

Wilton Re in the News

Publications

1. Reactions interview with Chris Stroup

Capitalising on the capacity crunch

At a time when many players are fleeing from the US life reinsurance market, start-up Wilton Re is entering it. Michael Loney talks to its chairman Chris Stroup about why the time is right for a new player in the market.

Many companies in the past five years have decided that the US life reinsurance market is not for them. The most recent company to flee the market was Dutch insurer ING. It ceded its US life reinsurance business to Scottish Re in October.

ING is the latest in a long line of companies falling over themselves to get out of the life reinsurance business in the US. In 2003 alone, Allianz sold its life reinsurance business to Reinsurance Group of America, Employers Re stopped writing life reinsurance and sold part of its portfolio to Scottish Re, and Annuity & Life Re went into run-off.

But one new company is bucking the trend. Life reinsurance start-up Wilton Re was unveiled on December 21, and is looking to become a big name in life reinsurance in the US.



Chris Stroup

"Our goal is to be an important participant in our two targeted markets – the traditional life reinsurance market and the run-off solutions market," says Chris Stroup, chairman of Wilton Re Holdings and its US subsidiaries. "We would like to be known as a credible provider of risk and management solutions to the life insurance industry."

MMC Capital formed Wilton Re, with additional capital coming from private equity funds managed by Vestar Capital Partners and Friedman Fleischer & Lowe, among others. Stroup was previously chief executive officer of Swiss Re Life & Health North America before moving to MMC Capital and heading up this venture.

A warm welcome

MMC Capital and Stroup are convinced there is a great opportunity for a new life reinsurer. And early indications suggest there is room in the US life reinsurance market for Wilton Re to grow. The start-up has received a lot of interest from prospective clients

since it became operational at the turn of the year and it has already written some business.

"The people I've spoken with have said they believe there is a demand for a new life reinsurer, and they have told us that Wilton Re will have the opportunity to compete for business. So the response has been positive," says Stroup. "But having the opportunity to compete for business and actually executing transactions are obviously quite different things."

Stroup believes buyers will welcome another option when buying life reinsurance because capacity has dwindled in recent years. Standard & Poor's says there were nine big acquisitions in the North American life reinsurance market between 1997 and 2003.

The wave of consolidation has left buyers desperately short of choice. Standard & Poor's says eight companies wrote 90% of new life reinsurance in North America in 2003, down from 10 companies in 2002 and more than 15 a few years earlier. Swiss Re, Munich Re and Reinsurance Group of America combined have more than a 50% share of the US market, according to AM Best.

"We think it is a good time to enter the marketplace because the capacity has reduced but demand hasn't changed dramatically," says Stroup. "A number of companies have decided to exit because life reinsurance was no longer core and frankly was never really core to their strategies. Over the past five to 10 years the number of credible life reinsurers has been reduced substantially. But we know that for risk and credit management purposes ceding companies prefer to deal with more rather than fewer reinsurers."

Stroup says an average life reinsurance deal involves between three and eight reinsurers. This is different from a decade ago when deals could involve as many as 12 reinsurers, he says. It is likely some life insurers are placing their business with fewer reinsurers than they would like.

"One reason buyers want more reinsurers is credit concentration – how much reinsurance do you want to be placed with one assuming company? As we are well aware, even the strongest companies can run into financial difficulties. So good credit risk management would require diversification of credit exposures," says Stroup.

A new player could also increase buyers' bargaining power. Life reinsurance is a seller's market because it is concentrated in the hands of so few. Benfield estimates that life reinsurance rates in the US have increased by 20% in the past two years. New players may mitigate further price increases.

"The fewer reinsurers in the market, the less leverage the ceding company has in the negotiation of price and terms and conditions," says Stroup. "So ceding companies are interested in other suppliers of life reinsurance."

An exclusive club

Buyers might say that the entry of a new player is long overdue. And in a report released in August last year, AM Best said there was ample room for new entrants in the US life reinsurance market. But getting into the US life reinsurance market is easier said than done.

In its report, AM Best noted that there are big barriers to entry because it had proven difficult for start-ups to raise enough capital. The rating agency believes a life reinsurance start-up would need capital in the range of \$200m to \$500m.

Wilton Re comfortably exceeded this range with its capital raising efforts. It has \$628m of capital commitments from a number of investors. Stroup believes the company's unencumbered capital sets it apart from its competitors.

