

Real ESG in Reinsurance

**Inver
Re**



Reinsurance Industry's ESG Problem

- Reinsurers have been eager to **want** ESG alternatives but not to actually **get** those alternatives
- The increased analytical burden associated with ESG features in traditional and alternative reinsurance transactions is seen as an added frictional cost
- Further, ESG-friendly regions (eg, Africa, LatAm, SE Asia) tend to be perceived as higher-risk and lower-ROL ... a difficult combination for any deal
- Successful ESG reinsurance has to be (1) native to the transaction, (2) diversifying but not di-worse-ifying, (3) value-accretive to the book/portfolio, (4) neutral as to peripheral risk (eg, political risk, local economic and societal risk)

Real ESG Reinsurance in Progress

- ESG deals have quietly found a foothold across the global reinsurance industry
- Where the rate is sufficient and the structure sensible, reinsurers and ILS managers have flocked to transactions that are natively ESG-friendly
- **Parametric triggers** have been most effective in accessing new ESG markets and structures, because they neutralize for issues such as political and societal risk
- Increasing use of **quota shares behind parametric reinsurers** provides access to local deal flow and underwriting expertise with reduced frictional costs through scale

Case Study 1: Africa Specialty Risks Re

- Reinsuring Africa can be a fraught exercise – PEST risks, resource curse, and moral hazard factor into every traditional underwriting decision
- Re/insurance penetration remains low, with little historical data and market breadth or depth to support new entry analysis
- **Protection gap opportunity for global re/insurers is substantial**, with re/insurance activity a potential solution to some of the challenges above
- **ASR Re** provides access to **parametric instruments** in Africa – cleaner, more straightforward triggers that reduce uncertainty
- Parametric reinsurance makes diversifying risks in Africa more accessible ... while also offering diversification within the Africa portfolio itself



Case Study 1: Solution

- Secure a broad quota share for ASR Re to help them provide more protection to clients in Africa
- ASR Re's parametric product gives quota share partners more comfort and confidence with regard to the issues above (eg, political and economic stability)
- Global reinsurers recognized in ASR Re the chance to:
 - ✓ Deploy to a developing market
 - ✓ Help close the protection gap
 - ✓ Generate healthy returns while optimizing capital (diversification)
- The global reinsurance market has seen an opportunity and taken action:
 - ✓ ASR Re's max parametric line up 3X in the past 9 months
 - ✓ Two quota share partners so far, one with an A+ (A.M. Best) rating
 - ✓ Improved negotiating position that can bring more deal flow to the global market and thus **more economic security to the people of Africa**



Case Study 2: Colombian Agriculture

- Demand for agriculture re/insurance in LatAm is extremely high, and the growing capital base can't keep up
- **Strong ROLs** for reinsurers supported by the fact that insurance is still more cost-effective for insureds than the banking sector
- **ESG Opportunities:** Broad economic security for farmers, use of insurance as an alternative to putting farms up as collateral
- The lack of historical data and insurance penetration can make market entry difficult for large, traditional reinsurers
- Parametric protection is easy for farmers to understand and intermediaries to distribute, while also simplifying the analysis process for reinsurers



Case Study 2: Solution

- Identified global reinsurance capacity interested in diversification and the comfort afforded by an underlying parametric product
- Diversification through access to new risks/classes of business in a developing market, with the opportunity to quickly growing a large pipeline of new risks
- Global reinsurers recognized in XS Global the chance to:
 - ✓ Start with a pilot program that can be scaled with demand
 - ✓ Change how farmers secure capital, reducing risk to their property/livelihoods
 - ✓ Generate significant returns while still providing a cost-effective solution to the local market
- Global reinsurers take a first step designed to lead to many more:
 - ✓ Initial capacity of \$10 million with plans to scale by 4X relatively quickly
 - ✓ Prospective partners watching the pilot for the opportunity to join during the first wave of program scaling
 - ✓ Program template that can be adjusted for new regions and additional crops



Case Study 3: Europa Re/Türkiye

- Post-Kahramanmaraş rate hardening for TR EQ threatened a widening protection gap
- Capacity shortages were not limited to the area affected by the EQ, with access to capacity for Istanbul particularly tight
- Building code issues evident after the Feb 2023 EQ made providers of alternative capacity skeptical of traditional and ILW alternatives
- Opportunistic trading from outside Türkiye led to high ROLs and brokerage for parametric transactions at remote levels
- Bringing down trigger levels (eg, to 6.5Mw) and ROLs required deep engagement with the underlying risk, market dynamics, and reinsurer portfolios to identify available agg at appropriate prices
- The ESG/protection gap opportunity was resolved not just by identifying additional capacity but by engaging with it properly
- The Bermuda reinsurance market is particularly effective for such deals ... expertise/flexibility/deal-focus



Capacity Providers: A Common Theme

- MYTH: ESG and Global South capacity must come from “weird and wonderful” sources ... smaller markets that lack focus and take small lines on risks they don’t understand
- TRUTH: Larger and more sophisticated markets are **ready and eager** to deploy to new and developing markets using alternative instruments and structures
- Larger and more developed capacity providers have better opportunity to take advantage of diversification and tend to be more resourced for the necessary analysis
- This requires a more disciplined and structured approach, but it also enables scalable, long-term solutions
- Capacity providers for the case studies came from major European and Bermuda markets (traditional and ILS)

How to Access ESG Reinsurance Capacity

- It's not ESG reinsurance capacity ... it's reinsurance capacity
- Have a good story on why it's ESG, and be ready to back it up with data/analytics that speaks to deal quality
- Invest in spending time with the right markets – you may need to find your way to the appropriate team (e.g., parametrics vs ESG vs agriculture)
- Know which capacity to use for which purpose, *this is especially important with ILS*
- Be ready for feedback, and use it effectively (e.g., structuring, data sources)

Bio: Tom Johansmeyer

- Global head of index classes, Inver Re 2023 – present
- Prior head of PCS 2015-2023
- PhD in progress, International Conflict Analysis, University of Kent, Canterbury: *Cyber insurance protection gap as an economic security threat*
- MA, Global Diplomacy, SOAS/University of London: *Understanding the drivers of disaster-induced civil unrest*

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The collage features several article thumbnails:

- Small Wars Journal:** "HOW RENEWABLE ENERGY COULD SET THE STAGE FOR FUTURE RESOURCE CONFLICT" by Tom Johansmeyer, AISM. Published May 26, 2022.
- Harvard Business Review:** "How Fossil Fuel Divestment Falls Short" by Tom Johansmeyer. Published in the Sustainable Business Practices section.
- World Economic Forum:** "Could disinformation reshape the risk of post-disaster civil unrest?" Published Feb 4, 2022.
- The SAIS Review of International Affairs:** "How Climate Change Could Make Water a Resource Trap Risk" Published Feb 4, 2022.
- University of the Sciences:** "Damage to Ukraine's renewable energy sector could surpass \$1 billion" by Tom Johansmeyer, April 20, 2023.

At the bottom of the collage, there is a navigation bar with the text "Read the March magazine issue on renewable energy" and a logo for "P.A. in Business".

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