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CHUBB

ACE's record $29.5bn acquisition of Chubb proceeds on back of healthy profits

More M&A activity is expected soon

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[LONDON]—THE NEW CHUBB insurance group kicked off the year with an excellent set of full-year 2015 results and announced its new leadership team for Europe.

The $29.5bn acquisition of Chubb by ACE was formally confirmed in January, just as a new report on mergers and acquisitions (M&A) in the sector from Willis Towers Watson concluded that many more deals will follow during the next three years.

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ZURICH

Zurich lures Greco away from Generali

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[ZURICH]—ZURICH INSURANCE Group has poached Mario Greco from Generali and will appoint the Italian as chief executive officer (CEO) on 1 May 2016.

After weeks of media speculation, Zurich has announced that Mr Greco—who has been CEO of Generali since 2012—will succeed Tom de Swaan, who took over as head of the insurer on an interim basis when Martin Senn stepped down by "mutual agreement" in December.


Mario Greco

The appointment is subject to regulatory approval.

Zurich's board said the decision to move for Mr Greco follows a "thorough global review of external candidates", as well as a comprehensive assessment of the attributes needed

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AIG

AIG pushed to limit by Icahn's demands but refuses to cave in

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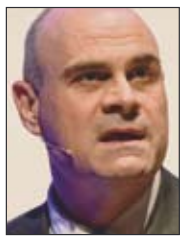
Battle with Icahn may dominate agenda but $3.6bn of loss reserve additions needs further analysis

[LONDON]—AIG CAME CLOSE TO giving in to activist investor Carl Icahn's demands for a breakup of the group into three separate units, as it announced in late January that it would sell non-core assets and revealed a new structure that could lead to the sale of more operations if they do not perform as planned.

The insurer's embattled leadership announced plans to return at least $25bn of capital to shareholders during the next two years, execute an initial public offering (IPO) of up to 19.9% of United Guaranty Corporation and sell off other units such as AIG Advisor Group.

It has also committed to a cost-cutting programme designed to realise $1.6bn in two years and a plan to reduce its commercial property and casualty (P&C) accident year loss ratio by six points by 2017.


Peter Hancock

LOSS OF RESERVES

The insurer also revealed further significant loss reserve increases, a continuing trend during the past couple of years that risk managers may find more worrying than the ongoing battle with Mr Icahn when the dust settles.

AIG said its fourth quarter non-life loss reserve analysis had revealed the need to strengthen reserves by $3.6bn pre-tax in the fourth quarter of 2015.

Accident years 2004 and prior represent $1.3bn of this figure. The remaining $2.3bn results in an increase of just under 0.7 points on average for the 2005 through 2014 accident year loss ratios, explained AIG.

Much of the restructuring, cost-cutting and performance-related action appears to have occurred because Mr Icahn has ramped up the pressure to break AIG into three separate entities, to avoid the group being classified as a Systemically Important Financial Institution (SIFI) and substantially raise profitability.

In his latest public letter published on 19 January, the investor said AIG's management has been either "purposely misleading" in its public disclosures or is "negligently uninformed" about the feasibility of his de-conglomeration plan.

HARD QUESTIONS

"In conversations with management, I learned that disclosures provided on the third quarter earnings call regarding obstacles to de-conglomerating AIG were, in some cases, materially inaccurate," wrote Mr Icahn.

The investor called on AIG's non-executive chairman Douglas Steenland to force chief executive officer (CEO) Peter Hancock to finally admit that breaking up the group is the best plan and get on with such action.

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RENEWALS

Corporate rates down in relatively stable renewals

Buyers set to adopt Insurance Act early

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[LONDON]—CORPORATE INSURANCE BUYERS saw rates fall yet again at renewal, although the market is stable in comparison with reinsurance, where prices tumbled in Europe and Asia.

Renewals in January also saw buyers in the London market looking to apply the 2015 Insurance Act early, although some carriers were better prepared to deal with such requests than others.

Overall, the market for large, risk-managed property/casualty clients has remained stable, with no major changes in rate, retentions or the limits purchased, according to Paul Kim, co-chief broking officer at Aon Risk Solutions US Retail.

Marsh also noted the favourable, yet relatively unchanged market conditions for corporate risks. Property rates were down by an average of 6% in 2015 and 3.5% lower for casualty, said Tim Pritchard, head of corporate placement at Marsh UK & Ireland.


