponsors and investors to address this issue and have been able to close deals outside of traditional renewal dates.

With regard to the "private ILS market", it's important to understand what this means. We've accommodated the desire from an increasing number of sponsors to do larger ticket size deals on a private, undisclosed basis. This has coincided with increasing desire from investors to participate in private deals, particularly in response to less predictable



"There is a symbiotic relationship and opportunity that exists now between the reinsurers and the dedicated ILS funds"

Rick Miller

primary issuance in the cat bond market and overcrowding during the cat bond syndication process.

But I wonder why people would do a private deal, which is really a syndicated deal, because you're probably safer doing a fully marketed, more public deal. But, as ever within the insurance space, the products will evolve to have this middle ground, which fit different people's appetites.

Sandro Kriesch

The issue I have is with the allocation policy in private transactions. We – and I assume other smaller funds – haven't seen the Kizuna bond. It's not a sign of a very mature market if you're not allocated anything or you haven't heard of it. The small funds need to be investing as well. So if only the big guys see the Kizunas, then it's going to be very concentrated on five or six funds at the end.

Philippe Trahan

The danger with having a bunch of private placements is that it creates a barrier to entry and eventually pushes a lot of the products and investor base towards funds.

Maybe I have a hidden agenda here, but I like the investment grade cat bonds – and those are not coming back until there's an investor base that's willing and able to support them. Investors with a lower cost of capital will be the ones that could be doing these deals. The problem is that if lower rate-on-line, very low expected loss bonds don't get done because they don't meet ILS fund requirements, then you're really cutting out a part of the market that should be there for it to thrive and get to the \$20bn, \$40bn, or whatever billion dollars of issuance we want to see.

Dan Brookman

Certainly the cat bond and private ILS markets should go hand in hand. If all ILS deals were private, you'd simply be back to just executing traditional reinsurance, but on a collateralised basis. The ILS asset class as a whole benefits from the "public face" of the cat bond market as this increases and brings new capital into the industry.

We see this from the reverse enquiry we get from new

"Investors would like to see some European transactions, built on Perils, because they like the quick release of the collateral from it"

Sandro Kriesch

investors looking for market access. If the cat bond market disappeared completely, benchmarks such as the Swiss Re Total Return Cat Bond Indices would disappear and it would hinder the growth of the asset class. The public and the private ILS markets need to coexist and cater, as they do currently, to the full spectrum of needs and appetites of sponsors and investors alike.

Andre Perez

Here's one thing that worries me a little bit about club cat bonds: in the reinsurance market, it's known that not every reinsurer is going to see every deal. And even though some external investors think this is a syndicated market, it isn't. Yes, sure, you have deals that have a large number of participants, but there are also tonnes that are done on a private basis. And at the end of the day, it is a relationship market; reinsurers have a particular relationship with either cedants or a broker who will bring them the business.

I am worried that this broker mentality is being induced among the investment bankers with club deals that are private cat bonds, when the marketer actually picks who they want as the investors. Is this a cat bond investment banking shop, or is this a broker investment shop that's doing private cat bonds?

Tony Rettino

It is a private market. \$200bn of property cat risk gets traded annually. We have an \$11bn cat bond market of which about \$8bn is truly liquid. So we're talking about \$8bn relative to \$200bn. If someone wants to do a private cat bond deal, and that meets their objectives, I think that's totally fine. The alternative is they execute in collateralised reinsurance form, which happens all the time. We do private layers where we're the only investor or lead investor in a small placement.

So if they're opening up and doing a "cat bond lite", I don't think it is an issue. If it's not going to be tradable, there shouldn't be a liquidity discount attached to it. Just as importantly, if it's not transparent there should be a premium attached. Over time, if somebody wants something that's going to get the lowest marginal price, they're going to have to issue something that is transparent, that's tradable.

Andre Perez

I have nothing against private cat bonds, but I don't agree with picking the participants. If bankers decide to show it to only a limited number of investors, then I don't think they should be put on the pricing sheet. It's trying to get the best of both worlds.

Dan Brookman

I agree with that, because by doing a private deal that gets listed on a public pricing sheet, it basically says to the investor community that there is a club, but that most of you weren't invited.

