



Cass Business School
CITY UNIVERSITY LONDON

Global Reinsurance Masterclass Series

Strategic Thinking for the
Reinsurance Industry

Masterclass 3

Winning the game

How to identify reinsurance rivals and
spot growth opportunities

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Executive Summary

Reinsurance providers have typically avoided head-to-head competition by occupying different strategic positions, according to their different perspectives on what constitutes attractive business. However, industry evolution is generating greater rivalry that is eroding some of these distinctions and driving reinsurers towards new strategic positions that have different implications and demands for success. In this Masterclass, you will explore how to:

- identify strategic groups (subsets of firms that adopt similar strategies) within the reinsurance industry;
- critically assess the strategic positions and business models that differentiate groups of reinsurance companies from each other;
- analyze the strategic moves that reinsurance companies can undertake in order to grow and the mobility barriers that constrain these moves.

This is the third of a series of seven such Masterclasses.

In 2009, Bermuda-based company Partner Re became a top-five reinsurer worldwide, following the acquisition of Paris Re, a French-listed, Swiss-based diversified reinsurer. Similarly, in 2010 Amlin announced its plan to establish a reinsurance company in Switzerland to provide European reinsurance buyers with its security and service delivery. Catlin, similarly following these competitive moves and using \$1bn in internal capital, established a reinsurance platform in Zurich to underwrite reinsurance business from European markets. These moves, loosely referred to as ‘the Zurich start-ups’, arguably led by Axis’ establishment of a Zurich subsidiary in 2003, reflect a growing reinsurance orientation towards European business. Hence, beyond its existing domiciled global player, Swiss Re, Zurich is emerging as key reinsurance hub. Supported by a regulatory framework that is seen as closer to Europe’s new capital regime, and competitive tax rates of its own, Zurich, is providing an attractive alternative to Bermuda for reinsurers and there have even been propositions that it may overtake the Bermuda-London duel of the past few decades.¹ While the evident returns of a hard market drove successive waves of start-ups in Bermuda, what has led the charge to Europe?

In the last five years the global market value grew by only 1.2%, reflecting a quite static premium.² Such marginal growth has increased competition and prompted some reinsurers to look for alternative markets where they have previously had little access to business. Bermudian reinsurers have therefore assessed the possibility of increased demand in Europe. During the past decade, the European insurance market has experienced strong consolidation, which, supported by the recent turbulence in global financial markets, has prompted reinsurance buyers to diversify their insurance risk and spread their counterparty risk. In addition, the

new capital adequacy rules which are expected to be introduced via the EU’s Solvency II directive would be likely to increase insurers’ demand for reinsurance cover to reduce earnings volatility. These factors suggest that the European market might provide an attractive opportunity for new and strongly capitalised reinsurance entrants to offer improved choice to existing European insurers.

In this context, trading from Zurich enables reinsurers to access European business through enhanced client proximity, both in cultural and geographic terms.³ For companies domiciled in Bermuda, but looking to diversify outside their dominant US-focus, Zurich offers a large pool of qualified staff and location advantages for language. “Continental European reinsurance buyers usually look to establish long-term, continuous relationships with their reinsurers and often prefer to be served by someone capable of speaking their own language. Reinsurers domiciled in Zurich tend to meet these criteria since most of their staff have the same cultural background as their clients”, as the Head of Operations of a broker firm stated.⁴ A further advantage is the geographical proximity to the growing Eastern European markets, which provide a promising productive field for the reinsurance industry.

In this dynamic competitive landscape, firms investing in new reinsurance subsidiaries have an interesting strategic choice to make: whether the subsidiary should continue the parent company’s strategy, or whether it needs a different strategy to compete in its particular market conditions. We pose the following questions, in order to help firms better think through these competitive issues: i) What strategic positions are currently seen in the reinsurance industry? ii) Do these strategic positions make sense, or could they be improved? and iii) How could reinsurers successfully adopt (and integrate) a new strategic position?

¹<http://insurancenet.com/article.aspx?id=205000&type=reinsurance#.UTXVUalYouc>

²Global reinsurance. Industry profile. Datamonitor 2012.

