



Strategies for dealing with declining reinsurance rates

Pricing discipline, downgrade clauses, alleged protectionism, US storms, creating efficiencies, and contract certainty were all themes at IQ's flagship 2004 Monte Carlo RENDEZ-VOUS Roundtable

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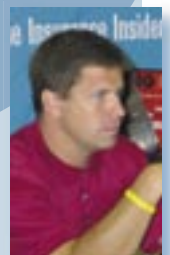
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PETER HASTIE: We are here to debate the theme: "Strategies for dealing with declining reinsurance rates" so first we should begin by examining what is happening in terms of pricing and underwriting conditions.

WILLIE ZELLER: We do not see a situation where rates are declining across the board. Although we are of course seeing some rates falling, others are rising. On balance we still anticipate a renewal situation with more rate increases than decreases – at least for our portfolio. As to whether this is a reflection of the market as a whole, that may be quite a different story.

PETER: Marie-Louise is that what you're seeing?

MARIE-LOUISE ROSSI: I agree with that. My members are telling me that they're maintaining underwriting discipline and that a lot of them have been using capital modelling techniques and capital allocation disciplines which have been keeping prices at the levels they started to achieve after 9/11. There are, however, market pressures to push rates down in some classes.

GEOFF BROMLEY : I'd start by saying that what we do see on the Marsh side of the business is quite a significant softening of prices in certain segments. And yes, there's lots of talk about pricing adequacy, but we tend to find that when people write new business they have a different view as to price adequacy as opposed to the expiring market. So we're certainly seeing in the primary market some significant areas of price softening. On the reinsurance side, the discipline appears to be far greater. Although there are some classes, and geographical areas where pricing pressures are more pronounced – especially in the shorter tail classes of business, and in regions such as Latin America and Asia-Pacific. But overall, the reinsurance market appears to be holding true as mentioned by Willie, but in the primary market there's significant pressure.

RICK SMITH: We're a niche player on the primary side and it's a pretty sizeable business for us at about \$2.5bn. By contrast, we're seeing prices actually increasing on those lines, not just holding firm year-to-year. That may just be a result of our product focus on primary lines in the USA versus some of the more traditional general lines across property and casualty. On the reinsurance side I'd agree with the other points being made. There seems to be good underwriting discipline and we're pleased that we're experiencing rate stabilisation or, in some cases, rate increases. And probably more importantly than rates, what we're seeing is that terms and conditions continue to hold firm - that's extremely important for us.

ROD FOX: Looking at the US market specifically, we're not seeing rate increases in the reinsurance business. I think Frances and Charley may change the property market in the South East specifically, I think a lot of people were concerned about Ivan and that it has the potential to really impact the overall market if it was a \$15-20bn loss. I think

South East property will probably be stable to increasing from a reinsurance perspective, but otherwise, flat to down across a lot of lines. I think people are being disciplined, there's nothing crazy going on out there but we are seeing pressure on prices.

DANIEL CASTILLO: I agree. We definitely don't see lower rates. Terms and conditions seem to continue to be stable. So we are not seeing a softening of the market at this point. Our business is about underwriting excellence and about execution, and most importantly keeping the discipline. With discipline we should fight the cycles. If the terms and conditions are acceptable we will write the business. On the other hand, if terms are not acceptable we will simply not write it.

CLIVE BUESNEL: I would add that nearly every meeting I've been to, or presentation, there's been a lot of talk about internal control environments and underwriting discipline, so it's clear that those things are very much on the agenda.

ROLF TOLLE: Well I have to say I don't agree with what some of my colleagues have said. At Lloyd's we are likely to see about \$30bn of global business and it is clear, as Geoff mentioned, that on the direct side there are lines experiencing quite a dramatic weakening in rates, although terms and conditions in the main are staying firm. When it comes to reinsurance, there are a few – mainly long-tail – lines where rates are holding or going up, but in the shorter-tail area there are definitely rate reductions – even in the US. It may only be 5-6 percent, but there are definitely rate reductions. On excess, rates are fairly stable but not so on the underlying exposures. Will Charley and Frances do something to that? I think it will stop the slide in the US. I think for renewals, Floridian business will get more expensive. Will it do anything to, say, Far East business? I don't think so. Ivan could change this, of course, but we will have to wait and see.

