



# Competition and Consolidation of the Reinsurance Market

2015 CAS Spring Meeting

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May 18, 2015

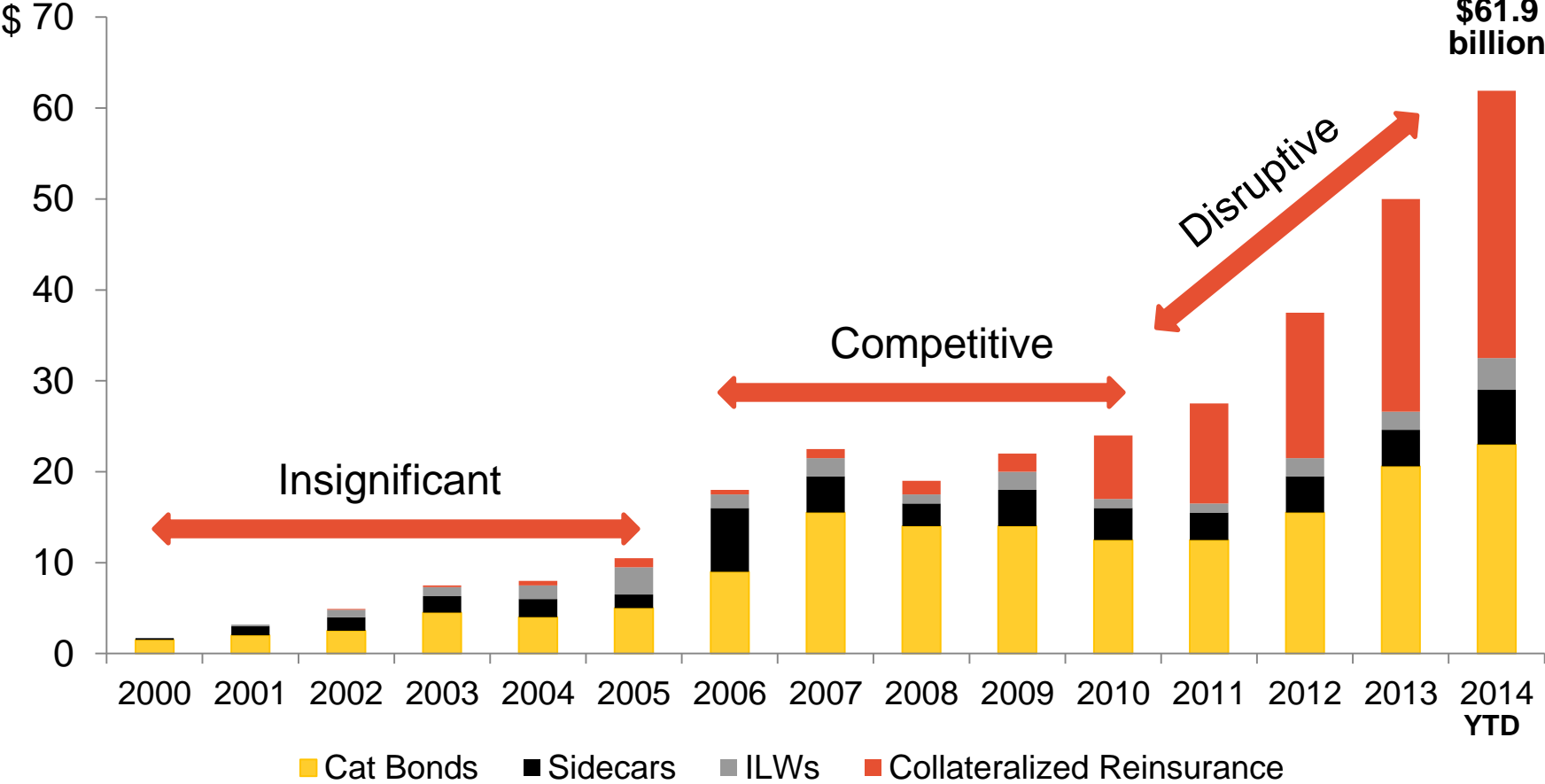
TOWERS WATSON 