Fredrik Rosencrantz

"For the majority of clients, renewals were flat. However, there were still some big reductions for accounts that had not been re-marketed, and for big premium accounts with natural catastrophe exposures, which insurers are finding attractive in the benign catastrophe environment," he said.

"Going forward, there is unlikely to be any change in rates. I would expect to see rates flat, with reductions of up to 10% for the right accounts," said Mr Pritchard.

Almost all lines of business and industry sectors have seen intense competition and ample capacity, he explained. There are, however, a small number of risks, such as the waste sector and for social housing, where competition is lower, he said.

Some sectors meanwhile, such as aviation and energy, saw greater reductions at renewal as insurers fought to maintain their share of a shrinking premium pool.

Despite loss-making years for aviation insurers in 2014 and 2015, major renewals in December saw aviation hull and liability rates fall by 25% compared with the same period of 2014, according to the latest

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Dirk Wegener

FERMA

Ferma steps up global programme compliance campaign

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[BRUSSELS]—THE FEDERATION of European Risk Management Associations (Ferma) is pushing ahead with its campaign to find a solution to global insurance programme compliance.

In recent months, the federation has made progress with its bid to create a coalition to tackle the issue and discuss the complexity of insurance rules with regulators. Differences in national insurance laws add cost and complexities to global insurance programmes used by multinational companies, and make compliance difficult, if not impossible.

Ferma's campaign has now gained the support of other risk management associations—namely the Risk and Insurance Management Society (Rims) in the US and the Pan-Asia Risk and Insurance Management Association (Parima).

GLOBAL INITIATIVE

"Ferma asked Rims and Parima to join us in establishing an industry-wide initiative so that it would comprise the global risk manager community, as well as eventually including globally active commercial insurers and insurance brokers," said Dirk Wegener, vice-president of Ferma and global head of corporate insurance at Deutsche Bank Group.

"It is important to note that we aim to build an industry-wide initiative, and insurers and brokers have not yet had their say on what they believe the reform objectives should be," he said.

At the end of January, Ferma completed a survey of risk managers

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CHUBB: New firm is one of the world's biggest P&C insurers

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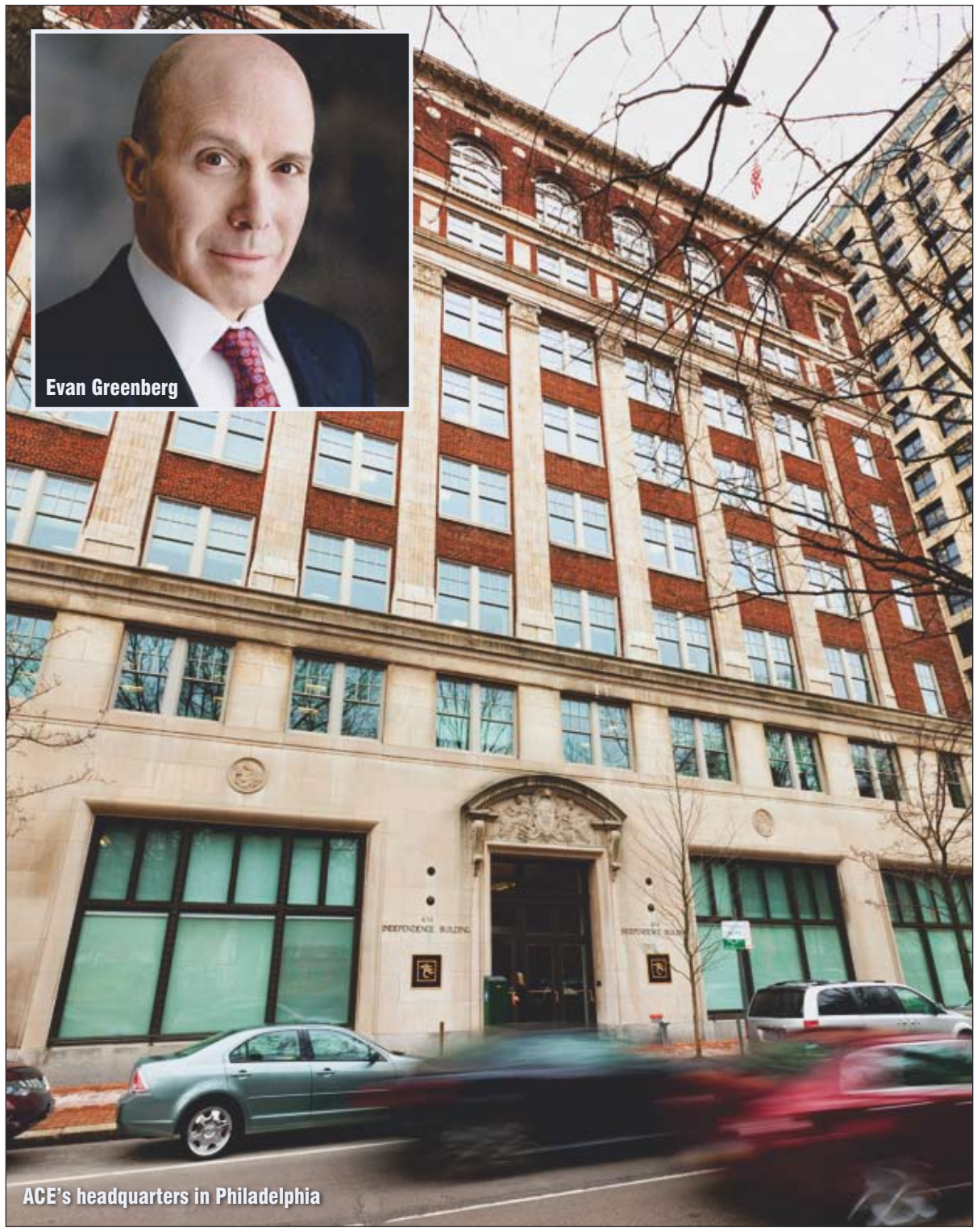
The recent expansion of insurers from Asia and other emerging markets into the international space is set to continue, according to the 750 insurance executives surveyed for the report.

