

Specialization: One key to successful partnership



Interview with James D'Onofrio,
Executive Vice President and
Head of U.S. Reinsurance,
Endurance Reinsurance
Corporation of America

What is important to cedants when selecting a reinsurance partner?

With heightened scrutiny of counterparty risks in the current economic environment, cedants are more cautious in selecting business partners based on financial strength. Endurance has always taken a conservative investment and capital management approach and we have built our shareholders' equity to \$2.5 billion, performing very well in the last year relative to many of our peers.

In addition to financial stability, we go beyond the reinsurance transaction and look to build mutually beneficial relationships with our clients. We take a very team oriented approach at Endurance – the more disciplines we get involved, the better solutions we can offer our clients. We spend a lot of time trying to understand our clients' needs so that we can provide them with the services that they most value. And not only on the underwriting side – our claims staff get to know their claims staff, and our actuarial and legal teams also build relationships with their counterparts.

What does Endurance look for in a ceding company?

Endurance's focus is to bring the best solutions and products to our clients. We seek business partners who share our values, practice disciplined underwriting, and focus on risk management. We also look for companies with high quality data because this allows us to better understand the risks being presented and to more accurately price the business.

Endurance's specialty underwriters take

a proactive and multi-disciplined approach, soliciting information that will help us evaluate the dynamics of each transaction. We work closely with our brokers and clients to analyze the portfolios of our cedants, understand their pricing parameters, and review their claims handling, so that we really get to know our cedants, their strategies and objectives, and how they approach risk. This way, Endurance is well positioned to provide a reinsurance program that meets our clients' needs.

What is Endurance's strategy for reinsurance?

We've been very successful in our financial performance to date by partnering with a great group of core clients. Specialization allows us to work more closely with the product line underwriters of our clients to better understand their risk exposures and price more accurately. As the business has become more sophisticated, we need to be able to assist our clients by understanding the coverages they provide, helping them manage risk and recognizing potential exposures to position them to be successful. Even our claims staff is specialized, with teams focused on specialty lines, such as professional liability, surety, etc.

So our strategy is first, to keep working with our clients to help them to continue to achieve their business goals in a challenging market. Second, we continue to diversify our portfolio by adding the necessary expertise to further develop our reinsurance business. If a reinsurer writes every personal auto writer in the market, then there's the likelihood that it will operate as an index fund which makes it much more difficult to

outperform the overall market. So we find best in class companies in different segments, a strategy that has served us well in the lines of business where we've focused.

How can reinsurers set themselves apart from competitors?

One way is to take a proactive approach to understanding the new and unknown emerging risks – the 'black swans.' You can't price what you don't understand or even know. We work closely with our claims team to identify what these new risks might be and how they could impact Endurance and our clients.

As an example, one recent issue we identified early on is Chinese drywall. We researched this issue extensively to understand the exposure and its potential impact to different lines of business. That's the kind of dialogue we have internally so that we can provide that knowledge to our clients*.

Other hallmarks of our disciplined approach to managing risk include our focus on truly understanding the portfolio risks that we underwrite, evaluating their correlation to other risks in our underwriting and investment portfolios, and providing a high level of transparency on our reserves to our clients and investors. We are pleased that this has been recognized by S&P by assigning Endurance with their highest ERM rating of 'Excellent.' We are one of only four P&C reinsurers to achieve that status.

What challenges does the industry face?

One challenge in today's environment is that capital is constrained. However, this also presents an opportunity for reinsurers that not only have sufficient capacity, but also easy access to additional capital. Endurance's balance sheet offers significant financial security to our counterparties with adequate capital to support the needs of our existing clients and enables us to identify attractive new opportunities with our brokers.

Inflation risk is another challenge that is keeping insurers and reinsurers awake at night. Inflation can significantly increase claims costs, especially for long-tail lines, and could require reevaluation and adjustment of reserves from previous underwriting years. It also impacts pricing as costs may not be adequately offset by inflation-driven increases in premiums for the current underwriting year. Pricing is also further complicated by the uncertainties and divergent views in the marketplace related to the potential risk of significant inflation.

*See "What Is the Next Chinese Drywall? Nailing Down Construction Risks", The Edge, Fall 2009. www.endurance.bm