Q&A: Market Conditions

Reinsurance market conditions may be soft in many lines but best in class players will not find themselves short of opportunities, says William M Jewett

What is your outlook for January 1 renewals?

Softening in the primary insurance market is driving many ceding companies to focus more intently on their reinsurance purchasing practices as they try to preserve their top line and reduce overall expenses. We have seen increased interest by cedants in increasing retentions as well as exploring more creative ways to more efficiently manage their capital. We also see more aggressive negotiation of reinsurance rates and terms, although our own experience is that long-term relationships are generally sustainable as companies continue to become increasingly selective in choosing their reinsurance partners.

For the most part, we are observing more responsible behaviour on the part of reinsurers than we have seen in previous soft markets. At the same time, I expect that the market will continue to remain competitive absent a large dislocating event or series of events. For those reinsurers who have historically focused on developing long-term relationships and take a prudent yet reasonable underwriting and pricing approach January 1 renewals should go fairly well and programs will continue to produce adequate returns. We feel that we are very well-positioned to perform relatively well in this market.

In this soft market, are there opportunities for growth?

Yes. Our principal growth strategy is to develop our international portfolio organically, one account at a time, by targeting best in class companies and working with them to structure programs that meet their reinsurance needs, either mono-line or multi-line. Over the last two renewal cycles, we have been very pleased with the growth of our international operations in Zurich and Singapore as well as with the continued success of our London underwriting operation. We have recently hired an experienced team to further expand our portfolio into the Latin America region and have equal confidence in their future success.

These local relationships combined with the relationships we have built through our international property catastrophe portfolio, are proving to be very valuable as the overall market softens. And we have been pleased by the reception we have had in the markets and the opportunities that have been presented to us.

Is risk management more critical in this market?

Definitely. In any market, a strong risk management discipline can position a company favorably for the long term, but the challenges of the current environment make Enterprise Risk Management (ERM) even more critical. From our inception, we have built a culture of ERM into our underwriting, actuarial and capital management disciplines and we are pleased to have received public recognition as an industry leader with an ERM rating of 'Excellent' from Standard & Poor's.

As important as our ERM approach is to our clients, we also seek ceding partners with an equally strong commitment to risk management, which we believe is a hallmark of a well-managed company poised for future success. To that end, we have worked with some of our clients who are seeking to strengthen their ERM capabilities by offering them assistance in this area. This past spring, for example, we held an off-site symposium for selected clients to discuss ERM initiatives and approaches and to share with them some of the practices that we have put in place within Endurance.

What are the implications of the soft market for capital deployment?

There are still attractive opportunities despite the soft market. We see a number of companies deploying capital to fuel growth where they identify prospects with long term potential. We have entered several new business areas, such as the Latin America market, and have made investments to further expand other parts of our portfolio. For example, we recently closed a quota share treaty and renewal rights deal for a portion of Glacier Re's reinsurance book. We think it was an effective way to deploy capital and to expand our European property catastrophe and specialty portfolio.

Ultimately, we are committed to strong capital management which can incorporate a combination of capital deployment approaches, including investing in new business growth opportunities as well as buying back shares, as appropriate.

What can ceding companies do to maximise their reinsurance opportunities?

We seek to establish relationships with companies that are best-in-class and partnerships that are mutually beneficial over the long-term. We look for partners that consistently demonstrate underwriting discipline, pricing integrity and claims expertise. They must also be able to effectively manage through the market cycles.

We endeavour to develop a strong working relationship with these companies to truly understand their underwriting capabilities and business strategies – their operations, people and business plans – so that we can offer reinsurance programs that are not only aligned with their own commercial needs, but also are economically sensible and provide other value added benefits as well.

William M Jewett was appointed President of Endurance Specialty Holdings Ltd. in March 2010. Prior to that, Mr Jewett served as President and Chief Executive Officer of Endurance Worldwide Reinsurance from February 2007 to February 2010. He began his career with Endurance in 2002 as Chief Underwriting Officer of Endurance Reinsurance Corporation of America.

Mr Jewett came to Endurance from Converium Reinsurance (North America) where, as Chief Underwriter of Risk Strategies, he had responsibility for the underwriting, marketing, planning and overall management of Converium's non-traditional reinsurance business. Prior to Converium, Mr Jewett was responsible for underwriting and marketing in the US for Centre Reinsurance Company of New York.