The upbeat mood at the new Chubb is in stark contrast to the tumultuous change underway at the insurer's big rival AIG as its current leadership struggles to deal with demands from high profile investor Carl Icahn to break up the group (*see related article on page one*).

Another leading rival, Zurich, has also experienced a tough time recently that saw the departure of chief executive officer (CEO) Martin Senn and the arrival of Generali's Mario Greco to get the business back on track (*see related article on page one*).

Against this backdrop, Chubb's CEO Evan Greenberg can be excused for feeling rather pleased with himself.

The successful completion of the Chubb deal creates one of the world's biggest property and casualty (P&C) insurers, with combined net premiums written in 2015 of some $28.35bn, a strong leadership position in the US and broad reach worldwide.


Evan Greenberg

ACE's headquarters in Philadelphia

STRONG FUNDAMENTALS

The ACE part of the combined business reported an underwriting profit of $1.93bn for 2015 on the back of a record full-year combined ratio of 87.4%.

The legacy ACE business delivered a net post-tax profit of $2.83bn in 2015 against $2.85bn in 2014.

The Chubb legacy business reported an even better combined ratio of 87.2% for 2015 and net profit of a little more than $1bn. The combined net profit would have been $3.87bn in 2015 against $3.94bn in 2014.

The Chubb deal is the largest insurance transaction in history. ACE also last year completed the acquisition of the Fireman's Fund high net worth business and launched ABR Reinsurance (ABR Re) along with BlackRock, the world's largest investment manager.

As part of the deal, ACE became the sole source of reinsurance risks ceded to ABR Re.

BlackRock will be ABR Re's exclusive investment management service provider.

To ensure that all this activity delivers what investors and customers want, however, the new Chubb needs to carry out a smooth transition of the various businesses.

This requires clarity and leadership, so the latest raft of announcements about the management of its European and Asia Pacific businesses will be welcomed.

In Europe, Andrew Kendrick has been appointed senior vice-president, Chubb Group, and regional president, Europe.

Jalil Rehman is named executive vice-president and chief business operations officer, Europe; and Matthew Shaw becomes executive vice-president, Europe, and division president, Chubb Global Markets.

Jeff Moghrabi will serve as division president, continental Europe.

Mr Moghrabi was formerly regional president, continental Europe at ACE, and will continue to hold responsibility for the company's P&C, accident and health, and consumer lines operations across Chubb's 16 countries in the region. He will report to Mr Kendrick.

Steven Reiss will serve as chief operating officer in continental Europe, reporting to Mr Moghrabi.

Mark McCausland will serve as chief risk officer, Europe.