Philippe Trahan

But it is tradable.

Rick Miller

At the end of the day what you end up with is a spectrum and what is neat about the development over the course of this year is that the stair steps of that spectrum are starting to get smoothed out. And it's a first-year development, fundamentally, of these club private deals. It's going to be something that will evolve over time. Clearly, from Towers' view, Oak Leaf 2011 will look different, probably, in 2012.

Furthermore, our long-term goal of a private club deal is to offer products to those sophisticated investors who are willing to do the work. If you are able to buy the bond without a rating, if you have the ability to model the peril using your own licensed model, if you are a dedicated ILS manager with actuaries and catastrophe modellers on staff – you are in the club. Essentially, if an investor can interact with cedants in a way that does not create excessive frictional burdens relative to the traditional markets, then they should be in the club.

Tony Rettino

It's not a bad deal. If a cedant wants to do their deal this way, that's fine. They're going to be in the market. This could be the first step to what could be a repeat issuer that we all want to see.

John Seo

I want to pick up on that too. Before, we had these big digital divides: you were either this, or you weren't that, with nothing in between. There's a big divide when making the leap from a collateralised reinsurance transaction to a 144A and the market does this really inefficiently. We didn't know that back then but over the years, you've just had to admit it. That's why I want to better explain why these private actions are coming forward; it's not really to exclude people ultimately – it's a transitory mechanism, as Tony is saying.

Every one of these private deals, from a serious issuer, is going to transition these issuers into the big, public widely accessible deals that would be very healthy for the industry. We have a big problem that the initial purchaser on a cat bond deal, a 144A deal, is actually the broker dealer. Every cat bond deal starts out in a sense with the ultimate private transaction – there's one buyer who then resells it to the public. But that one single buyer may not be the most qualified to cover every single question in the structuring of the deal and may not necessarily have the capital to back that up.

So it may seem exclusionary but it's also just practical to get a handful of investors that are willing to put their money where their mouth is. And then, furthermore, be put on the line by making that public, and seeing whether everybody else agrees with what was done with the transaction. I agree that if that were a persistent state for the market, though, that would not be healthy.

Peter Nakada

That's what the issue is. I've heard people saying the market's going private, that 144A is a failed experiment.

We can't be passive about this. We have to collectively say no, this is an aberration that the 144A market has

temporarily shut back, but it's going to come back and it will flourish.

We have to value engineer this thing so that it's not so residual and it has a sustainably and consistently provable advantage over traditional UNL. Then we won't have these ebbs and flows, depending on the hard or soft market, it'll be there consistently and we can collectively build our businesses, knowing it's going to be there instead of up and down.

Fiona Robertson

Is diversifying itself something that the market needs to look at for expansion? What's it going to take to get the market more diversified?

Rupert Flatscher

Just one point on diversifiers: with the reinsurance market, you already have a market that works. If you're permanently trying to copy a reinsurer with a dedicated fund shop, from my personal point of view, it will not work, because you will not get the same prices from the fully collateralised dedicated funds which you get from the reinsurance industry, because reinsurers use their capital more than once.

Tony Rettino

This market right now is 64 percent US wind, so yes, people would like to have more diversification. I just think that diversification for diversification's sake doesn't necessarily make sense. We need to ask ourselves if it makes sense for our underlying end investors, who are investing a small percentage of their money with us. And that second layer of diversification, what is it really worth? Do the math. For reinsurers that can heavily lever the diversifiers, it may make sense on some level, but clearly the loss experience of the past few years raises issues.

Jed Rhoads

Probably, like Rupert, we look at the UNL pricing, we then look at the cat bond pricing and we ask where

"If we as an industry want to continue to grow, then we have to ensure there's more than just one product around"

Liz Frederick

we can get a better return for our money. It ebbs and flows over time, there's no consistent pattern one way or the other, it's just what is going on in the market at any given point in time. We have a lot higher confidence in wind models than we do in the quake models. We have a lot higher confidence in US and Northern Europe data and models than we do outside those areas. So the whole diversification issue becomes a data quality challenge, once you get outside of Northern Europe and the US.