³<http://www.intelligentinsurer.com/article/the-heart-of-european-reinsurance>

⁴<http://www.intelligentinsurer.com/article/the-heart-of-european-reinsurance>

1. Selective rivalry in the reinsurance business

The reinsurance industry comprises more than 200 reinsurers worldwide, accounting for a total market value of \$217.5 billion.⁵ An individual reinsurance company, however, does not compete directly against all the other companies in the industry. Indeed, while large reinsurers like Munich Re and Swiss Re might be competing against each other as they both operate globally and offer a large range of reinsurance products, it is unlikely that they would consider Maiden Re – which is one of the smallest US reinsurers specializing in property and casualty with only 141 employees – as a main competitor.⁶ Rather, managers within reinsurance companies might consider a subset of rivals that are competing on a similar basis and have adopted similar strategies or business models; these are their primary competitors or competitor reference group, known as their strategic group. Rivalry is likely to be higher among reinsurers within a strategic group, because they display similar strategies.

What similarities and differences should we consider to distinguish strategic groups in a useful way? Traditionally the reinsurance industry has been segmented according to geographical/cultural criteria of reinsurance firms in Bermuda, Lloyd's and Continental Europe. But even though Lloyds' syndicates, European and Bermudian reinsurance companies have different histories and traditions, this indicator tends to perpetuate stereotypes that are not necessarily helpful in understanding the most important strategic commonalities and

differences between firms.

In fact, focusing on the country where a company is domiciled obscures the global nature of the reinsurance industry. Most companies, whether they are based in Europe, Bermuda or Lloyd's, have access to and write global business, including deals in regions as diverse as North America and Japan. Whether or not they have a local subsidiary, the largest reinsurers are often able to write business from a country with a completely different culture.⁷

In addition, most reinsurance providers are also global in product scope as they provide a range of reinsurance products, and write a variety of classes of risks, ranging from non-life property and casualty risks to life risks. Munich Re, a leading player in the global reinsurance market, for instance, offers non-life, life and health reinsurance solutions and claims that it covers “the entire value chain of the global insurance industry in life and non-life businesses.”⁸

In this truly global context, it is not relevant to cluster companies based on either their geographical scope or their product scope. We will suggest more useful distinctions for reinsurance in the following section 1.1.

To make these distinctions, we will follow a widely-used business-modelling tool which is known as ‘strategic group analysis’. The main premises of this analysis are summarized in the ‘Theory Guide’ box on page 3.

⁵Global reinsurance. Industry profile. Datamonitor 2012.

⁶<http://www.munichre.com/en/reinsurance/business/default.aspxhttp://www.businessinsurance.com/apps/pbcs.dll/gallery?Site=CB&Date=20121021&Category=PHOTOS&ArtNo=102109995&Ref=PH>

⁷Global reinsurance highlights 2012 edition. Standard & Poor's

⁸Global Reinsurance. Industry profile. Datamonitor 2012.

1. Selective rivalry in the reinsurance business (cont.)

THEORY GUIDE: Strategic group analysis

A strategic group analysis usefully complements industry analysis by identifying different groups of companies that follow similar strategies within the same industry. Its basic pillars are the following ones:

- A *strategic group* is a group of firms in an industry following a similar or identical strategy regarding relevant dimensions. It includes firms that occupy similar positions in the market, offer similar goods to similar customers, and may also make similar choices about production technology and other organizational features.
- Strategic groups are commonly defined based on dimensions that relate to the scope of activities, such as product range, geographical scope, and choice of distribution channels, and dimensions that refer to resource commitment, such as level of product/service quality, technological leadership, and size. The

dimensions can be used to generate a strategic group map that captures the strategic differences and similarities between the firms that populate a particular industry. To gain proper insight into groups, the same industry can and probably should be mapped several times using a variety of strategic dimensions.

