Discipline illustrates tight margins

Reinsurers have shown good discipline in the last two years, which is acknowledgement of just how tight margins have been. But the industry is also showing a growing interest in covering emerging risks, something that is necessary if the so-called protection gap is to be closed.

That is the view of Ingrid Carlou, chief executive of Patria Re, when asked about what she believes will be the main talking points at the Monte Carlo *Rendez-Vous* this week.

"It's a market with little top-line growth but reasonable returns in the circumstances. But those reasonable returns can change in a hurry," she said. "There is excess capacity, but reinsurers are more disciplined than over the last two years which is an acknowledgement that there is very little more to give.

"There is a lack of a catalyst to change the market significantly in either direction. I would hope the protection gap becomes more of a topic. The world is dramatically underinsured in respect to natural catastrophes."

For Patria Re, Carlou said, the biggest challenges remain the macroeconomics in the Latin America region, with growth slow in many countries and crises in others. "Yet rates are still going down and deductibles are lower. As in any part of the world, there is more pressure for margins and return on equity," she said.

Ingrid Carlou

"On the top of this difficult environment, our market is still in an adapting phase to the new legal framework, and Solvency II."

She described emerging risks as more opportunity than threat, stressing that Patria Re is keen to work on new and emerging risks such as cyber while stressing that it is important to find the right partners on the primary side first.

"Cyber is a growing concern for all clients around the world regardless of company size. As disclosure obligations become increasingly mandatory, companies will seek risk transfer solutions. The insurance industry has a vital role to play in helping companies grapple with cyber risk—everything from identification to avoidance, mitigation and transfer," she said.

"We have to be interested in developments of emerging risk in our markets—this is in our blood. But first you have to find the right horse. You have to be certain the primary carrier has the expertise and knowledge to operate successfully in a class such as cyber and the reinsurer therefore has a chance to make money.

"The primary carrier has to have skin in the game and not operate just as an agent enjoying the fruits of inflated ceding/profit commissions, while reinsurers carry the bulk of the exposure and probably the losses," she concluded. ■

Insurtech revolution will live up to the hype as companies invest

The potential impact of the insurtech revolution on the risk transfer industry is likely to live up to the hype, as more companies invest in the sector.

That is the view of Andrea Best, partner in law firm Drinker Biddle, who said that traditional players investing directly in the sector is a game-changer in terms of its potential.

"While some in the industry remain sceptical, some large 'traditional' re/insurers have teams or departments dedicated to insurtech, whether by investing in startup ventures or by actually insuring new types of insurtech products, or both," she said.

"When you see traditional players in the industry moving into a new area like insurtech, it becomes more than just hype and turns into reality."

She noted startup tech companies who thought they had an interesting idea and are now becoming underwriting agencies and obtaining insurance producer licences; reinsurers who are seeking to develop wordings to insure new products sold via mobile phone apps; and even some regulators who are trying to work with industry to try to fit new ideas into traditional, older insurance laws and regulations.

"As much as it is common to toss around the word 'disintermediation', I am not sure that is what is actually happening with insurtech. Perhaps it is more accurate to say we are seeing some new, non-traditional types of intermediaries: the tech firms who come up with the new ideas and want to sell their product are becoming the new intermediaries," Best said.

She added that it is important to work with the right people. "Re/insurers should look to the experts in Silicon Valley and elsewhere around the world. Whether that means directly employing a team responsible for developing new insurtech products, partnering with tech firms through joint ventures and investments, or just providing the paper for a new insurtech product will depend on the particular insurer and the opportunity," she said.

Andrea Best

She added that all too often industry experts in regulation are an afterthought.

"It is all well and good if a tech startup comes up with a great new product and a novel way to sell it—but does it work within our existing regulatory framework?

"These are questions everyone in the insurtech space should keep in mind when weighing up new products or opportunities." ■