Overall, I think it is a reasonably stable market, we are not seeing precipitous drops but nevertheless I think prices are off a little bit, in particular the property market where on a risk-adjusted basis rates are probably off more than 5 percent, this is certainly true in the catastrophe business.

In terms of the storms, I do believe that the ultimate impact of these losses will probably be a little bit more profound than people are suggesting at the moment. I think when it's all added up, while it may not be driven by personal lines losses and maybe more in the excess and surplus lines area – I think it's going to manifest itself in a number of areas of the market.

Let's not forget we've got a very big storm [Ivan] that could go over the oilfields and into the United States as a category four storm, and wherever it hits as a category four it is going to cause a significant amount of damage. So I think they will have some impact upon pricing.

PETER: What are your experiences of how the treaty negotiations have begun, bearing in mind the uncertainty caused by the storms? Is there a lot of shadow boxing taking place?

ROD: For those with Florida exposure, there was a brief frenzy before Monte Carlo because some of these guys had taken two net losses and were facing a third with Ivan. So there was a lot of activity before Ivan moved further westward. Overall, I think you're right - there's a lot of shadow boxing going on right now.

RICK: I really think it's a wake up call for all of us. We've been somewhat lulled to sleep over the last few years with the favourable loss experience. The storms are a reminder to everyone that you need to look at exposures and model them constantly and also make sure that your customers understand the importance of that modelling and data as well.

ROD: It's your experience rating versus exposure and people start paying attention to the experience and forget about the billions of dollars of TIV they have.

DAVID: I think there's another dynamic to that also and that is a better understanding of the exposures. I mean, you have people who are very sophisticated in terms of the way they utilise modelling techniques and embed these techniques within their business models, and there are others who use them as purely an underwriting tool. There is a big distinction and I think there's going to be a big mismatch between peoples' expectations of their losses and the actual losses. It may not be quite as distinct on a portfolio basis but certainly on

an individual risk basis there are going to be some big disparities.

DANIEL: I would add that underwriting is a mix of science and art, but it should be 80 percent science and 20 percent art!

MARIE-LOUISE: And I have noticed that more and more large reinsurers are employing



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DAVID FURBY: I have a couple of observations. I agree that the current market is an insurance led cycle, and if reinsurance rates are declining it is largely because of pressure on primary markets. On rating, I'd say that among casualty classes where there are increases they have been in part offset by claims trends.

scientists in-house. It used to be just the likes of Munich Re and Swiss Re, but now others are doing it as well...

WILLIE: Brokers are also offering far more than just hosting expensive dinners and tracking down the most reasonably priced reinsurance.

GEOFF: You sound surprised! (laughter)

WILLIE: No really, and that's a great compliment to our broker friends. I heard this from one of the direct reinsurers the other day who commented on just how good the brokers have become during the last five to 10 years.

GEOFF: I think it is indicative of the changing role of the broker. What was valued maybe a decade or more ago was a broker's transactional capability; now it's far more consultative and having a good analytical platform is just an essential part of that. Rod and his colleagues have invested heavily, and certainly for us the single largest investment in the last decade has been in building that platform for our clients.

ROLF: I think it's the same for the companies. I see it in Lloyd's. We now expect all the syndicates to have strong analytical capabilities and not just rely on one model because of the risks of failure.

ROD: It is interesting that you are talking about science. This year in particular, I have been struck by the depth with which people are using long range weather forecasting etc in their businesses. And it is not just watching a newscast; people are paying a lot of money for highly technical forecasting.

