

Capital and finance: Who dares

Who dares who wins has been the motto of nine elite armed forces around the world. BRAVE Partners believes that a financial risks specialty insurer with a similar view is set to win in the current market.

July 16, 2010

Who dares

The credit crisis has placed financial risks clearly into the untouchable category. Banks need to reduce their balance sheets as regulators crack down – more or less severely depending in the business line. Insurers who were once expanding into investment banking; are recovering from their near-death experiences. AIG is well publicised. Swiss Re's experience has been kept quieter, but market rumour at one stage was that the Swiss Government needed to pump \$20bn into Swiss Re. Rumour has not been supported by fact, but Swiss Re emphatically do anything but credit business these days.

Die Hard

Hard markets usually attract insurers. The hardening financial risks market has had the opposite effect. Even insurers with long, successful track records have been exiting financial risks lines. BRAVE Partners has gone as far as to say that in certain markets, such as residual value insurance, there is demand and no supply. Our underwriter friends in these markets will point out there is supply – such as a BB rated carrier and some guys who write four aircraft deals a year. Too much detail – the big picture is that there is no supply.

Feline attraction

Major insurance losses from natural catastrophes are usually followed by a sharp inflow of capital. Waves of new reinsurers have been started in Bermuda in the wake of these events. Hurricane Andrew and the 9/11 attack gave rise to the Class of 2002. The Class of 2005 followed a highly active hurricane season. BRAVE Partners expects nothing different from the next active hurricane year (still possibly 2010 the way that forecasts are stacking up). The demand supply imbalances that follow major catastrophes attract opportunistic insurance capital.

Financial risks seem to have a special place in insurer headline risk. A large insurer can get wiped out from a hurricane with barely a whimper from investors, but a moderate loss from asset values leads to calls for resignations from the board.

It is therefore bizarre that the issues around financial risks appear to have had the opposite effect. It is understandable if an insurer that has taken serious losses withdraws from a market. However, there are insurers that have not taken a loss, even throughout the crisis, that have withdrawn from financial risks.

New beginnings

Some insurers are beginning to edge back into the financial risks markets.

- Ironshore has made a recent hire.
- Ariel Re has established a Swiss business to underwrite trade credit and surety.
- Catlin has hired a couple of former Swiss Re credit underwriters to build a Swiss specialty insurance business to take advantage of harder pricing.

All of these ventures have the right staff and demonstrate an interest in financial risk insurance. However, there is still no real daring.

Daring do

BRAVE Partners has often argued that the winning business will be the one that dares to put \$500m to \$1bn into a focused, specialised financial risks insurance business. The demand is immense and the expertise is readily available. At BRAVE Partners we see the capital beginning to flow, but is certainly a much stickier process than the hot money that chases hard natural catastrophe rates after a big hurricane or two.

BRAVE Partners services

BRAVE Partners is working on a number of projects related to weather financial risks insurance. In particular BRAVE Partners is:

- Advising an existing financial guarantee business on entering the market.
- Advising a credit fund seeking to take risk on the best methods to access those risks.
- Seeking capital to back an insurance program that covers excess loan to value amounts that create a capital strain in US banks.

Interaction

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- *Financial risks insurance represents a market with a vast demand – supply imbalance.*
- *The de-leveraging and balance sheet management within banks has driven demand to record levels.*
- *The market offers highly attractive short term opportunity.*
- *BRAVE Partners believes that the short term opportunity can be converted into a long term franchise business.*

- *BRAVE Partners is advising on a number of projects relating to financial risks insurance.*
- *The firm can advise both insurers seeking to enter the market and risk bearers looking to transfer their exposure.*
- *The market is beginning to redevelop – those on the sidelines should now seek to get involved.*

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