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ASPEN OPINION

U.S. REGIONAL REINSURANCE: DEPTH AND DURABILITY

Tom Luning, Head of Regional Business Development at Aspen Re, highlights the differentiated reinsurance service approach to the world's largest (re)insurance market – namely the United States. In terms of geography, the U.S. may be classified as one market but the variation in risk profile and risk mitigation appetite demands a clear market segmentation between National and Regional insurers.

Nationwide But Not National

The Regional insurer can be described in broad terms as a company with less than USD$2 billion direct written premiums and products typically sold across a maximum of 25 states. These Regional insurers are located throughout the U.S., with concentrations in the Northeast and Midwest.

The U.S. Regional sector is a well-capitalized and profitable market segment. Typically, Regional insurers have policyholder surpluses averaging USD245 million, net written premiums of USD250 million and a combined ratio comfortably below 100 percent (in the region of 91-94 percent).

Generally, Regional insurers avoid specialty classes such as Pools & Associations, Workers Compensation, Professional Lines (i.e. E&O, Medical Malpractice) and/or Excess & Surplus lines. In terms of their ownership structure, mutual and stockholder companies each account for roughly 40 percent of the market, with private companies accounting for the remaining 20 percent.

This Regional cohort comprises approximately 20 percent of an estimated USD65 billion of U.S. premium ceded to non-affiliates. Within this market segment, the broker market services approximately 85 percent of the ceded premium, while the remainder is serviced by the direct markets. Operators in the latter area have all now established broker distribution channels alongside their direct model in order to maximize business opportunities. In fact, a large percentage of ceded business is assumed by primary companies participating within the insurance space in order to diversify their risk-profile and to make use of unutilized capital.

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Buying Behavior

The size, product offering and geographical footprint all help to define the U.S. Regional. However, it is reinsurance buying behaviors that truly distinguishes it from the National insurer. While the overall reinsurance marketplace continues to rely heavily on relationships, the U.S. Regionals, in particular, place a high value on long-standing relationships and look to reinsurers who are prepared to support them in terms of breadth and depth of capacity. This calls for long-standing, trusting relationships that span all levels of the business. A high value is also placed on underwriting, claims and actuarial consultative services. It is not simply about risk transfer but also services and support regarding both the structure of their reinsurance programs and new product development (e.g. Cyber Liability). This contrasts with the Nationals who typically place a higher value on efficacy of execution than on a holistic service offering and where depth rather than breadth of capacity may be the deciding factor.

There is no substitute for the people at the core of these relationships – and there never will be.

Relationship Rewards

The reinsurer that is able to deploy capacity across the Regionals entire program can benefit from the relative size of account as retention levels tend to be low, which in turn affords greater visibility and so enhances pricing accuracy. Low retention levels also lead to lower earnings volatility, resulting in a lower capital charge. This saving can be passed onto the cedant. Reinsurers who successfully focus on this Regional business can build a geographically diverse portfolio and, in doing so, reduce earnings volatility caused by headlined catastrophe events. Local relationships and access to producers (Agents) provide reinsurers with the proximity necessary to remediate problems at the production source on a timely basis.

The Long View

The successful reinsurance provider will need to develop and then adhere to a thoughtfully devised and well-managed Regional portfolio strategy built on a foundation of differentiation at the point of sale that will include leveraging underwriting, claims and actuarial expertise. In addition, meeting clients' needs through waterfront capacity provision across all product lines is also important. However, it is crucial that this is built on long-standing and personal relationships with the Regional underwriter which would require the reinsurer to take the long view. In times of change, adopting such an approach may prove challenging for some. The successful reinsurer will ensure that the Regional has the necessary level of rate transparency as well as a high level of access to its broad base of resources in order to deliver the desired tailored underwriting approach.

The decision by any reinsurer to venture into the U.S. Regional underwriting space should not be taken lightly. Regional relationships can be labor-intensive and require a capital investment in the recruitment, development and retention of the very best talent available. The Regional team requires very specific personality traits as well as a business acumen spanning multiple disciplines (i.e. underwriting, claims and actuarial). Meanwhile, the Regional client base will place an understandably high level of expectation upon not only the reinsurance provider with whom they have chosen to partner, but also the individual(s) representing that firm. There is no substitute for the people at the core of these relationships – and there never will be. The responsibility for ensuring a long-lasting and balanced relationship falls equally on the shoulders of each party.