PETER: Back to pricing, there seemed to be some difference of opinions on what is happening. Why is that?



RICK SMITH:
"We continue to preach and practice underwriting discipline, but if you have to shrink to be more profitable, you shrink."

WILLIE: Maybe I can correct a slightly misleading impression that I may have created; I was emphasising that this applies only to our portfolio and on reinsurance only, not primary.

RICK: I agree. The point I was making regarding primary rates was referring to a unique set of underlying risks, it's medical

malpractice for example, it's higher hazard casualty lines and very unique property lines that are in fact seeing price increases. I was referring to those and not the generic P&C lines.

ROLF: Because in those lines we also see price increases. But if you take the Fortune 1000 property risks, they are down, by as much as 30-40 percent. And energy, which has been good for two to three years, suddenly has 30-40 percent rate reductions. And aviation airline rates are reducing. When you look from the perspective of the big risks coming into London, there is pressure on them.

PETER: Geoff and Rod. As brokers, does this concern you? Your community – particularly in the last few years – has been critical of the volatile nature of the business. Are brokers saying: "Here we go again"?

ROD: I think there have been some good profits made over the last couple of years but I'm not seeing irresponsible activity. To mention one example Rolf used, the large property business seems to be falling off very quickly, and that may be a touch concerning. But in general nobody's doing anything completely out of line.

GEOFF: I don't know whether I'd put it as a vast concern. There is now a lot of capacity available on the Fortune 1000 type business and in a flexible market you are going to see these movements in prices. But I don't see anything particularly bad about that; it is just the market in operation...

ROD: Generally we've all seen that the spikes are more muted now with the efficiency of the capital. Capital can come in very quickly and it mutes the sharp upturn, and hopefully also the really sharp downturn.

PETER: Under-reserving has not gone away; nor have the rating agencies. Are people coming to Monte Carlo saying they want downgrade clauses or collateralisation?

RICK: I tell you we've been here since Saturday

and met with a lot of broker partners and a lot of customers and it has never come up in one conversation I've had. Of course it doesn't mean they're not happening...

WILLIE: Aren't downgrade clauses already included in most contracts? After all, you can see the speed with which a substantial part of the Convergium business in the United States was replaced – it all happened within a week or so.



DANIEL CASTILLO:
"I would also add that diversifying the portfolio as a strategy does not work. If prices go down, we simply should not write the business."

ROD: Perhaps the key point is that the rating triggers are like sudden death. Triple B, bam, it's over. You just can't recover because people have two broad ways to do it; cut off at that moment, or collateralise, or cut off back to inception and the business just goes.

GEOFF: Some clients are asking for collateral, but there's a general reticence in the market to collateralise too broadly and indeed the market's just not geared to do that.

ROLF: And if they would do it, it would cost more. At the end of the day it's the policyholders that are paying it and if they expect to get it then fine, but then they have to pay the price for it.

GEOFF: And that cost is going up considerably...

RICK: Correct.

MARIE-LOUISE: I think there is a general understanding that reinsurance as a mechanism globally can't work if there's too much collateralisation.

GEOFF: On that downgrade situation, I wonder what we think would happen if there was a general and precipitous downgrading of the industry following a major event...

DAVID: There has been hasn't there? If you actually analyse the landscape you've gone from double A to single A range...

GEOFF: But if there was a huge loss and the ratings agencies said those eight companies or those 15 companies are to be downgraded, what would that actually cause?

DAVID: If you don't want to take it net, you would have to find somebody else. I think the aspect of downgrade clauses that everybody underestimates is that the decision to terminate will in part depend upon the longevity of the relationship. If you've been trading with someone for one year you're going to be more inclined to say "well their position has changed and I'm prepared to terminate." But if you've been

trading with somebody for 20 years, you don't want to push them over the edge. As a buyer I think that's a major consideration when you're thinking about triggering these clauses. I think you're going to be very sensitive over the ongoing financial strength of your partner, mindful of course that these clauses are in a majority of contracts and others may take different actions.

