

Playing hardball

Sompo International has gone through a significant amount of change in the past year, combining Sompo's existing reinsurance operations and Endurance, following the completion of the Bermudian carrier's acquisition in March this year. Here, reinsurance CEO Stephen Young talks about reinsurance buying trends, InsurTech opportunities and the importance of having an A+ rating

Interviews can feel a bit like a game of squash. It's a fast-moving sport, requiring skill, speed, mental agility and an ability to understand and read your opponent.

There's only really one way to win a game of squash, or to get the best of an interview – and that's to get your opponent running.

You might not be surprised to learn that there's a thriving squash community among the underwriters of Bermuda.

Stephen Young, CEO of reinsurance at Sompo International and former president of the Bermuda Racquet Squash Association, extols many of the virtues of a good squash player – and a good reinsurance interviewee.

As an interviewee, he's calm under pressure, calculating and measured, knowing exactly when to take a subject and run, and when to simply smash the ball back.

As an example: when asked to crystal ball-gaze and opine on what he thinks the mood will feel like in Monte Carlo this year, Young

“When brokers add even more commissions it becomes more challenging to write profitable business and do our jobs efficiently”

is polite, but keeps the returns short, and defers from providing many specifics.

“There hasn't been a huge amount of change over the past year, but there will be some interesting discussions especially on the heels of hurricanes Harvey and Irma, where the industry as a whole could see damages that will turn the market,” he says.

“It's still a bit early to tell the extent of the losses and the impact they will have on renewals, but this will definitely be the topic of interest this year.”

He notes the Ogden impact on the UK motor market, which should prompt some interesting discussions in Monte Carlo given the major renewal period is in January. He also touches on the state of the US auto market, which has seen pockets of

hardening in non-standard auto, given the increased frequency and severity of losses.

On property cat, Young says the June and July renewals saw some acceleration in price decreases and contract expansion in the US, as RMS's new north Atlantic windstorm and quake models prompted something of a summer of remodelling. Outside of the US, meanwhile, nat cat events such as New Zealand and Japanese quakes and Australian cyclones resulted in a slowing of rate declines.

But all of these answers seem perfunctory. Safe. Uncontroversial.

He warms up a little talking about casualty renewals, noting that it was a good thing ceding commissions had maxed out at around 35 percent during the recent round of negotiations, and that there was a “healthy discussion” going on at both a primary and reinsurance level when it came to coverage and what's included in some of the treaties.

But the first time Young really begins to stretch his legs is when discussing buying trends.

“We've seen companies combining regional treaties into one large corporate treaty again this year, and we're still seeing tiering of reinsurers, but there have been no major restructuring trends.

“From a reinsurers' buying perspective, we'll see

more retro being bought as a capital management play I think, although it'll be interesting to see how that changes post the recent cat events.”

As readers will know, Sompo International represents the amalgamation of Sompo's existing reinsurance operations and Endurance, following the completion of the Bermudian carrier's acquisition in March this year.

CONTINUED ON PAGE 29



The two firms are largely fully integrated now. Where Sompo had previously written Asian reinsurance through its Hong Kong office, that has now transitioned to Singapore, while the specialty lines being written out of Tokyo have been relocated to Zurich.

The key difference, however, as far as reinsurance buyers are concerned, is the fact that Sompo International's rating has improved from A to A+ as a result of the takeover.

Tapping into this sportsman's competitive nature, this becomes the first real hot ball of our match.

For the uninitiated, a hot ball refers to a squash ball that has been struck repeatedly, and now has more bounce.

"The A+ rating is important – it comes up regularly at the meetings we have," he says. "It's more significant in casualty lines and some specialty lines.

"We've got a stronger capital base, an increased rating and the ability to service clients in the best way possible."

Young is similarly bullish on Sompo International's growth prospects for the year ahead. Previous quarters had seen legacy Endurance's top line take an uplift from writing more primary business, and the future looks no different, the executive says.

"No question, you'll see growth on the insurance side. Sompo Holdings doesn't have a lot of exposure to the US and European markets [before buying Endurance] so you'll definitely see growth in those areas. And while there won't be a decreased emphasis on reinsurance, the rate of growth will be more subdued."