- Strategic groups are stable over time because of mobility barriers that prevent firms from easily modifying their competitive position. Mobility barriers are the factors which deter or inhibit the movement of a firm from one strategic position to another and, more generally, the expansion of firms in one group to a position held by another group. Therefore mobility barriers effectively limit imitation. They act like entry barriers (see Masterclass 1), but at the level of the group rather than at the level of the industry. Mobility barriers confer persistent advantages to some groups over others within the industry, resulting in greater potential profitability for advantaged groups. Therefore firms within a group have strong incentives to invest in collective barriers.

1.1 How reinsurers can usefully be grouped according to their strategies

Our analysis of the reinsurance industry suggests that it is more helpful to think about strategic differences and commonalities in terms of companies' priorities in selecting appropriate business to write.

In particular the following three dimensions help to identify the strategic position of a reinsurer:

Line-integration: Does the reinsurance company adopt a mono-line or multi-line approach to diversification? This dimension is related to a reinsurance company's approach to diversifying the business it is writing.

The lowest level of line-integration is the mono-line approach. A **mono-line company** has a highly specialized workforce that predominately writes one particular type of business, which would usually be property Cat business, the largest segment of the global market. Its only sign of line-integration is

the geographic origin of the business, for example writing property Cat from a number of territories, such as Asia-Pacific, Europe and North America, in order to diversify risk by region.

A mid-level of line-integration is the multi-line approach. A **multi-line company** writes multiple lines of business, such as property Cat, casualty, and speciality lines. It thus believes in diversification not only by territory but by types of risk. However, even where it writes such lines across client accounts, it makes trading decisions on each line separately, according to the value of that particular risk within the diversified portfolio, rather than according to the value of the client.

Finally, the highest level of line-integration is the whole-account approach. A **whole-account company** writes all lines of business and integrates their related decision making process around the value of the client. The decisions related to one line are integrated with the decisions related to all the other lines written for that client. Such firms diversify across most lines of business, and do so in partnership with the diversification of their clients.

1. Selective rivalry in the reinsurance business (cont.)

Mono-line approach: “Bermuda is a Cat market, it mostly covers a small segment of the reinsurance world.” (Reinsurer)

Whole-account approach: “Things are looked at as a whole ball of wax. You can write lines of business which, in isolation, nobody in their right mind would ever do. That particular line might even be loss-making, but you accept it for the value of the whole package.” (Reinsurer)

Analyzability: Does the reinsurance company focus on highly analyzable business or does it also accept less analyzable business? This dimension refers to the extent to which there is reliable information about particular lines of business. Highly analyzable lines of business are characterized by the existence of strong vendor models and the high availability of historical data allowing computation.

North American property risks are an example of highly analyzable business; they are typically technical risks, grounded in vendor models that make use of widely-available historical loss data and fine-grained and relatively stable zip code data about property values. Not surprisingly, such highly analyzable business represents the largest class of business, with property accounting for 38.7% of the market’s total value, while the Americas are the largest geographic area of the industry, accounting for 51.3% of the global reinsurance market’s value.⁹

At the other end of the analyzability scale are risks in emerging markets like Asia and Latin America. These countries, which have expanded robustly by 11% per annum in real terms over the last decade,¹⁰ are unmodeled or inadequately-modelled because of the data volatility occasioned by rapid growth, low technological infrastructure for data capture, and little historical loss information. Hence, these risks require different tools and strategies to analyze and underwrite.

High analyzability: “There’s lots of maths. They’re doing all this clever stuff and if it spits out a number, then that’s the price they’ll charge.” (Reinsurer)

Low analyzability: “You could write some unprofitable business but you balance it across the lines. The relationship with the client is the key driver.” (Reinsurer)

Relationships: Does the reinsurance company invest in long-term relationships with its cedents? This dimension refers to the extent to which there is a real commitment to retain continuity of cover with core partners over the long-term, through the lows and highs of the cycle. Traditionally, business relationships in the reinsurance industry were built on strong social ties, in which the personal relationship between reinsurer and client enabled the business relationship to endure, even as profitability might have waxed and waned over the duration of the market cycle. In particular there was a tacit obligation for payback; that is, in the wake of a loss, a client would ‘make good’ the loss to their long-term partners by ensuring that they received rate rises. Hence there were business advantages to remaining in long-term relationships, despite lower profitability in some years.