ROLF: I think your example shows what limited use downgrade clauses really have.

RICK: I couldn't agree with you more.

WILLIE: The two largest continental European reinsurers – if they still had their AAA rating – would probably still be saying "only triple-A rated capacity is absolutely secure." Now, after the downgrades, they have had to change their tune. I would probably do the same....

DAVID: As management of companies I think we all debate the value of the rating you hold and how holding more capital might dilute your ROE, but I don't think we have seen a change in financial dynamics where people have engineered their ratings down.

WILLIE: And I also think we are talking about two distinct issues with collateral and downgrade clauses. If you were to go to Convergium now and ask for \$5bn in collateral the money just would not be there. However, if the downgrade clause simply enables you – as the reinsurance buyer – to exercise immediate termination of the contract that can be helpful and that seems to be what is happening...

ROD: If you look at it, and I think Marie-Louise was saying this, the industry just can't sustain full collateralisation. So in the event of a doomsday scenario, it just isn't capable of providing full collateral.

WILLIE: Well, there is one country – some call it "God's own country" – which discriminates against reinsurers from all other countries by demanding full collateral, namely the US!

ROD: Are you able to gear it a bit?

MARIE-LOUISE: No. If you look at recent NAIC meetings, you'll see that there's been a huge spearhead from the London market by the IUA and Lloyd's, supported very strongly by Hannover Re, for which we are very grateful, and the CEA – to address this issue. But there is very strong resistance, not least from the Reinsurance Association of America.

GEOFF: Recent events won't lessen the pressure...

ROD: You know it's fascinating with the RAA, I think if you look at it there's only three or four companies in the RAA that are actually US domiciled groups.

MARIE-LOUISE: We have noticed...

ROD: It's almost a misnomer.

WILLIE: So we are paying our own people to work against us!

DAVID: The irony is that where there is some pressure to collateralise it's not geared at the international market, it's domestic admitted companies that people are going to and saying "hang on a sec, I get collateral over here, I actually want to start collateralising the

admitted paper where I've got nothing other than an unsecured recoverable asset."

WILLIE: And that's the big difference. This is the first counterargument which I've always heard and I do believe in it because if you are a New York company doing business in New Jersey without having a licence in New Jersey it's absolutely right that you too are an alien carrier and have to collateralise there. However, the difference is that the New York company can acquire the status of an accredited reinsurer. And, as an accredited reinsurer, you don't have to collateralise. Foreign reinsurers cannot obtain the status as accredited reinsurer. And that is discrimination!

DAVID: I appreciate that, but I think it's being driven by the cedants irrespective of local differences between insurance departments. I think cedants are looking at this and saying, "well the non-admitted market is collateralising and I want to get some collateral in the admitted marketplace"

PETER: What do people see as the real difference between those companies that are going to see good share price growth in the coming years and those which might struggle?

DAVID: Personally I think what's going to drive share price is growth in book value which means insurers and reinsurers have got to deploy capital, they can't afford to destroy it. The way you do that is to maintain underwriting discipline, control your business well, manage your way through the cycle very carefully and underwrite consistently for a profit. If you follow that rule and you have good people, it should be recipe for success. Now, at some point in time, you may have to shrink - and then it is a question of how do organisations redeploy that capital, because I don't think the investment community is necessarily deeply concerned about people showing discipline in the marketplace but they are interested in your capital management strategy...

RICK: It's a little bit different for our business, being part of a large diversified company like GE. We not only demand underwriting discipline but also understand the strategy of our parent to take our capital back when the market does soften. In fact we're expecting a slightly softer market in 2005, so we've reinitiated our own dividend program back to GE and they will willingly take that capital back, reinvest it in other areas where they can get a good return on equity. When the market turns and we need more capital, they'll give us more. We continue to preach and practice underwriting discipline, but if you have to shrink to be more profitable, you shrink.