**Alternative Reinsurance: Not so “alternative”**

# Growth of Alternative Reinsurance Global Capital

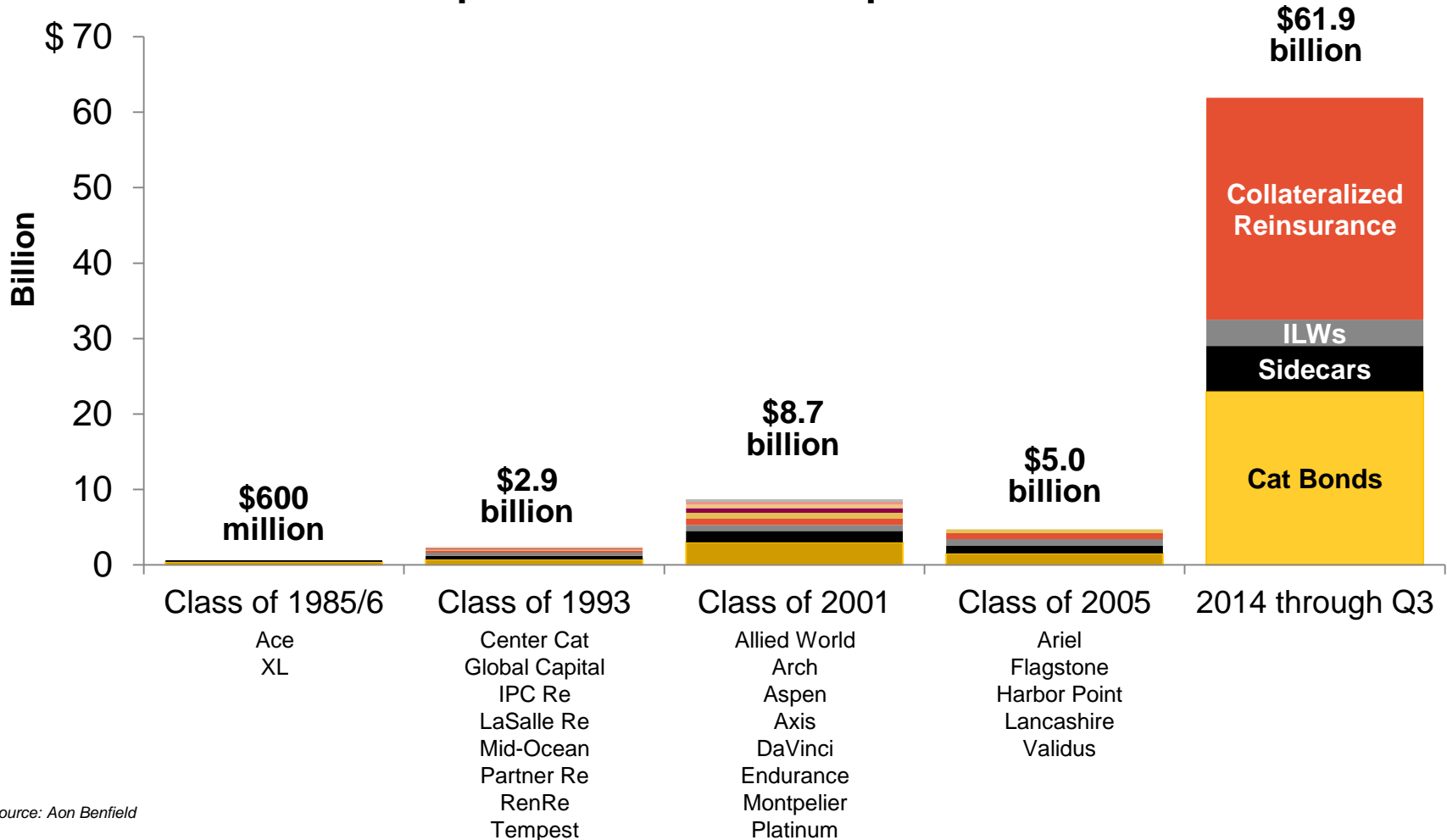
Billions \$ Outstanding



Source: Aon Benfield

# Alternative Reinsurance vs. Start