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Greenlight Re finds its place in the world

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Greenlight Re has always done things a little differently. Simon Burton, its chief executive, explains to *Intelligent Insurer* why he hopes its approach to insurtech, Solvency II and the mix of its portfolio will continue to set it apart.

Having the ability to invest in insurtech ventures with the purpose of developing new products or entering new markets is now a cornerstone of Greenlight Re's strategy, according to Simon Burton, its chief executive.

The Cayman Islands-based reinsurer formed insurtech unit Greenlight Re Innovations in March 2018 to seek technology and innovation opportunities relating to the reinsurance and insurance markets.

The unit has already completed three deals. It has invested in Galileo, a Hong Kong-based insurance and reinsurance platform-as-a-service (PaaS) business which is focused on emerging markets in Asia, and which uses blockchain.

Greenlight Re said at the time it believes that in the new digital ecosystem, blockchain has the potential to dramatically restructure the way insurance is distributed. The platform will reduce IT costs and eliminate high-cost, low-value components in the insurance distribution chain, the company claims.

In October 2018 the company announced it had invested in Sana Benefits, an Austin-based third party administrator focused on the rapidly growing self-insured health market in the US.

A press release at the time stated that Sana Benefits had developed a technology-enabled platform to allow small to medium-sized businesses better access to quality benefit plans and the potential to achieve significant savings by self-insuring their employees.

Greenlight Re Innovations has also made an investment in South Africa-based digital insurance platform Click2Sure, which has developed a digital platform for distributing, managing and purchasing insurance at the point of sale.

Burton explains that the work of Greenlight Re Innovations will allow the reinsurer to stay abreast of innovations in the world of technology that will improve its competitiveness. He stresses that the unit is focused on finding startups it can support as a strategic investor, but which are also aligned to its own interests.

“We are targeting tech-enabled startups focused on the insurance space that have the potential to generate opportunities for us. Our criterion is to offer them support and improve their chances of future success while generating opportunities for us as well,” he says.

On this basis, Greenlight Re Innovations is not a true venture capital fund—its capital and objectives are intrinsically tied to its parent and its aims are about a lot more than just making a return.

“That said, we do expect some failures,” he says, “but that is manageable for us. These are relatively small investments in the scheme of things.”

Who needs Solvency II?

Greenlight Re is unusual in the landscape of property/casualty reinsurers in that it is based in the Cayman Islands. While the islands is the domicile of choice for many other industries, such the hedge funds sector, and has a thriving captives industry, it has a less established base for P/C reinsurers—those that are there are more focused on the life and annuities space.

Bermuda, of course, has been the jurisdiction of choice for P/C players for many years. This is starting to change, however, as reinsurers start to realise some of the advantages Cayman can offer over Bermuda. Putting things such as economic stability, infrastructure and the ability to hire a car to one side, one perhaps surprising reason that is emerging is Cayman's lack of equivalence to Solvency II.

Bermuda has heralded its own equivalence as a triumph and it was certainly welcomed by the majority of its resident reinsurers. For companies doing business in Europe it makes life easier and the regulatory process faster and more efficient, but for companies focused on North America, this is not always the case.

Burton has experience of both domiciles. Before joining Greenlight Re in Cayman in July 2017, succeeding Leonard Goldberg, he was chief executive of SAC Re, in Bermuda, from its inception until its sale to Hamilton Insurance Group. There he was responsible, among other things, for building the company's global reinsurance portfolio. Prior to SAC Re, he served in a variety of roles at Lancashire Group, including CEO of its Bermuda subsidiary. Burton also spent 10 years at Financial Solutions International, an underwriting division of ACE.

Burton says Bermuda is a great place to live and work and a fantastic domicile for reinsurers. But he adds that he has been impressed by the depth of talent on Cayman since he arrived and stresses the benefits of its not being Solvency II-compliant. Greenlight Re also has a base in Dublin, Ireland, allowing it access to the EU under Solvency II. Having bases in Cayman and Dublin gives the firm more choice and more options around how it deploys capital.

"The fact is, for some risks, especially when dealing with North America, it is more capital-efficient to not have Solvency II equivalence," he says.

"The reality is that most companies have access to the Solvency II regime and European business via subsidiaries based there anyway. Having an operation in Cayman can offer the best of both worlds."

"To be absolutely clear, Cayman's regulatory regime is extremely strong and responsive—as is Bermuda's. It is definitely not a lighter touch in any sense. But some risks attract lower capital charges and that can be helpful for the way you price and manage that business."

Refining the strategy

Since Burton took the reins of Greenlight Re, he has set about adjusting its portfolio to generate better returns and create a more diverse portfolio. He says that while it is protective of some of the long-term relationships it has, some of the core changes have been around broadening access to the London Market, via its Dublin unit, and reducing exposure to Florida homeowners.