DANIEL: I would also add that diversifying the

portfolio as a strategy does not work. If prices go down, we simply should not write the business. It's about keeping the discipline and we should not worry about cost ratios going up because we are writing less business. History indicates that it's bad underwriting that kills you, not expenses.

CLIVE: Does that mean expenses aren't important?

WILLIE: No but of course expenses and the expense ratio are two different things. It goes without saying that expenses are extremely important. But in our industry we're blessed with a very low ratio of fixed expenses – 2.6 percent at our company, the average is 4.5 percent, and even that figure is still low.

ROD: Do you think we could have higher broker compensation then? (laughter)

ROD FOX:

"I think there have been some good profits made over the last couple of years but I'm not seeing irresponsible activity."

WILLIE: Fortunately, broker compensation is not fixed. It's variable....(laughter)

CLIVE: Is there still a need to look to how you turn some of that 2.6 percent from fixed to variable so as you shrink you can start variabilising that cost?

WILLIE: Well, in theory you can. But with German labour law, this is only theory. This is your fixed expense, where you have to have your 800 employees, although of course we can try to outsource some things. Yet this is not crucial. The situation for primary insurance is, of course, very different.

ROLF: But even there, it is never the expenses that bring you down. So I think from that point of view you still should stick to looking at the bottom line and let the top line look after itself. When the market's soft, it has to reduce. Simple as that. It is then for us to tell the analysts and the rating agencies, what to expect.

But I do think things are improving. When you look at the comments from the different rating agencies, over the last two years they've changed. Suddenly, it is those insurers who manage the cycle and control the bottom line, who are getting the better ratings.

CLIVE: I guess the other aspect of-the-expense base is a very high cost in claims. That's a single cost area. Do you think the industry is controlling claims well as a cost?

WILLIE: Well, claims costs are not administrative expenses. The average reinsurer has a cost ratio of 4.5 percent. At 2.6 percent, ours is obviously somewhat lower and these extra percentage points of course give us a certain head start. Nobody has ever accused us of not controlling our claims costs etc., so



whatever a professional reinsurer needs to do is certainly being done within our organisation, but obviously a bit more efficiently: at lower expenses, with fewer frills.

PETER: Marie-Louise, what are your views on the London market initiatives?

MARIE-LOUISE: Well, there's been a tremendous amount of work to make the London market more efficient through the London market reform process. It is extraordinary still how much we're paper-based, but we are moving away from that and we need Xchanging's help – and other market providers too - to help us do that. But we've now got the basis of electronic placement with the agreed design of the LMP slip and we've got 90 percent usage. The next two big projects are 1) Accounting and Settlement – in other words making the money move faster and more efficiently and 2) the electronic claims file, where all the conceptual design work has now been done. Once, we have those components in place we will then have the basis of a full seamless electronic trading and processing and claims settlement process in London. At the moment we've got bits that are efficient and then you have to stop and key in again. We mustn't kid ourselves, but overall things are going in the right direction.

DANIEL: And I guess with IT we all know around this table that it's a never-ending expense!

ROD: To carry on with what Marie Louise was saying, in terms of efficiencies and service standards. Personally, I have a real peeve with our industry's inability to have contract certainty. You look at other financial service businesses and they must laugh – we're transacting billions of dollars of business and we're talking about six, seven, even nine months before there's a contract with wordings.

MARIE-LOUISE: This is very much part of one of the London market principles, which was contract certainty at transaction stage or at inception, but certainly no later. There is an awful lot of work going on that at the moment in that area.

ROD: Every now and again we get carried away with the idea that our business is so complex that we can't possibly have certainty. But there are plenty of other markets where they do it. In fact, if you look at a reinsurance contract, 75 percent of it is fairly standard. You can't tell me we can't solve that part, it just takes everyone to focus on it.

