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## Partner capital

I was privileged to join a group of venerable industry leaders this month on a panel about the power of disruption.

It was a discussion hosted by the Bermuda Under 40s Reinsurance Group about the innovative influence of the Bermuda market to transform this industry in 2017, the way it has for decades. In a globalised market, we were asked, was Bermuda an X-factor?

It wasn't long, of course, before our talk turned to insurance-linked securities, this fall's diabolical storm season, and the part the convergence phenomenon has played in transforming global risk management. Don Kramer—a Bermuda market legend and now an innovator in the ILS space—mentioned Hurricane Andrew, the transformative event that propelled the creation of Bermuda's big-cat industry. That triggered a Eureka realisation: aside from the panellists and a few



attendees, it was pointed out that many in our audience of re/insurance professionals weren't even born in 1992!

If the moment underscored the fresh thinking driving this industry, so did the way industry leaders now talk about ILS. Remember when this sector was considered an outlier, a truly "alternative" approach? On this panel, Hamilton Re CEO Kathleen Reardon dubbed a new label for the investments behind many alternative risk-transfer vehicles, and what she said rang true: she called it "partner capital."

The name neatly captured what has happened—globally, but especially here in Bermuda. The evolution of the ILS market has so far proven sceptics wrong and it's also proven something else: the commitment of what we once called "alternative" capital.

Following Harvey, Maria and Irma (HIM—and now HIMO, with Ophelia) the Bermuda risk market has begun paying claims and expects to fund at least a quarter of the estimated \$100 billion in aggregate insured losses. ILS will pay its share. It is reasonable to state that alternative capital has gone mainstream.

It was a theme that became evident throughout this busy season of industry events, a point of reference hammered home by those in both our market's traditional and unconventional companies. In his keynote wrapping the well-attended fifth Convergence event last week, XL Catlin chief Mike McGavick noted that many speculate there's too much capital in the insurance industry, and that alternative capital makes that situation worse. "I always want to be in a business that attractive to capital," McGavick noted. His message was that there's not too much capital—we simply need to solve more problems.

Hamilton Group's CFO Jonathan Reiss had a similar message in his address to Insurance ERM conference delegates the following day. "What will 2018 bring? The capital depleted will be restored mostly through the ILS sector and special purpose entities," he said. "Why those entities? Because they worked best after Katrina, Rita, Wilma (KRW)."

Traditional reinsurers have adapted to the new paradigm; indeed, it has altered how they operate within some of their own business lines. That brand of agility, collaboration, innovation—and



partnership—is what sets the Bermuda market apart and most certainly is what keeps us at the forefront of the exponential growth of ILS, cat bonds and risk-linked securities. At last count, Bermuda had three-quarters of the world’s total capacity, or around \$25 billion in global catastrophe-bond volume listed on the Bermuda Stock Exchange.

Interestingly, the BDA was born in the same year as the first Convergence event in 2013. So, in effect, we have grown up alongside Bermuda’s ILS industry. Perhaps that’s why we hold a special affinity for it and what its meteoric success says about Bermuda’s world-class market. Our island is unrivalled in the scope and speed of ILS development and we’ve worked hard alongside fellow stakeholders to keep it that way. Our agency has supported ILS Bermuda colleagues in shaping the successful networking forum, as well as promoting the sector in many other ways throughout the year. We’ve represented and promoted Bermuda ILS with overseas roadshows, at risk-industry conferences around the world, through research, through thought leadership, and conferences and events.

As well as its global value, we also appreciate the impact ILS and the convergence market have had on Bermuda’s own economy over the past decade. BDA commissioned the first study of the ILS industry last year and found that ILS fund managers generate hundreds of millions of dollars of fees and employ more than 200 skilled Bermudians and international workers. Indeed, more insurance-linked fund managers are based in Bermuda than any other jurisdiction and the island is home to the oldest and largest manager.

ILS has come a long way since Bermuda took progressive steps in 2009 to create the special purpose insurer legislation and regulations to accommodate their setup. They have matured and come of age. And just as the first exempt companies, the shipping P&Is, the captive, excess-liability and big-cat insurers before them, these latest members to our mix will continue to benefit from the power of partnership our unique market provides.

#### **ABOUT VIEWPOINT**

A monthly blog by BDA CEO Ross Webber, with commentary on industries, issues and influencers affecting Bermuda as a global financial centre. Comments and feedback can be sent to [ross@bda.bm](mailto:ross@bda.bm)

#### **ABOUT BERMUDA BUSINESS DEVELOPMENT AGENCY (BDA)**

The BDA encourages direct investment and helps companies start up, re-locate or expand their operations in our premier jurisdiction. An independent, public-private partnership, we connect prospective companies to industry professionals, regulatory officials, and key contacts in the Bermuda government to facilitate domicile decisions. Our goal? To make doing business in Bermuda straightforward and beneficial.