John Seo

That's the brutal challenge in diversifiers. The premium is plummeting for the leverage effects, there's virtually no capital required [for rated reinsurers], at the same time that the model uncertainty is exploding. It's not a linear challenge, it's an exponential challenge getting into diversifiers. And that's difficult for anybody, including the companies that have been doing it for 100 years.

Jed Rhoads

What you really want is profitable diversification, you don't want unprofitable diversification for its own sake. Unfortunately whether you're in the UNL market or you're in the ILS market, you're not, generally speaking, apart from Northern Europe and the US, really getting highly profitable diversification. So be careful what you ask for.

Rick Miller

From an external investor's perspective, they're already diversified, so they want the best risk adjusted return. If that ultimately means a constant book of peak risk, go for it. The converse side of that is that managers need to live to fight another day. They've built up an infrastructure and they need to keep it running. So if they've got a 100 percent peak book, and a category three or cat four hurricane hits Miami, they're out of business. They need a certain degree of diversification to keep their institution alive and there is a deal of tension that exists within that framework between an expert manager and an external investor.

However, those players that are able to get enough breadth in their platform will be able to create additional concentrated products. If they can couple that product with enough confidence in their ability to write the best risk-adjusted return,

"I have nothing against private cat bonds, but I don't agree with [marketers] picking the participants"

Andre Perez

take concentrated exposures and provide that to the external investors, they will be the managers that are going to win in this market.

Philippe Trahan

We have a large allocation in dollar terms but from OTPP's perspective, it's less than 1 percent of the assets. Why do I need to diversify further? I'll still find ways to diversify, but not at any cost. You can diversify within the peril. You can diversify easily within US windstorm if you want, to an extent. And bringing back the investment grade type cat bond is another way you could actually take some diversification. So there are various ways you can slice and dice US risk and get some level of diversification either within the cat bond format, the 144A or private deals.

But if you look at risk as a one in a 100 occurrence, you get four times more payback to take US exposures for the same risk than you get for Australian, Chilean or Canadian risk for that matter. At some point if you're really indifferent to the risk you're assuming and all risks are the same to you, you should go for wherever you get paid the best by unit of risk. You can hedge your portfolio peaks later on with various strategies. But I agree, diversification for diversification's sake doesn't work.

Andre Perez

Rick hit the nail on the head, in the sense that you have that dilemma of the investors to whom you already sold the story of low correlation and diversification, on a small percentage of their assets. So they really don't care whether there is diversification within that small percentage. And then you have the dilemma of the ILS manager – they like to keep their jobs too, so they also want to make sure there is diversification. The dilemma there is if you look at some of the cat bonds, the European cat bonds for example, and look at how much they went for, the story of diversification was the one thing that guided pricing. Why should those risks be priced at a lower multiple than the US risk?

Sandro Kriesch

We see additional interest from investors in diversifying risk, because of initiatives like Perils. The investors say to us that they would like to see some European transactions, built on Perils, because they like the quick release of the collateral from it. And now they're moving in the direction of country-weighted perils, so basis risk can be reduced.

Rupert Flatscher

From the sponsor's side parametric is, in a sense, the worst thing you could want to do. Market loss is the second best, but everyone would like to do UNL. However, in the past it was not possible to do UNL because the investor side didn't accept UNLs. It was very hard to go to the market; you had to pay much more than for parametric or market loss deals. I assume now it's much easier to do a UNL transaction and it's also much easier to do a market loss transaction.

Peter Nakada

There is a trade-off because one of the things that is

driving this uncertainty about parametric bonds is we like to rely on publicly available networks like the local meteorological offices. They can be good because they're run by the government and there's no biases built into them, but they are also not designed for the purposes that we're using them for. So the question is whether we should have dedicated networks that are funded by the industry that are specifically designed to be there no matter what.

I'd like to throw that out there for this table – should we be having measurement networks designed for this market, funded by this market?

Jed Rhoads

That would increase my comfort level enormously. I'm not comfortable with the wide variety of loss measurement tools being used as parametric trigger measurements. They need better definition and uniformity between bonds. There are inherent flaws in every method, but trying to underwrite the nuances of how each one works is a challenge.