CLIVE: We have discussed how low the expense ratios are in the industry – is it also a reflection of under-investment in IT and processes? Looking at other sectors, say banking, and the insurance industry invests far less in its systems.

RICK: Well you've also seen a lot of financial services – and I come from financial services – which spends multiples of what we spend in insurance and aren't any better off. So its not just IT...

CLIVE: But simple things like segmentation of process where you're saying it can't just be the same process, you've got to start saying what can be standardised, what is bespoke, and start driving some segmentation through. That's cultural I think, that people believe that complex always means complex but you can't subdivide it. I mean you just aren't looking at segmentation I think there is a big way of driving efficiency in the industry.

PETER I guess we'd all agree that lack of contractual certainty is a disservice to the industry. Beyond that, does the reinsurance business provide a good service?

DAVID: I think the products that are provided are of great value to our customer base. Sure, they can be improved in terms of the way in which we service the business from a contractual perspective and I think we can be a lot more efficient in the way we transact business, transfer premiums, and probably claims too. But fundamentally, I think there is tremendous value in the products that we sell.



RICK: The only thing I'd add as well is that service is a continuum and we've talked to

CLIVE BUESNEL:
"You can't just optimise in your business, you've got to optimise across businesses and I don't see that happening yet."

our customers and broker partners about the definition of service and I'd say that in this

regard, we do an okay, but not a great job. I think if you look at the blocking and tackling of service it's the day-to-day transactions like issuing a quote on time and issuing a policy on time and there I think customers are getting a mixed bag of results. This is an opportunity for us to differentiate by expanding the definition of what service really is and how you make risk analytics part of the value proposition to make both sides smarter, better and more profitable.

PETER: Geoff can I just bring you in on that point. I'd be interested to know what feedback you get from your customers about the service levels they receive...

GEOFF: The common feedback is that we as an industry haven't done as well as we need to. But I think it is also recognised that things are improving. For instance, the industry is becoming more transparent, which is important. For instance, the broker community has not been without its critics but things have certainly improved there. I think electronic platforms will also raise the level because they will provide a further transparency and also in monitoring performance.

MARIE-LOUISE: I'd also make the point that London has perhaps been flagellating itself too much. If you do some rather objective comparisons with other parts of the world, our service is not worse and the whole point about the London reform process is to make London better than anywhere else for its service levels.

WILLIE: Without repeating what Tony Markel has to say about London, I would largely agree with Marie Louise's observations – although it was not all that difficult for the London market to improve, given the level the market was coming from. Still, it can't rest on its laurels. On a scale of 0 to 100, we are perhaps currently around the 45 mark.

ROLF: I agree but even Tony Markel has changed his position now. He's favourable because he sees improvement but the overall aim is to have world-class processes in place.

CLIVE: It is heartening to hear that there is a lot of alignment of interest and collaboration between brokers and underwriters at the trading level and in relationships. But in contrast, I see little in electronic infrastructures and processes and this requires major change. You can't just optimise in your business, you've got to optimise across businesses and I don't see that happening yet.

PETER: What trends in terms of reinsurance buying are we seeing?

GEOFF: Certainly we see - and indeed encourage - this growing trend for excess of loss reinsurance. What we are also seeing is buyers seriously questioning the value of reinsurance and this is especially the case with the discussions on contract certainty. Buyers want to know what they are buying.

ROLF: Well, Geoff what you're saying in the main is that there are two kinds of reinsurance that are bought. One is capital substitution, you need it because you don't have unlimited capital resources, and then maybe when the market softens you could see people say that is just opportunistic buying of reinsurances. But I think the groundswell of opinion is that reinsurance is back to what it is supposed to be namely capital substitution.

WILLIE: I agree. And what I'd like to know from Geoff is whether he thinks the trend towards more non-proportional business is really coming from the reinsurance buyers, or whether it is rather a reflection of a change in appetite on the part of the providers.