"This is a group of true leaders; highly regarded insurance professionals with a wealth of experience and proven track records. Their knowledge and experience will be instrumental in ensuring the successful integration and ongoing success and growth of Chubb in Europe. Together, we will help bring to life for our brokers, partners and clients in Europe exactly what our new company stands for: superior underwriting, superior service and superior execution," said Mr Kendrick.

Paul McNamee is named deputy regional president and regional head of P&C, Asia Pacific at the new Chubb.

The new report from Willis Towers Watson, produced in conjunction with Mergermarket, suggests that M&A activity will become even more frequent in the global insurance and reinsurance market during the coming years.

Its survey of senior insurance executives concluded that competition for attractive assets will intensify in the next three years as the majority of insurers (82%) plan to acquire. Only one third intend to divest.

The analysis found that top-line revenue growth was the main driver of M&A activity in the insurance sector. Some €111.4bn-worth of deals were completed in the first three quarters of 2015, nearly three times that recorded in 2014.

STRENGTH IN NUMBERS

Almost half of the respondents made their last major acquisition to enhance their market position and increase customer numbers.

Consolidation, particularly in the US and specialty lines, sparked a rise in the number of megadeals—worth more than €5bn—last year to four, compared to just one in 2014.

According to the survey, this trend is expected to continue. It found that the vast majority (90%) of insurers in emerging Asia, central and eastern Europe, the Middle East, Latin America and Africa plan to complete deals during the next three years.

In contrast, more than half of the firms in western Europe, north America, Australasia and Lloyd's expect to make at least one divestment before 2018. This is mainly because of consolidation and efficiency drives, stated the report.

Andy Staudt, Europe, Middle East and Africa P&C M&A leader at Willis Towers Watson, said: "Asian companies are looking to buy in Europe, not because it's a high growth market, but because of the technology comparative advantage. There are systems in place, especially in the P&C space—such as IT structures, pricing algorithms and distribution tools—that European insurers can bring to the table and [which] are very attractive to certain foreign entities that can take these skills back home."

FERMA: Campaign has gained support of other RM associations

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intended to inform its work on global programmes. It specifically asks whether non-admitted difference in conditions/difference in limits (DIC/DIL) cover or financial interest clauses offer the best solution for compliance.

"At this stage, we are waiting for the results of an online survey to reconfirm the importance of this issue within the risk manager profession. Preliminary results of the survey indicate that the availability of DIC/DIL coverage is a critical issue," said Mr Wegener.

"After a review of the final survey results, we aim to approach prospective initiative members to form this coalition and discuss objectives and approaches," he said.

Given the complexity of the issue, a solution will take time, according to Mr Wegener. "With regard to the timeframe, I am afraid we all need to be a little patient. The current rules have been existing for decades and will probably not change quickly," he said.

COMPLIANCE

In recent years, the issue of global insurance programme compliance has risen up the agenda, with a number of insurers and associations showing interest.

Ferma's initiative builds on the work of its member associations, as well as insurers. In 2014, UK risk management association Airmic unveiled Insight Risk Manager, a compliance database created in partnership with Axco and specifically designed for risk managers. Spanish association AGERS published a report on international programmes in the same year.

A number of multinational insurers and the European Captive Insurance and Reinsurance Owners' Association (Eciroa) have been working on this issue. (*See related article on page 16*). They have offered their support to Ferma.

Günter Dröse, chairman of Eciroa, told CRE's sister publication *International Programme News* that Eciroa and Ferma have approached the International Association of Insurance Supervisors (IAIS), which establishes voluntary insurance regulatory standards and guidelines. He believes the IAIS is considering their comments and will respond shortly.

'HUGE CHALLENGE'

Experts contacted by CRE recognised the huge challenge ahead for Ferma in trying to change national regulations in a bid to make global programmes more efficient and compliant.

"Global programmes are a huge and complex issue but it would be in the interests of all to get an international agreement," said Nick Lowe, director, government affairs at the International Underwriting Association.

Mr Lowe noted that a number of countries had introduced unhelpful regulatory changes in recent years. Such countries are limiting companies' ability to cede risk to foreign insurers and reinsurers, as well as limiting the ability of international insurers to operate on a level playing field.

However, there is also a genuine desire for market liberalisation and regulatory harmonisation, noted Mr Lowe. Trade talks, Solvency II and the work of the IAIS are glimmers of hope for internationally-minded risk managers and insurers.