Greenlight Re's experience in 2018 demonstrates why a change in strategy is needed. It made a $350 million net loss in 2018 compared with a $45 million loss in 2017. This was driven by a mixture of investment losses and catastrophe losses from the various hurricanes and wildfires which hit the US in recent years.

Its gross written premiums for 2018 fell to $567 million compared with $692 million a year earlier; its combined ratio was 102.8 percent, an improvement on the 108.6 percent the year before.

Burton, commenting on the 2018 results, says: “While our financial performance in 2018 was weak, I am optimistic about our positioning. Through the year we steadily improved the profile of our underwriting business, which has led to a solid start to 2019.

“I’m encouraged by opportunities we are seeing in the open market and in our Innovations and other strategic partnerships. The progress has been achieved without compromising our focus on expense control. I am also a firm believer in our value-investing strategy and its potential to generate strong returns for our shareholders.”

One example of these opportunities can be seen in a recent deal (not via Greenlight Re Innovations), in which it became the largest shareholder in US managing general agent (MGA) AccuRisk.

Founded in February 2017, AccuRisk provides healthcare and employee benefits to a range of insurance partners. It has annual premium of around $70 million. With Greenlight Re’s support, AccuRisk is targeting expansion with a series of strategic acquisitions in North America.

Burton stresses that the company is refocusing the portfolio, and improving its access to global markets; it has even explored the possibility of launching a syndicate at Lloyd’s but nothing has been confirmed as yet.

He is keen to seek risks where the company can make a profit when others cannot because of its lower expense ratio. He is also against lengthening the tail of the company’s portfolio too much. “We write some long tail casualty business but it is limited,” he says.

By shaping and refocusing its portfolio, he is keen to declare that Greenlight Re will not be defined by market trends—and he will certainly not bemoan pricing, which he sees as something reinsurers must now accept instead of continually hoping for rate hikes.

“The industry has changed in recent years; capital is more fluid than it has ever been and that suits us. When it comes to rates the industry needs to accept that they are driven by supply and demand and not what the industry wants,” he says.

“The fact is, for some risks—good quality short tail risks certainly—the ability to access capital is now infinite. With that in mind, the industry must become more efficient and look to lower its own expense ratio if it is to compete.

“When you combine those factors it is hard to imagine any further wild swings in the pricing. There was some noise after the last few years of the funds backing off from the market, but nothing has changed. We need to work with pricing as it is—and make that work for us.”

A bright future

The Cayman Islands has the potential to grow its reinsurance sector and set itself apart in terms of its offering and regulatory regime, a panel of experts told delegates at the annual Cayman Alternative Investment Summit (CAIS), held in Grand Cayman in February.

Chaired by Adrian Lynch, managing director of Aon Cayman, the panel comprised Simon Burton, chief executive, Greenlight Re; Alex Leman, founder, family office Ironside; Senator Ben Nelson, the former head of the National Association of Insurance Commissioners (NAIC); and Derek Stenson, partner, Conyers Dill & Pearman.

Lynch said there is a positive theme developing in the Cayman Islands which is worthy of further attention. He said the country's unique and robust regulatory regime combined with the growing theme of convergence in the funds industry could potentially attract a lot more reinsurers to use the domicile, especially companies focused on North American risks and especially those operating in the longevity sector, managing life and pension risks.

A key distinguishing factor for these companies is that the Cayman Islands, unlike Bermuda, does not have Solvency II equivalence. For some types of risks this makes it a more attractive domicile because less capital is required to be held against those risks compared with under Solvency II.

Stenson highlighted the quality of the regulatory framework in Cayman and the willingness of the regulator to engage and listen to companies.

“They are very approachable, commercially minded and responsive, and that is a real trump card for Cayman,” he said. “They do not have a one-size-fits-all approach and that is well received by re/insurers looking to work here.”

Burton from Greenlight Re, who had spent most of his career based in Bermuda, said he had been pleasantly surprised by the regime on Cayman. He noted that Greenlight Re has the choice of operating from Cayman or its Dublin-based entity, which is Solvency II equivalent, and it will use whichever platform works better for the risk.

“The reality is that most companies have access to Solvency II on one of their platforms, but you do not need that for all of your risks,” he said. “It is considerably more efficient to do some transactions through a regime that does not have Solvency II equivalence.”

Nelson explained the potential for Cayman to work with the NAIC to establish a form of equivalence with that regime, which would benefit it greatly. He said the key to that would be regular dialogue between all parties on an ongoing basis.

Leman explained how his family office is very interested in the insurance space because of its noncorrelated nature compared with other asset classes. He said the office had already done some deals but was looking for more.

“What makes Cayman special is the strength of the funds industry here and that is increasingly intersected with insurance and reinsurance,” he said. “Plus, we have the depth of professional talent to be able to execute these deals. I see Cayman as having a bright future in this space.”