GEOFF: Certainly there's a change of attitude on behalf of the providers. But also, I think, this has come from the buyers who feel that proportional cover no longer suits their business needs. Many of them now prefer the greater flexibility of having excess cover. But overall, I think it is the providers who have been the major instigators of change.

DAVID: Nonetheless, there is still a lot of pro-rata business and lets not underestimate its value, as a reinsurer there's a lot of lines which I would prefer to be in as a proportional reinsurer.

PETER: Are buyers also retaining more risk?

DANIEL: In some cases, yes, buyers retain more risk and it is mainly because they feel more comfortable with their underwriting approach so they retain more. The more you understand your exposures the more comfortable you will feel to expose your capital.

WILLIE: But isn't this also a reflection of the state of the market? In other words, in the hard market it makes sense to retain more risk because the primary business is good and reinsurance is expensive. Then, in a softening market, things will change again.

This is all very much a case of déjà vu, I'm afraid. In the second half of the eighties, with the US liability crisis, buyers ran high retentions. Then they began to cede again. Post-Hurricane Andrew prices became more expensive and retentions increased, while towards the end of the nineties the reinsurance market grew like crazy and some reinsurers again couldn't resist this temptation. Now, of course, they're having problems...

DAVID: That's the market for you. The soft market is where real leverage is applied - particularly in XL lines - and it will be interesting to see whether the reinsurance market allows that to happen again.

PETER: Rolf, Lloyd's have been very active in corporate change and saying "we're not going to allow the mistakes to reoccur". Is that your view?

WILLIE: They have even created his position for that...!

ROLF: I agree with Willie really, because what we are trying to achieve, as a culture change in Lloyd's is to say: "Yes, you write a certain gross line, but you should run a certain percentage of this as net". We have a guideline in which we've said your maximum gross line is 10 percent of available capacity, while your net line should be at least 10 percent of your gross. And, of course, a lot of people are running a lot more than that.

I have to say when reinsurers can't withstand the temptation of getting some business on their books, I think some Lloyd's insurers will be under pressure to reduce their excess points. But we have applied the principle that if you eat your own cooking, you are that little bit more careful.

GEOFF: I'm always intrigued because I've found that a number of clients, when the markets are soft, meet growth expectations by increasing retentions just when they should not.

ROLF: But that is really when we were in the revenue situation, and the principle seemed to be: "keep the revenue, keep the top line". I totally agree with you, it really didn't make sense that they wanted to have more of that weakened business in order to keep even more of the business!

The other thing that is interesting is that the reinsurers should insist on having a certain retention. Normally, in a very hard market, we are capital constrained, and the reinsurers say: "let's write as much as we can, make hay, it's sunshine". But we have capital constraints on ourselves. While the market is soft we should insist you have to run a certain retention because we want you to be involved in the action.

WILLIE: Peter, I'd like to go back to theme of satisfying investors. VJ Dowling in one of his "IBNR Weekly" comments made a great observation to the effect that "this was, is and always will be a lousy industry". What makes it lousy? The fact that it is an 8 percent ROE industry and investors are sick and tired of buying shares that return only 8 percent ROE over the cycle.

What is more, in many cases that very same industry finds out ten years down the road that providers have sold their products far too cheaply and are now compelled to adjust their prices. Unfortunately, they can't do this retroactively so they do it at the expense of the incumbent investors.

What is extremely good news, however, is that the rating agencies, too, are now putting the focus on profitability, rather than simply size of capital base. That is good news. Two



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industry "controllers" are now teaming up, the investors on the one hand, and the rating agencies on the other, and they are both making positive impact.

ROLF: I share that sentiment, but let's be realistic. When I see people today moving fast into casualty areas, I sit back and say: "Well, they're creating their own legacy". That is the problem with our industry, we are selling a product - yet we will not find out for many years later whether it is profitable or not. But the good thing is there is pressure to have a certain return, and we, as an industry, have to deliver.

PETER: Thank you very much to you all.

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