Philippe Trahan

I wouldn't like it at all. I don't like the ownership conflict inherent to Perils or to any other loss adjudication mechanisms owned by the industry. Perils is mostly owned by insurers and reinsurers, some of whom have large market share in territories where they report losses to Perils after large catastrophe events. This becomes problematic when these same entities also end up being sponsors/reinsured in ILW and cat bond transactions that use Perils for loss determination purposes. I don't mean to question the integrity of the insurers and reinsurers that are shareholders of Perils nor of Perils' management, but I'd rather just not have to deal with the agency issues that may arise as a result of potential conflicts that such shareholding creates.

Rick Miller

I think the other challenge is creating another synthetic trigger mechanism. Another frictional cost is just going to slow a sponsor down from having the conversation. He will just go to the traditional market. Why pay for another frictional fee when it's really not needed? And at the end of the day, we've got experienced dedicated ILS professionals. It's not a 250 member, ABS broadly distributed market anymore. We can do indemnity trades now, we can do the credit work on the cedant – you can have a relationship, you can follow the fortunes.

Andre Perez

It's a bit of a catch 22 though, because you get the challenge where you have to create an index and you don't have the funds for it. To a certain extent, it's fine that the market provides initial funding for this type of initiative. But eventually, there should be a divorce from market funding so that you can ensure total objectivity.

Fiona Robertson

Do the reinsurers have anything to say on whether, as cat funds move further into diversifying and collateralised sectors, they are becoming more of a competitive threat?

Jed Rhoads

I don't think so, in fact I would say the opposite. We view them as a necessary part of what we do because the clients have needs that quite frankly our market is not really willing to fill, and that the ILS market is willing to fill.

Rupert Flatscher

I agree. If we look at cat bonds that are issued because of a lack of traditional market capacity, it's valuable for the market at the end of the day, because it helps primary insurers and reinsurers to satisfy their needs. My only wish is that it could be a more sustainable market. If the investor base was broader, it would help the market even more. And if you then have investors who are not trying to build diversified books on a 144A basis, this would obviously help as well. Because then you have a market where you really can sell the product at a reasonable price.

Jed Rhoads

The real test comes post-loss, though. That's when we want to step on the accelerator to write more business and when we will need your capital to help us. Traditional reinsurers typically earn the majority of their full-cycle profits in the first two or three years of a new, hard market cycle.

Tony Rettino

This is indicative that the market has arrived, just listening to these perspectives. I remember going out pitching the first cat bonds, and the reinsurers' reaction was dramatically different back in the day. So I think that's great and I totally agree. We're all trading around the risk in different ways with different objectives. I would definitely rather have a fund come into the market that is going to be responsible from a pricing perspective than have a reinsurer enter the market that is irresponsible from a pricing perspective. So to me, who it is and the form don't really matter. It's more about how they're going to behave.

Sandro Kriesch

There are things that it is harder to do as a fund. Think of issues like reinstatements and long-tail business. The market has been trying to index some long-tail business so it can be securitised in a meaningful way but we have not seen any of this lately. Apparently, pension fund investors seem to be fine with investing in

"If all ILS deals were private, you'd simply be back to just executing traditional reinsurance, but on a collateralised basis"

Dan Brookman

our products rather than reinsurance stock. One reason for that is there is a stronger insulation from market and agency risk. If that money comes to the market, potentially it could be a threat for the reinsurers but it will always have to be a coexistence.

Rupert Flatscher

We do not see funds as competition. We will be more than happy if they come to the market. And if more pension money comes into the market as well, and capacity would no longer be a real issue, then of course we can also use our capital more efficiently because we can trade out of certain peak risks that are very expensive at the moment. It's not the case, therefore, that we say "we don't want this money". We want this money in the market and it will help. This would also be the step that pushes the market to grow, at the end of the day. If the prices go down, sponsors will come to the market more. They will bring risk to the market and if their capital is not just invested for two or three years, if it's in for 10 or 15 years, then the market will really develop.

Philippe Trahan

Be careful what you wish for. The world's largest institutional investor is thought to have near \$800bn of funds. If they put in 1 percent of their assets, that's \$8bn. Where do you put it today? That's the issue. Anyone that comes with an \$8bn allocation to ILS now is going to severely disrupt the sector.