Ups

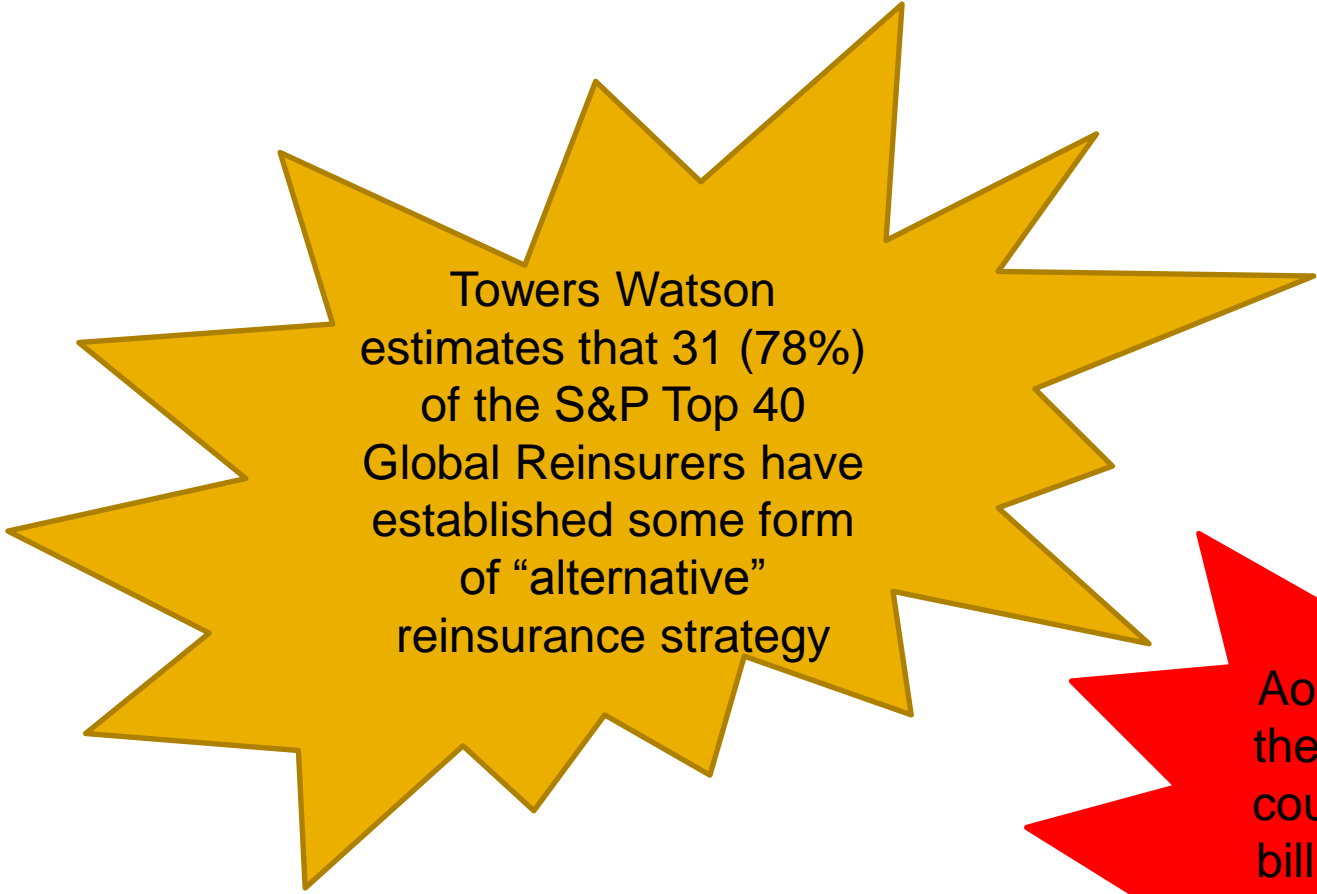
## Comparison with Prior Capital Waves



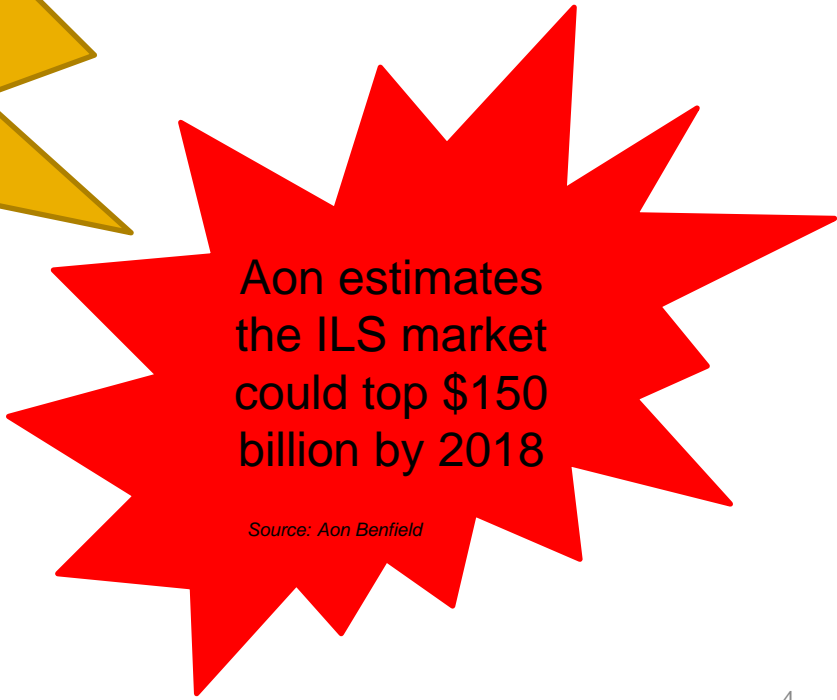
Source: Aon Benfield

# Traditional Reinsurance.....

.....If you can't beat them join them!

