

RISE UP

A Reinsurance Manifesto



#RiseUpRe



Revolutions are born of frustration and aspiration: frustration with the current state of play and aspiration to something better. History shows that people who aren't getting what they want can change the world...if they *rise up together*.

The global reinsurance market shows all the signs of a revolution brewing.

In the summer of 2017, the feeling was palpable. Abundant capital and years of relatively low catastrophe losses had pushed rates down. It wasn't unusual to struggle over fractions of a basis point. And everyone bemoaned the lack of sufficient original risk coming into the market. As necessity is the mother of invention, initiatives focused on market expansion gained momentum. The first PCS Global Marine and Energy™ industry loss warranty (ILW) was announced. Efforts around cyber risk transfer began to coalesce. The market was making progress.

Every revolution incurs some early difficulties. Nobody can change the world on the first try!

For the reinsurance revolution, the first setback came in the form of a stunning wave of U.S. catastrophe activity. Hurricanes Harvey, Irma, and Maria were followed quickly by a trio of California wildfires. And then another trio of California wildfires. The losses accumulated quickly and distracted the industry from its summer of progress. An annual industry loss for the United States in excess of \$70 billion can have that effect.

As distractions go, this one was foundational to our community. Claims come first in the insurance world, and where you find big claims, you'll find the need for additional cover. The old saw that "insurance exists to pay claims" became real, and we had to take collective action to ensure that insurance and reinsurance serve the financial and social purpose to which our industry is committed.

Now, it's time to contemplate some balance. In addition to the development of the events of the second half of 2017—and digesting the lessons learned—we need to turn some attention back to our earlier efforts to introduce more original risk into the market. It's a worthy effort—and one that nobody can do alone.



The Essential Collective

Good things happen when people work together. United with a common purpose, even folks with competing interests can still find mutual benefit through careful collaboration—without sacrificing competitive advantage. To attain our industry's shared goal of reinsurance revolution, we'll need to rise up together to take decisive action!

In global reinsurance, the power of the collective comes from the scarcity of information that plagues the analysis of new and emerging risks. Think of microinsurance and our insurance comrades in developing markets, for example. The struggle to deliver insurance protection that's relevant, inexpensive, and easy to understand remains hampered by a lack of historical loss information and other data necessary for prudent underwriting and pricing. The resistance of cyber risk is similar. We've lacked the robust shared loss history necessary for the reinsurance industry to support the cause.

For many emerging risks, individual efforts have been attempted, and while they may have shown some limited progress, they've fallen short of giving life to a robust global market. The temptation to celebrate the elevation of individual will ultimately come at the cost of the global transformation that could be affected by a unification of worldwide effort. To underestimate the power of the collective is to sacrifice for ourselves and future generations the reinsurance paradise currently within reach.

Even if we triumph over the will of the individual, we can still face a greater threat: complacency. A reverence for the status quo is the opiate of the reinsurance masses. It's easy to cope with a difficult situation, sentencing yourself to eroding gains, when the alternative is utterly unknown. And if you're lucky, you'll get the occasional rate on line (ROL) reprieve that comes with catastrophe activity such as we saw in the second half of 2017.

The two ingredients necessary to foment a reinsurance revolution, therefore, are overcoming the individualistic urge to fully own something small (rather than seek shared ownership in something far greater) and inspiring our friends and peers to rise up against the norm and commit ourselves to the grander future afforded by collaboration in the spirit of the collective. Absent either, none of us will prevail.



Mobilization of Our Efforts

How can we work together? Unfortunately, the ongoing decline of reinsurance rates for the past decade (until the storms of 2017) has forced many to adopt strictly individualistic stances. As competition has intensified, parties have sought tenths of a basis point aggressively, which has ultimately worked to their detriment. Would you rather have .00001 percent or 1 percent? The delta is the cost of resistance to the revolution in our current environment, even with the temporary relief of an active catastrophe year.

The challenge before us, as an industry, is to find a way to bring original risk to market together, without sacrificing our own abilities to meet our needs. It's the sort of chasm, it seems, only the chollima¹ can cross. Thankfully, a focus on mutual benefit could help us traverse such a vast distance without the need for the fabled winged horse. With the correct mobilization, our industry can reach new heights!

To get started, what we need is a common goal. After that, accomplishment comes more easily for the community.

Mercifully, for the global reinsurance industry, there are plenty of opportunities waiting for us. We have no shortage of ways to prevail over the constraints imposed by the elevation of the individual over the masses. The first step in this process is to figure out how we can break down the barriers that keep us apart and collaborate without putting our own interests at risk. This is not easy. Far from it, in fact. In any industrywide effort, every participant carefully weighs the circumstances under which to provide support—and the point at which the price of participation goes too far.

Coordinated industrywide efforts—with sensitivities on participation and privacy—generally benefit from the guidance of a central solution. Understandably, it's required that the center of any reinsurance revolution will have to be independent, with a clear interest in lifting the industry as a whole. The role of the center is not to co-opt from the collective. Rather, it's to provide a common benefit that each can then use to further its own results. Think of it as a level playing field to be enhanced by the intelligentsia company by company.

Our industry has shown repeatedly that there's really only one organization equipped to play this important role in the coming reinsurance revolution.

1. The chollima is a mythical creature in several Asian cultures. The story of this winged horse originated in China and has since become known as the "thousand-mile horse." However, the distance the chollima could gallop was actually 1,000 li, which is closer to 400 km. (<https://en.wikipedia.org/wiki/Chollima>)



And Now for a Bit of Propaganda!

Over the past two years, the global reinsurance industry has benefited from several developments—the sorts of early moves that historians will one day say triggered the revolution. It's clear that convening around PCS will help our comrades along the risk and capital supply chain attract original risk while managing their capital effectively.

The first milestone of that period was perhaps the most interesting. PCS Turkey designated and then provided estimates for terror attacks in the southeastern part of the country in 2016—making us the first global loss aggregation platform to provide industry loss estimates for a catastrophe in Turkey. This was followed in 2017 by estimates for two hailstorms in Istanbul, at which point PCS remained the only international body to provide industry loss estimates for Turkish catastrophe events. As original risk, Turkey gained a new opportunity, with a proven industry loss index joining traditional covers and parametrics as viable options for the region.

In 2017, we saw the rise of specialty lines risk loss aggregation platforms, all based on the notion of collective support provided to central coordination. PCS Global Marine and Energy came to market at the beginning of April 2017 and was followed quickly by PCS Global Cyber in early September 2017. PCS Global Terror joined the platform in January 2018. Through PCS, the collective has shown faith in—and commitment to—the ability of the industry's premier central organizer to take appropriate action to advance all our interests while being careful not to compromise what makes each participant unique.

Quite simply: PCS provides an increasingly broad range of useful solutions without compromising any participants' competitive advantage.


We appreciate the support we've received so far, and we want to let you know that PCS isn't finished. As we continue to push forth with the reinsurance revolution, we invite you to rise up and join us. The earliest supporters define the results of revolution, and we hope you'll take the opportunity to change the world with us.

RISE UP! 


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