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Reinsuring Africa in a soft market: One Re CRO

The young reinsurer One Re is somewhat of a specialist, focusing as it does on non-life risks facing clients in Africa. But its chief risk officer Ross McGee tells David Walker that the challenges remain the same, including reporting challenges under Solvency II, soft markets, and risk models.

What do you see as the main challenges, and opportunities, of being a small reinsurer in a European market with some very large rivals?

The first challenge, as the 'new guys on the block', is One Re does not yet have a long track record or reputation, and is not necessarily as recognised as some.

We will have to create the significant reserves that some of our competitors have over coming years from underwriting, which is challenging in the soft markets with rates falling. But we can react a lot more quickly, so we can examine and take hold of opportunities faster than bigger players because of our close-knit executive team is enabling us to deploy our capital relatively quickly.

Also, some larger players may see smaller clients as 'just another client', whereas everyone is important to us. Bigger competitors may take off-the-shelf products, whereas we try to tailor things more, either by structuring terms and conditions, or rates.

> So you can say to clients that One Re is much stronger financially as a result of Solvency II. Being UK-based enables us to work towards a stronger credit rating, because we are not limited by the countries' sovereign rating

We are spreading the risk across a number of lines so we can take a slightly larger risk on, because it is being spread across other classes of business.

We look at the risk appetite and framework, and more mundane things like the risk register. We are looking at the capital and how it is calculated through the standard formula, which we use. We are working on disaster scenarios for a number of key countries, comparing our risk management strategy document [to] what we want to achieve over the coming 12 to 18 months.

One Re focuses on risks in Africa. Could you guide me on the main types of risk in your SCR, and what specific skills a CRO may need to apply in assessing risks on the continent?

The risks are pretty much the same in Africa as elsewhere, for a property- and engineering-led business. From the start of 2017 we have started writing political violence and terrorism risk. You have Kenyan elections this year and Nigeria in 2019. We expect an increase in requests for this type of cover.

When doing business in Africa you simply have to be very conscious of the culture. We sit here in London, in a country with very clear guidelines, rules and regulation. Kenya and South Africa as more developed countries, are starting to adopt risk-based cultures. We set out to get as much information on risks as we can, but even in government websites it can be difficult to get recent economic data. You have to know how to work with what you get.

Is it fair to assess business in Africa as very risk-laden, with corruption for instance? How might this affect what kinds of risks you are willing to take from primary insurers?

Having been through the countries a number of times, I would say that is not a fair statement. There are certainly pockets where you could say it applies, but some of the companies operating there are multi-nationals, and you could reasonably ask if they would be there, if there was not value.

We are not there to 'extract value'. Africa is our market and that is where we want to be.

Corruption is everywhere, not just in Africa, again it comes down to knowing the culture. For a long time [corruption] has not been accepted as a way of doing business in Africa. Because the perception of Africa is one of wide spread corruption we do perform enhanced checks on our clients as well as ensuring that our staff are regularly trained on financial crime.

Your SFCR notes that regulatory and capital requirements in Africa (ex South Africa) are 'significantly less' than in the UK. Doesn't basing One Re in a country governed by Solvency II place it at a disadvantage to local rivals?

A lot of people would suggest that when looking from the 'outside in'. Look at what we have to comply with in terms of solvency requirements in the UK and compare that to the regimes in place across Africa. Many African (re)insurers must hold a minimum amount of capital regardless of the types of business written (short tail/

Ross McGee

long tail business). So you can say to clients that One Re is much stronger financially as a result of Solvency II. Being UK-based enables us to work towards a stronger credit rating, because we are not limited by the countries' sovereign rating. We have a strong balance sheet from which to offer clients protection, and at the end of the day they want to know that we can pay if they have a claim.

Many countries have a minimum acceptable credit rating for reinsurers, we have a higher credit rating than many require. Our capital is all cash, and this makes clients feel much more comfortable.

Your 2016 net loss ratio was 9%, but you budgeted for 45%, and your SFCR says you will keep budgeting there 'until more loss experience data is available'. What data / modelling is useful and available for the African region in the meantime?

As a young company, everyone is conscious you have to break even. We could be over-ambitious and reduce the [target] to 12% or 25%, but we know from management experience that when you get to critical mass you are looking at around 45%. I am comfortable with budgeting for higher than for just the good years.

I would rather have the conversation [with stakeholders] that we have over budgeted. We hope to be [at critical mass] in the next 12 to 18 months, which will help us with data. Data modelling is difficult for African focussed business. The available data can be a couple of years out of date. You can know the market is soft and that times have changed, but with a lack of granular data to back that up. A few companies can give us GWP forecasts and average loss information based on catastrophe losses. But countries have different cat exposures and there are different cultures and different standards within each country as they have developed at their own pace, so you cannot apply blanket assumptions.

> We have the total number of staff they (a larger (re) insurer) might have on just one team. It is very difficult to go from a QRT to RSR and SFCR, then into ORSA timelines – it is a lot. You could ask what the RSR does that the Orsa does not.

Your SFCR made mention of a partial internal model (PIM). Could you update us on any plans to develop one for One Re?

We apply the standard formula now. We do not have a PIM but over time will start to pursue our own approach in measuring capital. The standard formula for Solvency II is not standard for Africa, which makes it difficult for us to get comfortable for numbers. We then apply solvency assessment and management (Sam) regime parameters, this gives us an uplift in capital that provides us with more comfort.

Relative to our size and the availability of data, developing or having a PIM is currently challenging.