At the other end of the spectrum, some reinsurers privilege short-term profitability over relationships. Hence, they assume that every deal must pay, every year, and will not write less profitable business for the sake of the relationship. Such firms do not base their business on the tacit obligation for payback in long-term relationships, but on the assumption that profitable business will always be available from those firms that need capital.

Long relationship emphasis: “It’s multi-year, it’s a partnership with the client without any end.” (Reinsurer)

Short relationship emphasis: “Here’s the price, here’s the capacity; and it’s more or less ‘take it or leave it’.” (Reinsurer)

⁹Global reinsurance. Industry profile. Datamonitor, May 2012.

¹⁰<http://reinsuranceasiaonline.com/articles/future-growth-will-be-tough-emerging-markets>

1. Selective rivalry in the reinsurance business (cont.)

1.2 How reinsurers cluster into strategic groups according to these three dimensions

The three dimensions we have identified in section 1.1 can be summarized in short as: line-integration, analyzability, and relationships.

Reinsurance companies are not evenly distributed

along these three dimensions. According to the emphasis that they place – which end of the spectrum they stand – on these key three dimensions of selecting business to underwrite, reinsurance firms occupy distinct strategic positions, which cluster into five main **strategic groups**. These are labelled and illustrated in Figure 1.2, and discussed subsequently.

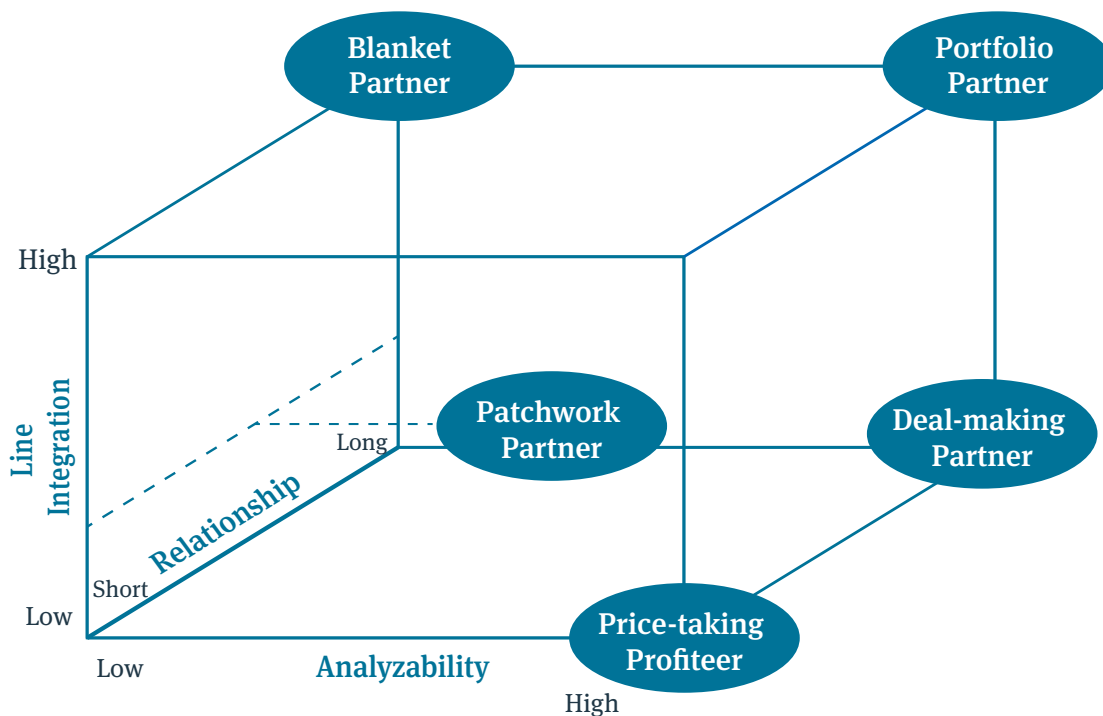


Figure 1.2. Reinsurer strategic positioning cube, clustering identifiable reinsurance business preferences into five named strategic groups