Rupert Flatscher

It's always the chicken and egg dilemma, but I believe if there was more money, then the ILS market will develop more.

Philippe Trahan

But that's provided they don't all want diversification, provided that people are willing to accept US risks: peak risks, that's why we exist.

Andre Perez

It's interesting because I speak quite frequently with a lot of Bermuda CEOs and they don't view it so much as competition, although some of them would love for less capacity to come in. Their concern, especially those that have gone through the post-KRW sidecar

"We do not see funds as competition.

We will be more than happy if they come to the market"

Rupert Flatscher

moment or even the formation of the class of 2005, is with that additional influx of capacity. What does it do in terms of pricing hardness? Undoubtedly, if you have investors out there that are willing to enter when the opportunities are right, I just can't see logically that the existing players will be able to achieve as hard a market had those people not come in.

Jed Rhoads

\$8bn isn't a threatening number for our industry. We haven't had the \$150bn event yet. When it does, \$8bn is going to look pretty small in the grander scheme of things. So I don't think that's our concern.

For us, we get to boost our returns by managing capital, it's risk-free income from managing sidecars. So we welcome that and I don't think the numbers are that scary.

Philippe Trahan

I suppose it depends, \$8bn in relation to an \$11bn bond market, even if you look at ILS, call it a \$30bn market, \$8bn, where do you put it? I don't know where you put it today.

Jed Rhoads

It's the timing of when it comes in. If it all comes in at once, we've got a problem. If it's feeding in over time, I don't think that it's a big issue.

Rick Miller

Well, it's accordion capital. When a big event happens, it will show up. My prediction is that the capital will show up through the dedicated ILS space. There is a symbiotic relationship and opportunity that exists now between the reinsurers and the dedicated ILS funds, and the folks that create the partnerships now will probably have more direct access to the cashflow when the event happens. People are going to try to mimic the sidecar movement that we saw with KRW, with the next wind event or massive quake event, but the one thing I know at least is that every time it ends up happening, it just happens a little bit differently than everybody expected.

Philippe Trahan

I guess there's enough capital waiting on the sidelines now, precisely for that next big storm. My fear in some ways is that you get a \$20bn storm and it all pours in and kills the hard market. I don't know what the level is where I think the funds should come in. But I don't think \$20bn is large enough to warrant it.

Jed Rhoads

You raise a point that's topical for the Rendez-Vous this year. I've heard some people talking about new reinsurance entities being created, particularly in Bermuda, backed by hedge funds. I don't think we should confuse what the real purpose of some of this new money is. It's generally not interested in the ILS space where the returns are low frequency, high severity. They are interested in the opposite. The risk focus will be more on the asset side than the liability side, and cat risk doesn't fit in their model.

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The Insurance Insider, 28 June 2011

How *The Insurance Insider* first revealed on 28 June 2011 that Flagstone Re founder Mark Byrne was targeting a comeback

...Others follow

Byrne eyes Omega

By Ben Harrington

AN investment group led by the son of US insurance magnate Jack Byrne has emerged as the frontrunner to buy Omega Insurance Holdings, the Lloyd's of London underwriter.

Mark Byrne, who is close to legendary investor Warren Buffett, is in pole position to buy Omega for around £200m following an auction of the business that started earlier this year, said sources familiar with the situation.

They added that a takeover of Omega, which specialises in property insurance, could be announced in the next couple weeks.

However, it is unclear which investment vehicle Mr Byrne will use or how the transaction will be structured. Mr Byrne's investment group is looking at making either a full cash bid or a cash-and-paper offer that would enable some Omega shareholders, such as Invesco, to remain as investors in the new company.

If Mr Byrne's bid is successful, it is likely to value Omega at around net asset value (NAV) or at between 82p and 87p a share.

Jack Byrne is well-known in the US insurance market for successfully managing General Electric's insurance division, while his son, Mark, set up Bermudan reinsurer Flagstone Re. Mark Byrne also once worked for Mr Buffett.

Other bidders involved in the final stages of the Omega auction include Barbican Insurance, which is backed by US hedge fund Carison Capital.

Canopus, backed by

Daily Telegraph, 31 August 2011

And how the *Daily Telegraph* responded on 31 August 2011 (two months later)

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