On the reinsurance side, top line expansion is likely to come from the specialty markets – notably areas such as mortgages, agriculture and weather.

Cyber reinsurance, while interesting to look at, isn't something Sompo International has much appetite for currently, Young says, given the lack of uniformity around the primary coverage.

"We need to get on the same page as to what the definitions of cyber are. What are we really covering here, is it malicious attacks or system failures? We've stayed away from the latter, and as a market we would like to see it pushed more towards malicious damage coverage."

Having relaxed into the rally, Young opens up on a number of subjects. And the topic he's most effusive on is broker facilities.

It's not a surprise to me that some of the major ones have turned out to be smaller than expected," he says.

"We're not a market for facilities – Sompo International participates on some very small ones but from our perspective, we'd rather our partners did the individual underwriting, rather than sign up for a broker arrangement. It gets very difficult when you're not 100 percent sure what's going into those portfolios."

Young goes on to say he thinks they're less attractive for the brokers too, given the cost in setting them up.

"We'll see more retro being bought as a capital management play I think, although it'll be interesting to see how that changes post the recent cat events"

"It's difficult to justify increasing expenses in any line of business, and when brokers add even more commissions it becomes more challenging to write profitable business and do our jobs efficiently. It doesn't make sense to us, and we hope there are fewer of these going forward."

No interview on (re)insurance can escape the inevitable topic of InsurTech, but it seems Sompo Holdings has done more than simply make platitudes about the latest available technology.

Sompo has instead hired a chief digital officer who leads teams across two labs – one in Tokyo and one in Silicon Valley. The teams look for opportunities for a specially created fund to invest in, whether that's

investing in a start-up or taking advantage of technology.

Towards the end of the interview, the topics become more philosophical and a little more introspective as the search continues for the man behind the squash racquet.

Asked what his proudest achievements are, Young immediately cites his wife and two children, but then adds his experience in the Bermudian reinsurance market – particularly being at Endurance from the beginning in 2002 and being part of its growth story.

And asked whether it's more important to be liked or respected, he immediately answers that it's a combination of both – you have to be respected to get on in Bermuda, but it's a very personable industry, so an element of charm and friendliness is needed too.

The only question that seems to cause Young any bother is the final "Swayze" – a shot that hits the wall in such a way as to trap the opponent in a corner – when he's quizzed on the hardest lesson he's had to learn.

After considerable deliberation, he honestly answers: "The thing that I struggle with most is delegation.

"As you move through the ranks at any company, delegation becomes a necessity. Learning that I can't do everything myself and relying on others has been the hardest lesson to learn."

And with that, the verbal volleys have come to an end. And the score? I think we can agree it was an honourable draw.

Sompo International financial highlights

	Quarter ended 30-Jun 17 (unaudited)	6 months ended 30-Jun 17 (unaudited)	Year ended 31-Dec 16 (audited)	Year ended 31-Dec 15 (audited)
Sompo International				
Gross premiums written (\$mn)	\$1,150.60	\$2,929.40	\$4,202.20	\$3,320.90
Net premiums written (\$mn)	\$707.10	\$1,726.80	\$2,369.90	\$1,950.50
Net income (\$mn)	\$80.10	\$99.60	\$357.00	\$344.10
Loss ratio	61.2%	58.4%	55.9%	46.4%
Combined ratio	92.8%	97.8%	88.1%	82.9%
Total assets (\$mn)	\$16,089.30	\$16,089.30	\$14,122.90	\$13,241.50
Total shareholders' equity (\$mn)	\$5,050.00	\$5,050.00	\$4,882.40	\$4,856.30
Sompo International Reinsurance				
Gross premiums written (\$mn)	\$493.40	\$1,282.40	\$1,631.70	\$1,235.00
Net premiums written (\$mn)	\$416.60	\$989.50	\$1,313.70	\$1,070.10
Loss ratio	43.7%	45.4%	47.1%	36.0%
Combined ratio	76.0%	77.7%	77.9%	69.6%

Excludes SJNK Europe, Sompo America and Sompo Canopus
Source: Sompo International