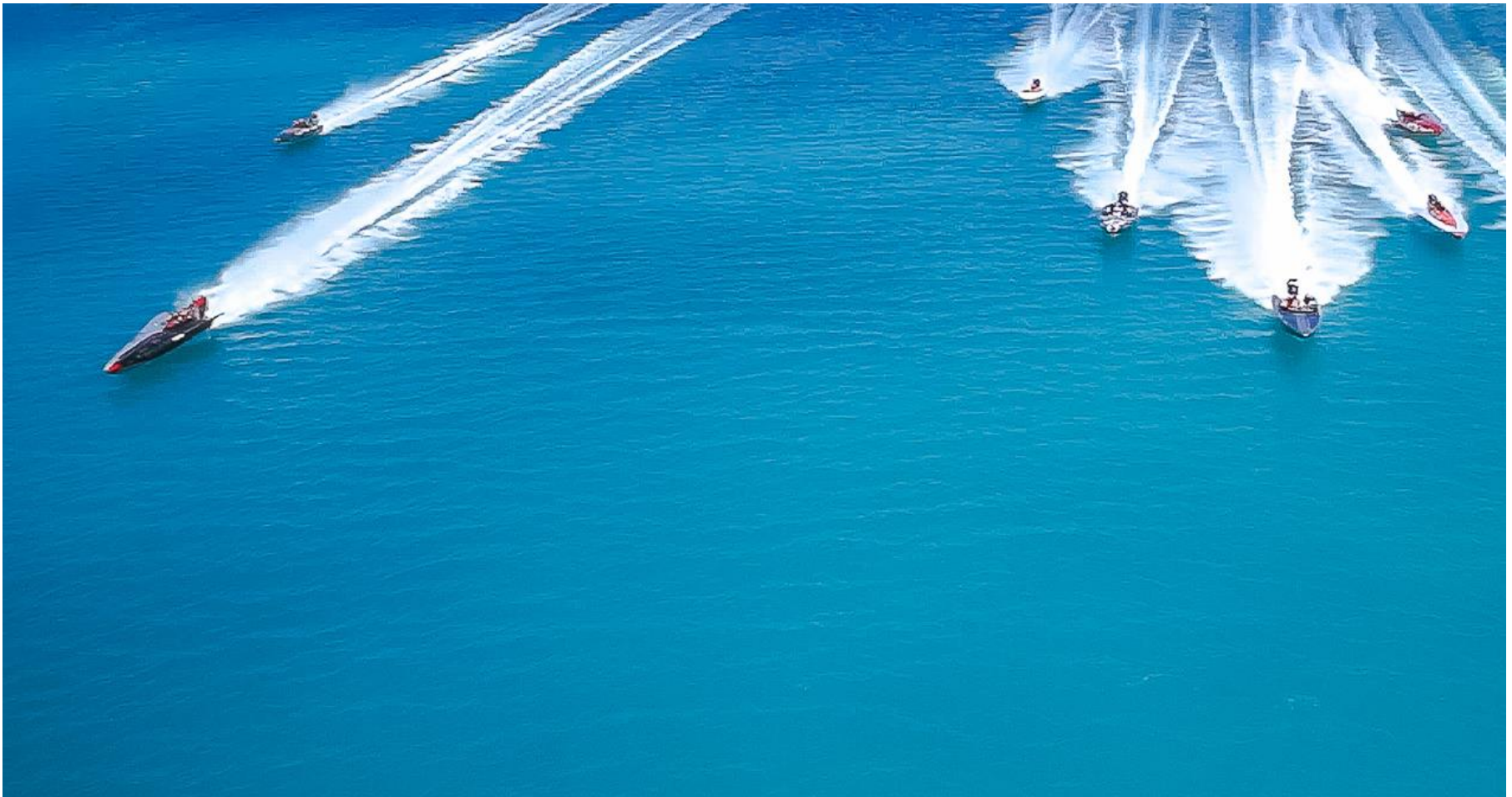


Towers Watson estimates that 31 (78%) of the S&P Top 40 Global Reinsurers have established some form of “alternative” reinsurance strategy



Aon estimates the ILS market could top \$150 billion by 2018

*Source: Aon Benfield*



## Mergers & Acquisitions: Off to the Races

# For years we have been asking when Bermuda Companies will consolidate. We now know the answer.



PLATINUM<sup>TM</sup>  
UNDERWRITERS HOLDINGS, LTD.

November 2014  
**\$1.7 Billion**



January 2015  
**\$4.2 Billion**



May 2015  
**\$1.8 Billion**



January - April – May 2015  
**\$120p/s, \$130 p/s,  
\$126 p/s, \$137.50p/s**



April 2015 **\$1.8 Billion**

# These deals followed many months of robust traditional and run-off M&A activity!

CATALINA HOLDINGS  
(BERMUDA) LTD

SPARTA  
INSURANCE

ASSURED  
GUARANTY™

RADIAN  
Asset Assurance

PROGRESSIVE™  
ASI American  
Strategic  
Insurance

FOSUN 复星

MEADOWBROOK™  
INSURANCE GROUP

AmTrust  
FINANCIAL

TOWER GROUP  
INTERNATIONAL, LTD.