There is a trade-off between having enough data to create a PIM and also have a large enough portfolio to benefit from one. There are 1,001 ideas of what to pursue, but only a handful of people here to pursue them. The main priority for now is to grow our portfolio to a reasonable size, to enable us to develop a PIM.

And what are your thoughts about modelling software?

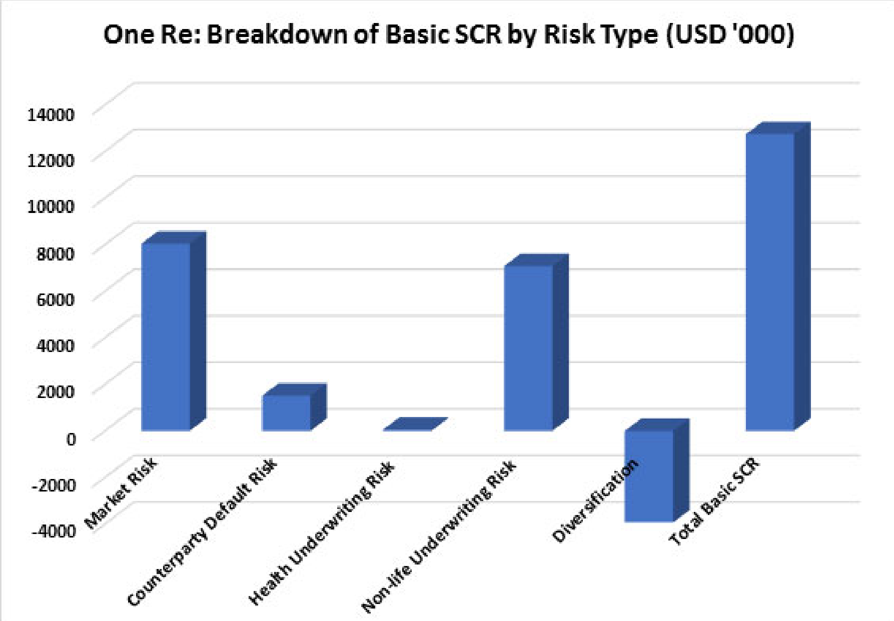
We have looked to third-party [software] vendors to identify what our potential cat loss may be for forecasting for specific countries. Reinsurers want to get as much data as possible from its clients and cedents, but it can be difficult to get comfortable using the data.

We are looking at the modelling software now. We could go for some fantastically complex software, but we would probably only use 50% or 60%, making it inefficient. It is about finding something that adds value and gives flexibility.

One Re significantly increased the countries it did business in during 2016, from 18 to 27. Has this brought diversification benefits to your SCR, and so made your own job as CRO easier?
I would love to be able to say it had, and it has by allowing us to get a good spread across the continent but this brings further challenges. In East Africa you're exposed to cyclones or earthquakes, whereas in West Africa you get floods and drought. Our portfolio is a lot more balanced than it was, helping reduce the impact from any one catastrophe.

The challenge for me and our compliance officer is having to understand the regulations in more jurisdictions. As a reinsurance provider not all regulation apply to us but we must know what we can and cannot do. By exposing yourself to many more countries you potentially take on more politically-exposed people, people on watch lists and facing sanctions, which means a lot more checks behind the scenes.

There are certain markets such as Somalia that we have not been able to get into. Our goal is to cover the whole of Africa in time, and the 27 is just a start.



Source: Quantitative reporting template of One Re, as analysed by Insurance Risk Data. Data as at 31 December 2016.

In 2016 you withdrew assets from one investment manager. How do you view the risks of using third party asset managers generally?
The BlueBay investment was active management, and got to the point where the losses were not acceptable. With our other manager, UBS, it is more passive asset management. We thought having a balance between them would help drive our investments forward, but it turned out not to be the case.

Everyone uses mandates to set the tone for their investments, but at the end of the day your needs and parameters change, whereas the mandate does not necessarily do so at the same rate.

Given your focus on Africa, do you also have African investments?
If we do not have any, it is not because we have decided not to. We instruct our investment manager what we want to be invested in [credit quality] – for example, short-term high yield – then they apply it to what they buy. This is all clearly set out in our mandate.

You registered losses in recent years and some staff moved on. Could you update us on this?
We have had a couple of loss-making years and our chief underwriting officer (CUO) and actuary both decided to leave, as did the CRO. This gave us the opportunity to bring in new people, a new CUO and operations manager and actuary. With all that come new ideas. Before this change we had been looking to provide stand-alone cover across our chosen lines. Our new CUO suggested we offer 'bouquet' arrangements so now we are looking to participate across a number of business lines, making us more valuable to clients. It also to manage our loss ratio because if you have a spike in one part of the business you can smooth it out by participation in other lines of business.

There are potentially changes coming for Solvency II. What would you like to see changed?
That depends on the outcome of the Brexit negotiation. Speaking as a smaller reinsurer, you have to get proportional application of it. One Re has exactly the same reporting requirements as far larger (re)insurers. It is something perhaps you should increase as you get bigger. We have the total number of staff they (a larger (re)insurer) might have on just one team. It is very difficult to go from a QRT to RSR and SFCR, then into Orsa timelines – it is a lot. You could ask what the RSR does that the Orsa does not. Should we change the timelines for the ORSA so that the RSR and ORSA become one document rather than two? Or do something different around the SFCR, which does seem quite onerous.

As soon as you're finished with one document, you start with the next. Sometimes you step back and take a breath before starting the next, because you need clarity in thought. Otherwise it is a continual merry-go-round and you need to question the value that it adds to our business.