1.2.1 Descriptions of the five strategic groups which characterize most reinsurance business preferences

Price-taking Profiteers aim for deal profitability, choosing programmes such as US property Cat, which has a high Return on Equity (RoE). In selecting business, they privilege: i) a mono-line approach to accounts; ii) technical and highly analyzable business; iii) a transactional approach, where they are not willing to leverage low return deals for better ones. Typically, competitors in this strategic group spring up in a hard cycle and cannot sustain this approach in softer cycles unless protected by the capital structure of a corporate parent, which enables them to increase and decrease capital with the market cycle.

Their strategic proposition is to provide capacity where it is needed on those classes of business that are perceived as higher-return and more analyzable, such as US property Cat, even where this is detrimental to line-integration.

Deal-making Partners aim for discrete deals with good returns, with a high RoE, such as big US property Cat deals or those requiring tailored solutions and private deals, where they can put down big lines (i.e. provide a significant amount of capital to support the insurer's risk) or write close to the risk (i.e. take a particularly high return on equity, because it is calculated against relatively high exposure to loss). In selecting business, they privilege: i) a mono-line approach to the account; ii) very technical and highly analyzable business; iii)

1. Selective rivalry in the reinsurance business (cont.)

business relationships where there is potential for lock-in because of high capital investment to meet the cedent's capacity need.

Their strategic proposition is to develop deals for cedents looking for tailored capital solutions.

Patchwork Partners are structured as line underwriters, even where they write multiple lines of business. They aim for flexibility in moving along different dimensions of the cube. In selecting business, they privilege: i) the evaluation of each line on its own merits, rather than an integrated evaluation of the multiple lines written across a particular cedent; ii) moderately technical business, using other factors, such as knowledge of the market or cedent to make a judgment call when the deal falls below the technical price; iii) continuity of relationships, but with a tendency to scale up or down their commitment according to the deal profitability in any given year.

Their strategic proposition is to be flexible in assembling a portfolio of typically smaller lines and deals.

Portfolio Partners take portfolio diversification seriously by writing multi-territory (scale), multi-line (scope), and short- and long-tail business (i.e. having shorter- or longer-term commitment to payout). They leverage across the cedent portfolio to gain preferential terms or access to better business. In selecting business, they privilege: i) a 'whole-account' approach to the business written with a cedent, either through account metrics, or considering the whole relationship across individual deals; ii) strongly technical approaches to evaluating the account as a whole over multiple years, not just writing the most analyzable or technically-priced lines and regions; iii) continuity in business relationships.

Their strategic proposition is to generate capital efficiency and stable long-term returns through diversification.

Blanket Partners also take portfolio diversification seriously by writing multi-territory (scale), multi-line (scope), and short- and long-tail business. In selecting business, they privilege: i) 'whole-account' and 'bouquet' programmes including writing an even share across all lines of business; ii) underwriter knowledge of the cedent and market rather than technical analysis; iii) continuity in business relationships.

Their strategic proposition is to develop deep, long-term relationships with the best clients in any particular market, write across those clients' portfolios and ride the fortunes of the market with them.

1.2.2 How individual reinsurers blur the boundaries of strategic groups - or even jump them

The strategic types described above are ideal types, and any specific company may vary a little around these ideals. A number of firms, such as Catlin and Amlin, operate in different strategic groups simultaneously out of their different London, Bermuda and Zurich subsidiaries; for example tending towards a Patchwork Partner, Portfolio Partner or even Price-taking Profiteer in their different subsidiaries.

However, as the theory box (see p3) suggests, moving from one strategic group to another is not so easy because of mobility barriers. In the following section we will discuss the mobility barriers that firms have to face to enter a new strategic group. In addition, we will show the potential growth trajectories of strategic types and how they change their strategic positions, modifying the competitive landscape of the industry.

