



SECURITY DURING UNCERTAINTY

In the current volatile environment, it is crucial that cedants can trust the promises made by their reinsurers. Intelligent Insurer speaks to Maiden Re about how collateralisation is helping them to stand behind their promises.

As the world becomes an ever riskier place, it is more important than ever before for reinsurers to be able to demonstrate their integrity to their cedants and that the commitments they make will be honoured.

One way of doing this is to collateralise the agreements they make with those cedants, so that those cedants know that whatever happens, there is money available to meet their exposures. This is the strategy followed by Maiden Re—the company handles the US portfolio of diversified reinsurance of Maiden Holdings, Ltd.

“We try to be the best reinsurance partners that it is possible to be, and we do that by looking for products and services which add value to the customer, so that we can differentiate our reinsurance offering and not just provide a reinsurance contract,” says Karen Schmitt, president of Maiden Re.

“A prime example of how we do that is through our Dedicated Financial Trust, which is a form of collateral. These are segregated trusts provided to each of our qualifying customers, which are non-cancellable and securitise all of our reinsurance liabilities, including case loss reserves,

IBNR and unearned premium. “This is the best security which they can have, because in addition to having the reinsurance contract, a unique, segregated, fully-funded trust is sitting there and is available to them. It is an extra level of security and it is something which the ratings agencies really like to see as well.

“This is because they look at collateral very favourably in their assessment of capital needs. There is a much smaller capital charge for collateralised reinsurance than there is for non-collateralised reinsurance.”

This approach towards collateralising agreements is interesting, given that a number of states in the US are now reducing their collateral limits. Even before this new regulatory development, Maiden Re was already competing against non-collateralising companies and this means that it is going to be competing against them even more in the future.

However, this certainly hasn’t affected its popularity within the market and if anything could potentially give it a slight competitive edge, given that it offer a higher level of security on its agreements.

“Things haven’t been tremendously different for us, although we are having a very strong productive year,” says Schmitt. “Is that just because of our approach towards collateralisation? Probably not exclusively—I think that it is probably a myriad of things, including improvements in our marketing and a number of other initiatives which are also bearing fruit.

“Some of the relationships which we have been working on over the years have also blossomed this year, and we have been expanding relationships with a number of customers this year, so some of that may be due to our approach on collateral. We have certainly had an easier time getting larger shares of programmes and getting on to new programmes because of the collateral. I think that clearly is the case, but that at the end of day, I don’t think that the collateral alone is going to drive the decision.”

While acknowledging that clients are interested in the collateral that Maiden Re offers, Schmitt does not believe that her customers are willing to pay extra for it. However, this again gives Maiden Re the chance to offer extra value to its clients, given that it doesn’t charge extra for the collateral.

“While there is a cost involved, we are not passing that on to the customer,” she says. “This is a very competitive market and we don’t believe it would be the right decision to pass that cost on. However, we still believe that they should have it and it is something which we are offering to virtually every treaty customer, as long as they qualify. To do this, they have to have at least \$1 million of outstanding liabilities.”

This approach seems to be working for Maiden Re, as it is already gaining very large shares of programmes anyway.

“It is not unusual for us to take 100 percent of a programme, which is very different to say the London market,” says Schmitt. “Therefore reaching \$1 million in liabilities is not an issue with our clients.”

While extolling the good performance the company has had this year, Schmitt also acknowledges the many challenges it and the rest of the industry have faced in 2011.

However, Maiden Re’s business model has allowed it to sidestep some of the pitfalls that many other reinsurers have faced in regards to heavy catastrophe losses. This is because Maiden Re does not write catastrophe lines, instead it concentrates on personal lines including auto, home and umbrella, along with commercial lines including commercial property, GL, package, workers’ compensation and, to a certain extent, commercial umbrella.

“Along with the activity in 2011, many reinsurers are seeing adverse development from 2010 catastrophes as well, so it’s been a very challenging year for an awful lot of companies,” Schmitt says. “However, the reinsurance industry still has a lot of capital, so we are not seeing companies running from business at this point, so it is still very competitive.”

As well as dealing with their competition, reinsurers have a multitude of other challenges facing them, including the low interest rate environment, and in this regard, Maiden Re is in the same boat as its competitors, so improving underwriting profit is now critical, argues Schmitt.

“In this environment, you just can’t get the kind of returns on your capital unless you target an underwriting profit,” she says. “Given that we’re not having the kind of results from catastrophes which our peers are, I believe that we have a better shot at that. Our combined ratio reported in June was 98.4, so that is certainly a strong result for 2011 compared to our competitors.

“Of course, this has something to do with us not writing catastrophe coverage, although we do write property, including multi-line, property excess and property quota share as long as they are not heavily catastrophe-exposed quota shares.

“While we are not experiencing the same losses as our competitors, the low interest rate environment, coupled with pricing which isn’t moving anywhere is still providing us with challenges to overcome.”

Overall Maiden Re believes that reinsurance is a promise to its cedants and that every step possible should be taken to honour the commitments that the company makes.

“Any kind of insurance or reinsurance is a promise to pay in the future,” Schmitt says. “The client pays money today and hopes that if an event occurs, their insurer or reinsurer is going to be there to pay the claims. It is not like we are creating a physical product, but where we are adding value is by allowing our client companies to take more risks than they would be able to take if we were not providing the reinsurance.

“For many companies, this promise covers events far in the future, even on our shorter-tail lines, so when the cedant is making the decision about who to place this business with, they can evaluate the reinsurer’s financial condition today, but they still do not know what will happen to that company in the future.

“So when we put up collateral, we are offering our cedants an extra level of security on that promise.” □