GLOBAL INDEMNITY PLC  
Insurance & Reinsurance

American Reliable  
Insurance Company

VALIDUS  
GROUP  
Western World  
INSURANCE GROUP

HCC  
Mind over risk

PRODUCERS AG INSURANCE  
GROUP

FAIRFAX  
FINANCIAL HOLDINGS LIMITED

BRIT

PPIC®  
Preferred Professional  
Insurance Company

MEDICAL MUTUAL®

ENSTAR

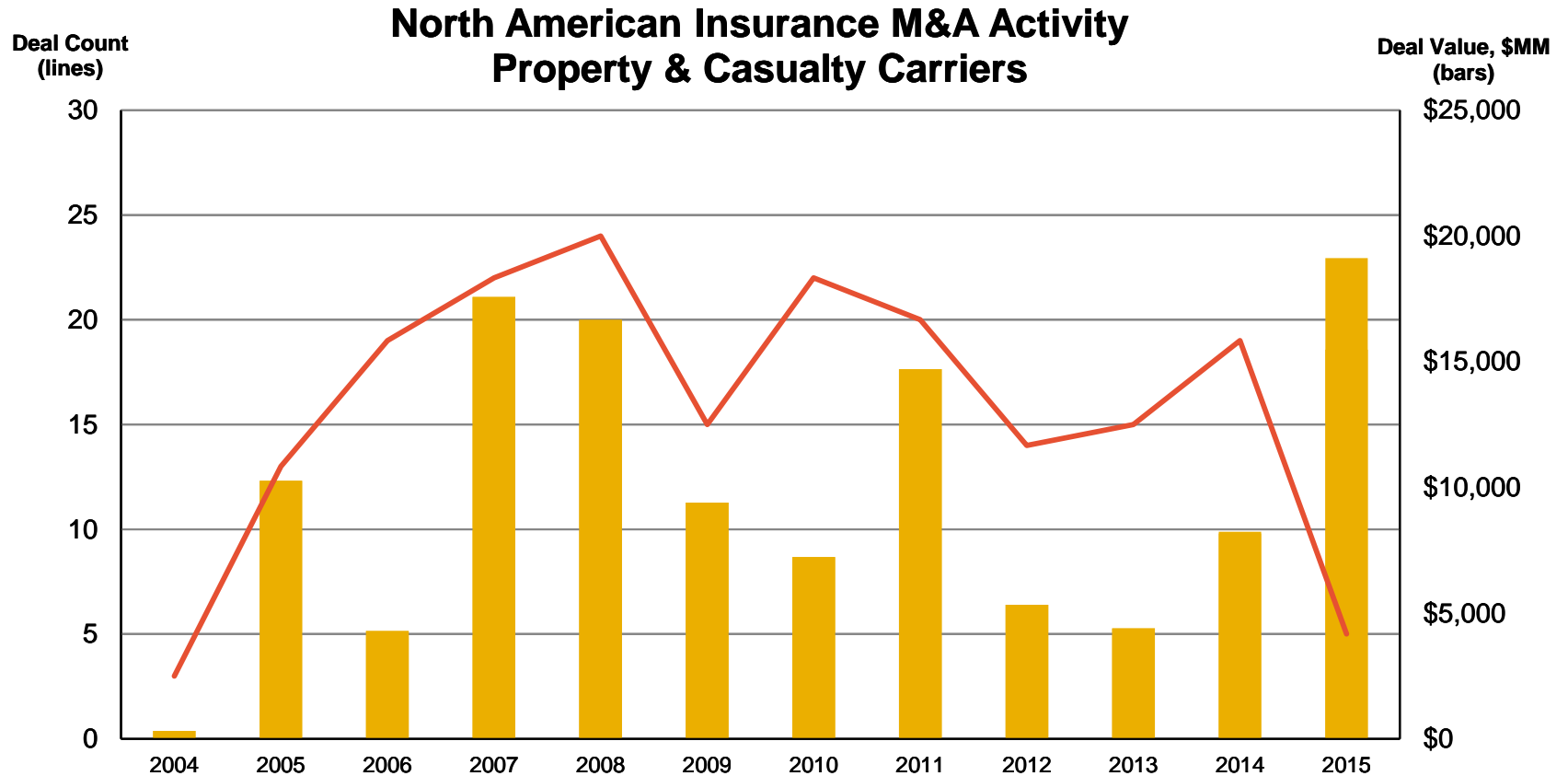
Companion P&C

ACE®

Fireman's Fund™  
Insurance Company  
A company of Allianz (Allianz logo)  
HNW Personal