Study Question 1

- (a) Take the reinsurance company you work for, or are most familiar with. You may even need to consider just one subsidiary. Identify its position on each of the three axes we've defined: line-integration, analyzability, and relationships. It is possible that not all the business occupies the same position: can you identify a position that characterizes the majority of the business?
- (b) Based on your answer to (a), which strategic group would you consider that this company/subsidiary occupies?
- (c) Can you identify another company in which different divisions or subsidiaries occupy different strategic groups?

2. Mobility: why and how reinsurers might change strategic position

Changing strategic position may be the only way to remain profitable and competitive in a dynamic market. But there are three reasons why moving from one strategic group to another, or accessing another strategic group simultaneously, is extremely challenging.

First, firms that want to move into a new group are like potential new entrants in an industry. They have to align their resources and capabilities with the different strategic propositions that they decide to pursue. This is time- and resource-consuming, as they don't know much about the strategic landscape they have to face, compared to the existing players in the group.

Second, they don't know how to reach a superior level of profitability because they are new to the group. As they change their strategic position, they also have to generate new knowledge about what constitutes profitable and strategic behaviour in the new group.

Third, moving into an attractive strategic group will increase the level of competition in that group, as it becomes more crowded. Each reinsurer will be left with a smaller premium or some reinsurers may not be able to survive. As new entrants may be those least adapted to the competition in that group, they may be those least likely to survive.

2.1 Barriers to mobility - in each dimension

We now identify the specific challenges and barriers posed by each of the three dimensions we used in section 1 to map strategic groups of reinsurers.

Line-integration. Mobility in this dimension, between mono-line, multi-line and whole-account approaches, requires a new way of thinking about the business lines the firm wants to write. For example a mono-line firm, specialized in a particular line of business, has to consider how to get the necessary expertise to underwrite new lines of business, and how the company must change in order to manage a mixture of lines. Such change may require systems and space resources, new team-based communication and new management expertise. While technical expertise could be purchased by hiring skilled underwriters, it is a new skill to evaluate the profitability or appropriate return on risk from multiple lines of business, or to evaluate what percentage of the portfolio each

should comprise.

Hence, it is hard to shift from mono-line to multi-line or, particularly, whole-account approaches to business. Similarly, those that take a multi-line or whole-account approach may struggle to reduce their line-integration and relinquish lines of business even if it is clear that the benefits should eventually outweigh the costs. The struggle may impact on morale - the company may have to let go of staff or close divisions in order to stop writing lines where they have relationships with an existing customer base - and there are almost always technical difficulties in changing the operational structure of a company.

Analyzability. Moving toward more analyzable business requires some investments in qualified workforce (such as risk modelling expertise). In principle, new entrants could hire qualified risk modellers. However, buying the expertise might not be sufficient, as new entrants would also need to adapt their organizational structure and decision processes to integrate the expertise of such a highly qualified workforce, which would require time, as well as cultural and process change. Another option would be to develop in-house expertise, which also takes time.

This means that acquiring a high level of proprietary knowledge on risk modelling is not easy. It can act as a mobility barrier, preventing some companies from shifting along this dimension even when they wish to become more technical. Yet, the opposite movement, away from analyzability towards more judgment-based business, would also be difficult, because of the bias towards 'rational' decision making in the firm. For example, it is hard to evaluate un-modelled emerging market property risks against highly-modelled US property risks. In this case, the barrier is the difficulty of evaluating business without the support of technical models.

Relationships. The relationship dimension requires high levels of trust in relationships with clients and rests on a long-term history. New firms cannot easily and quickly develop such a relationship emphasis, simply because it requires time to build a long-term partnership based on business continuity. A relationship-focused strategy therefore rests on resources such as trust and longevity that are more intangible than risk modelling, or line-of-business expertise, which might be bought. In particular, they cannot be immediately imitated because they are distinctive of the firm in which they reside.¹¹

¹¹The academic literature usually refers to the impediments to the immediate imitation of a firm's resource position as 'isolating mechanisms'. To read more about these, see 'Rumelt R.P. (1984). Towards a strategic theory of the firm. In R. Lamb. (ed) Competitive strategic management, Prentice Hall, Englewood Cliffs, NJ, pp. 556-570.'