"There is no other company in the marketplace that is as well capitalised relative to the risks on the books, and that has as much guaranteed access to capital as we do," says Stroup. "Even well capitalised companies such as Swiss Re or Reinsurance Group of America have to depend on others to provide capital – whether it is the capital markets or a parent – and that capital isn't guaranteed. So from a credit exposure perspective we are a better bet than most for ceding companies."

Additionally, AM Best assigned Wilton Re an A-financial strength rating and an a- credit rating in February.

One reason it is hard for start-ups to get off the ground is the scarcity of talent in the life reinsurance market. Stroup says that, because life reinsurance is less than 10% of the overall reinsurance market, there are fewer experienced management teams available.

"Conceptually, it is easy to enter the business; it is not that easy in practice," he says. "It requires investors to take a long-term view of mortality risks and it requires finding a team of professionals that are both experienced in the business and willing to invest time and money. There are terrific management teams in the life reinsurance industry but they are all employed."

Leading North American life reinsurers	
By amount in force – non-affiliated business 2003	
Company	Amount in force year end 2003 (\$bn)
Swiss Re Life & Health America	1,063.13
RGA Reinsurance	757.69
Security Life of Denver	551.26
Lincoln National Life Insurance	548.89
Manulife Reinsurance	516.74
Munich American Reassurance	480.13
Employers Reassurance	366.81
European Reinsurance Company of Zurich	299.66
Allianz Life Insurance Company North America	271.87
Transamerica Occidental Life	224.41

Source: AM Best

Leading North American life reinsurers	
By premium – non-affiliated business 2003	
Company	Premiums (\$bn)
Federal Kemper Life Assurance*	3.38
Swiss Re Life & Health America	2.51
RGA Reinsurance	2.42
European Reinsurance Company of Zurich	2.25
Lincoln National Life Insurance	2.02
Munich American Reassurance	1.26
Security Life of Denver	1.25
Manulife Reinsurance	1.16
Metropolitan Life Insurance	1.06
Security Life of Denver International	0.95

*Reflects coinsurance agreement with Kemper Investors Life Insurance as part of Bank One's acquisition of a significant portion of Zurich Life companies.

Source: AM Best

But Wilton Re's management could not be accused of lacking experience. As well as being chief executive of Swiss Re Life & Health North America, Stroup was also chief financial officer of Life Re until Swiss Re bought it in 1998.

Wilton Re US Holdings' chief executive officer is John Tiller. He has 30 years' experience in life reinsurance and was previously head of Employers Re's global life reinsurance business.

Sticking to what you know

Stroup could not be accused of lacking experience in Wilton Re's other area of business either. In addition to writing traditional mortality reinsurance, Wilton Re is also looking to do run-off deals. It hopes to emulate Swiss Re's Admin Re programme of buying closed books of life business and administering their run-off.



John Tiller

Stroup was involved in the Admin Re programme in his time as chief executive of Swiss Re Life & Health America. He believes there is a lot of untapped potential in buying run-off business. Only a few reinsurers do these types of deals.

"The surface has barely been scratched," he says. "Protective Life and Swiss Re are two companies that over a long period of time have demonstrated that there is a demand for run-off and Admin Re solutions. There is room for another professional supplier of run-off or Admin Re solutions, especially for transactions that might not be quite as big as, say, the transactions Swiss Re might target. I think there are many other companies that would like to access the market."

Wilton Re's backing and experienced management bode well for its future. And Stroup believes demand for life reinsurance will stay strong. This does not guarantee success, however. The few life reinsurers set up in recent years have had starkly different levels of success.

Scottish Re and Annuity & Life Re were set up in the late 1990s. Like Wilton Re, both were set up on Bermuda to provide nothing but life reinsurance. Scottish Re has grown into a profitable business, carving out a 6% US market share in the US in 2003.

But in the same year, Annuity & Life Re was placed into run-off. It was plunged into financial distress because it underpriced some very big deals. Annuity & Life's fall from grace is a cautionary tale to those considering entering the market. Stroup says Wilton Re will be more careful and will stick to its areas of expertise.

"The secret is to be disciplined in the risks that are assumed," he says. "If a company is focused on lines of business it understands, then it will generally be successful. Scottish

has done a terrific job of growing its business because it's focused on a market that is rationally priced and where it has an understanding of risk and pricing. Other companies such as Annuity & Life Re suffered because they entered lines of business or transactions that veered from the traditional mortality-based business."

The future looks bright for Wilton Re as long as it plays to its strengths. By entering at a time when others are pulling back, it will be filling a gap in the market. The loss of others players to the market may well be Wilton Re's gain.