# The PC M&A Market has seen significant increases since 2013



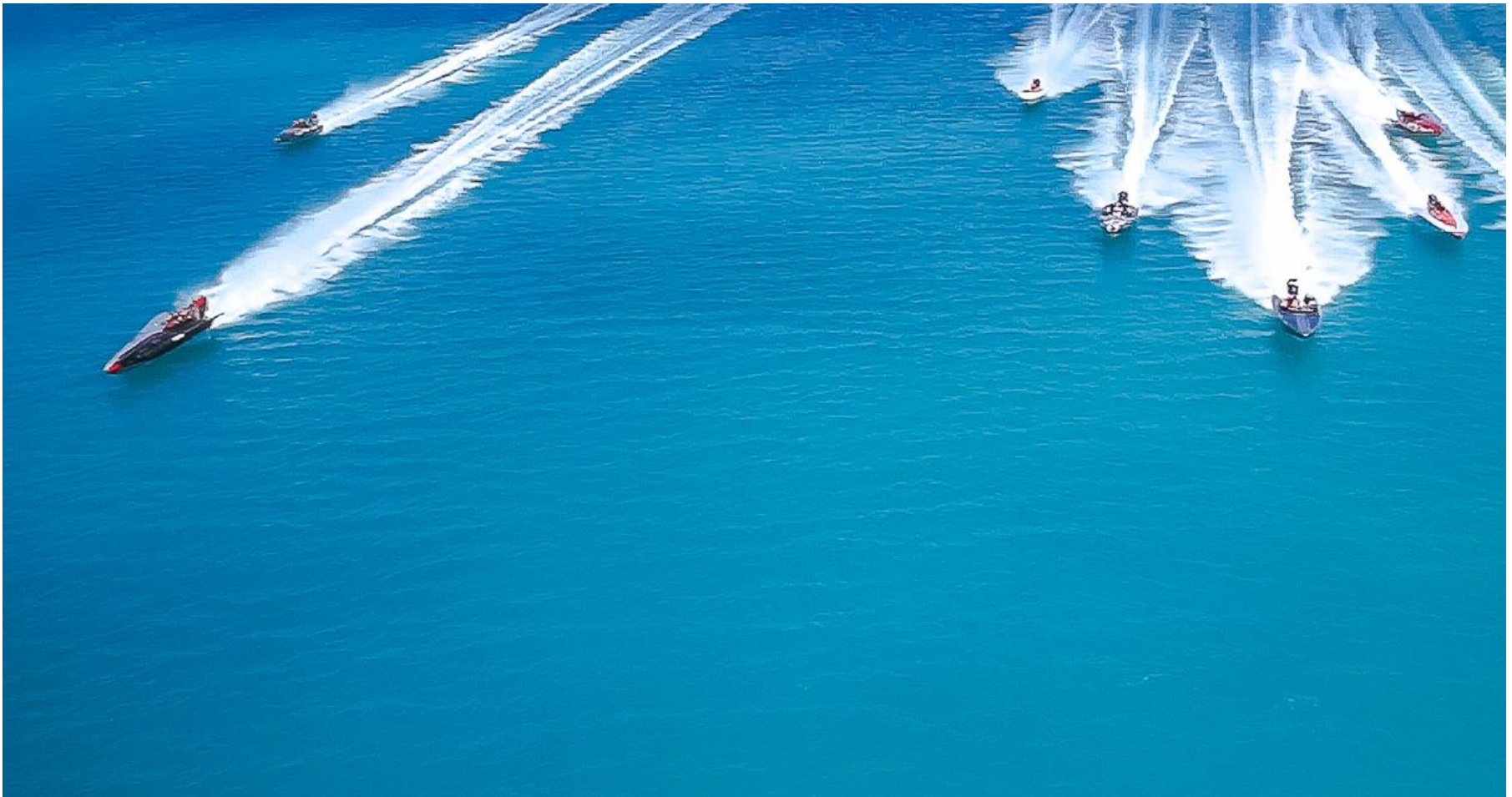
Source: SNL Financial.

Includes deals with North American targets or buyers.

Deals categorized by target sector and announce date.

Deal value not announced for every transaction.

Only includes deals with a value greater than \$50MM



**Where Are We Going?**

# The Alternative Risk Transfer market will continue to grow and impact the industry

- **Increased catastrophe bond issuance:** Pricing may have reached a floor but investor demand is still healthy with deals frequently upsizing. We will likely see:
  - Diversification of perils and geographies (Flood, Epidemic, Europe, Asia)
  - Increased interest in “cat bond lite” structures from smaller sponsors
  - Reduced frictional costs of deals as market matures
- **Stable levels of sidecar capitalization:** In the absence of major catastrophes (financial markets or insurance) investors are likely to return to existing structures as they are renewed. A diverse investor base has been established and is here to stay
- **Pricing stability following potential events:** Capacity constraints following major events will be muted, resulting in more stable pricing
- **Headwinds for new hedge fund-backed reinsurers:** increased scrutiny from the U.S. regulators and rating agencies (IRS draft rules published in April)
- **Capacity expansion:** Alternate capacity will continue to expand into non-peak perils and other classes of business
- **Blurred lines:** It will be increasingly difficult to distinguish between a traditional reinsurer and a reinsurance asset manager

# M&A Cycle will continue to stay strong for 2015

- **Underwriting cycle:** When rates are depressed, insurers look for premium volume through acquisitions (inorganic growth). Areas of major activity continue will continue to be:
  - Specialty Lines
  - Reinsurance
  - Bolt On's
- **Capital Efficiency:** Capital efficiency and diversification will continue to be important considerations for future deals
- **Alternative Reinsurance:** The ART market continues to create the need for consolidation to allow reinsurers to achieve cost synergies to better face soft market conditions
- **New Players:** Increased interest of old and new investors in the U.S./Bermuda insurance market continues
  - Asian and Canadian Investors
  - Increased activity coming from PE Firms
  - Continued entrance of insurance companies new to the M&A arena



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