2. Mobility: why and how reinsurers might change strategic position (cont.)

Hence the relationship dimension presents a particularly high mobility barrier because trust and continuity are slow to build - and quick to destroy! However, it is possible in today's reinsurance landscape that this 'barrier' is becoming less significant. Industry dynamics seem to be moving towards more opportunistic business relationships, since it is unclear that the resources invested in generating long-term relationships continue to generate higher value through privileged access to business.

2.2 What strategic moves are the most feasible?

As we have just seen in section 2.1, there are specific barriers to mobility in each of the three dimensions. But when evaluating strategic dynamics, reinsurance companies also need to consider the combined effect of the multiple mobility barriers together. When a firm decides to move into a new strategic position; it automatically has to shift its priorities according to two or three dimensions.

However, while moving from one strategic group to another is complex because of the existence of multiple mobility barriers, some moves are still possible. The following are some typical trajectories that firms might consider as they evolve.

Price-taking Profiteer: Price-taking Profiteers set up in a hard market will at some point encounter a soft market. Without a capital structure that allows aggressive cycle management they often evolve into Patchwork Partners. This decision can either be strategic ('we will accept a lower RoE on business that is less volatile') or merely reactive. A second viable option is to retain a focus on highly analyzable catastrophe business and attempt to become Deal-making Partners, focusing on a few select clients with larger capacity needs that suit the reinsurer's technical approach to business. This second option may be particularly attractive to those Price-taking Profiteers that have reached a critical mass in terms of capacity.

Deal-making Partners: Deal-making Partners may come under pressure from ratings agencies to diversify. One option is to branch out into other lines as Patchwork Partners, maintaining a focus on catastrophe capacity based on their deal-making legacy, but offering additional lines of business on a selective basis. Alternatively, they could also evolve

into Portfolio Partners (stretch their relationships into other lines and leverage their technical infrastructure to provide a full service to their clients). Another option is to set up a subsidiary, operating separately as a 'start-up' in a different reinsurance segment. This is potentially a good way to 'experiment' with excess capacity in soft markets or respond to pressure for diversification.

Patchwork Partners: The flexibility of this strategic group means that many Patchwork Partners can maintain their position in the 'centre' with minor shifts along different dimensions to adjust for market cycles. However, this approach also has an optimum size. If a Patchwork Partner grows to the extent where it provides significant capacity and also writes multiple lines for a cedent, it will face pressure to become more of a whole-account or relationship provider. Similarly, investors are likely to expect some bold strategy to increase returns on their investment, which may curtail the ability to 'pick-and-choose' as Patchwork Partners attain critical mass. They may thus choose to grow towards the Portfolio Partner approach with select clients, or to build more significant catastrophe lines with other clients, in a bid to become Deal-making Partners.

Blanket Partners: As one of the original strategic types, many traditional Blanket Partners have evolved into Portfolio Partners with the growth of technology and modelling. Given their strength in managing relationships and understanding line-integration, this may be the main trajectory for Blanket Partners to capitalise on their knowledge of clients and markets.

Portfolio Partners: Portfolio Partners experience the greatest 'lock-in' of any strategic type. It is hard to step away from an ingrained approach to whole-account relationships, as cedents are sensitive to any 'wavering' on the part of their key account providers, while competitors hover, ready to move into any openings made by a breakdown in these relationships. Thus, the sunk costs in technical and market infrastructure, distribution channels and relationships tend to establish a level of strategic inertia with existing business. Nonetheless, such players may be able to operate differently through different offices (for example, some of their offices in emerging markets may operate as Blanket Partners). Similarly, because of their depth of resources and infrastructure, such players are well positioned to experiment with new product development.

2. Mobility: why and how reinsurers might change strategic position (cont.)

Study Question 2

- (a) In your reinsurance company, or one you know well, is there a type of deal which is avoided? What shift(s) along which axis or dimension (line-integration, analyzability, or relationships) would the company have to make in order to consider such deals?
- (b) Are such deals appropriate to a company in a different strategic group? If so, which group - and can you give an example of a company in that group, making such deals?
- (c) Continuing to think about the kind of shift considered in (a), what are the barriers to mobility involved in this company making that shift?

3. Implications of strategic group analysis: how reinsurers can take charge of their future

There is no 'best' strategic type and no best strategic position, as each is based on different perceptions of profitability, has a different risk appetite, and competes for different priorities.

Today's reinsurance industry is a highly concentrated market, where the four largest firms capture a 47.3% share of the market's value, in terms of the gross written premium ceded. The amount of total premium written has remained relatively static: in the last five years it has grown by only 1.2%.

The vignette which opened this Masterclass pointed out that firms are moving to Zurich as they hope for profitable opportunities in the European market. Right now, however, Europe is in decline. Ten years ago (2002), North America accounted only for 27.2% of the market value, while the largest percentage of premium ceded, 55%, was concentrated in Europe.¹² Today, the landscape has been turned upside-down as only 37% of premium ceded is concentrated in Europe, while the Americas, with a total percentage of 51.3% of the market value, are the largest geographic reinsurance market. By moving to Zurich, firms are increasing the number of reinsurance competitors in a declining market. Such moves do not typically make good competitive sense. These companies' hopes are based on projections of growth in an emerging market - Eastern Europe - and on increased requirements for reinsurance as a result of Solvency II regulation - which has been much delayed.

Whether or not reinsurers gamble on future sources of premium, they have two alternatives: (i) stay in their current strategic group and focus on honing their strengths, in order to be the best within their group; (ii) move towards other strategic positions in order to minimize weaknesses, thereby improving competitiveness.

Our analysis of strategic groups and mobility allows us to hypothesize why each strategic type would like to move. In today's market with its scarcity of new premium:

- A **Blanket Partner** would move because it recognizes the relevance of technical analysis in an increasingly model-driven market.
- A **Portfolio Partner** would consider divesting some lines of business as part of reducing exposure to business of relatively low profitability, as opportunities for significant premium appear to be concentrated in only a few regions and lines of business.
- A **Patchwork Partner** would decide to emphasize one of the three dimensions to establish a more defined strategy in the hopes of increasing access to business.
- A **Deal-making Partner** would consider greater line-integration as a way to satisfy ratings agencies and generate more opportunities from their existing long-term relationships.
- A **Price-taking Profiteer** would move towards more relationship-focused business to remain competitive in softer cycles.

A reinsurer wishing to make any of these changes in strategic position has to evaluate both the benefits and the costs of the move. In particular, they should consider where they stand on any of the three strategic group dimensions and the resources they can apply to a shift along these dimensions. To succeed and survive, firms have to consider how to manage the mobility barriers and how to integrate their business model with a new one.

Study Question 3

- (a) Can you identify a company which has made a strategic shift over the time you have been involved in reinsurance? What dimension and/or change of group was involved? Why was the shift necessary?
- (b) Within your company, or one you know well, what shifts of strategic group would be possible, or even necessary? Why? What barriers would inhibit that shift?

¹²Global reinsurance, industry profile. Datamonitor. 2003.

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- Fit for purpose? How to tailor reinsurance products to insurance industry lifecycles
- **Winning the game:** How to identify reinsurance rivals and spot growth opportunities
- Be a better reinsurer: How to align structure, knowledge and roles for operational excellence
- Strategic reinsurance relationships: How to evaluate information and build trust
- Intelligent matchmaking: How to maximise value from broking
- Imagining the future: How to stay ahead in the reinsurance game through scenario planning

The aim of the Global Reinsurance Masterclass Series is to support (re)insurance and broking companies in analysing their position and improving their competitiveness during a period of global change. They are based on in depth analysis of a global reinsurance data set, supplemented with analysis of secondary data and findings from complementary industries.

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In 2002, City University's Business School was renamed Sir John Cass Business School following a generous donation towards the development of its new building in Bunhill Row. The School's name is usually abbreviated to Cass Business School.

Sir John Cass's Foundation

Sir John Cass's Foundation has supported education in London since the 18th century and takes its name from its founder, Sir John Cass, who established a school in Aldgate in 1710. Born in the City of London in 1661, Sir John served as an MP for the City and was knighted in 1713.