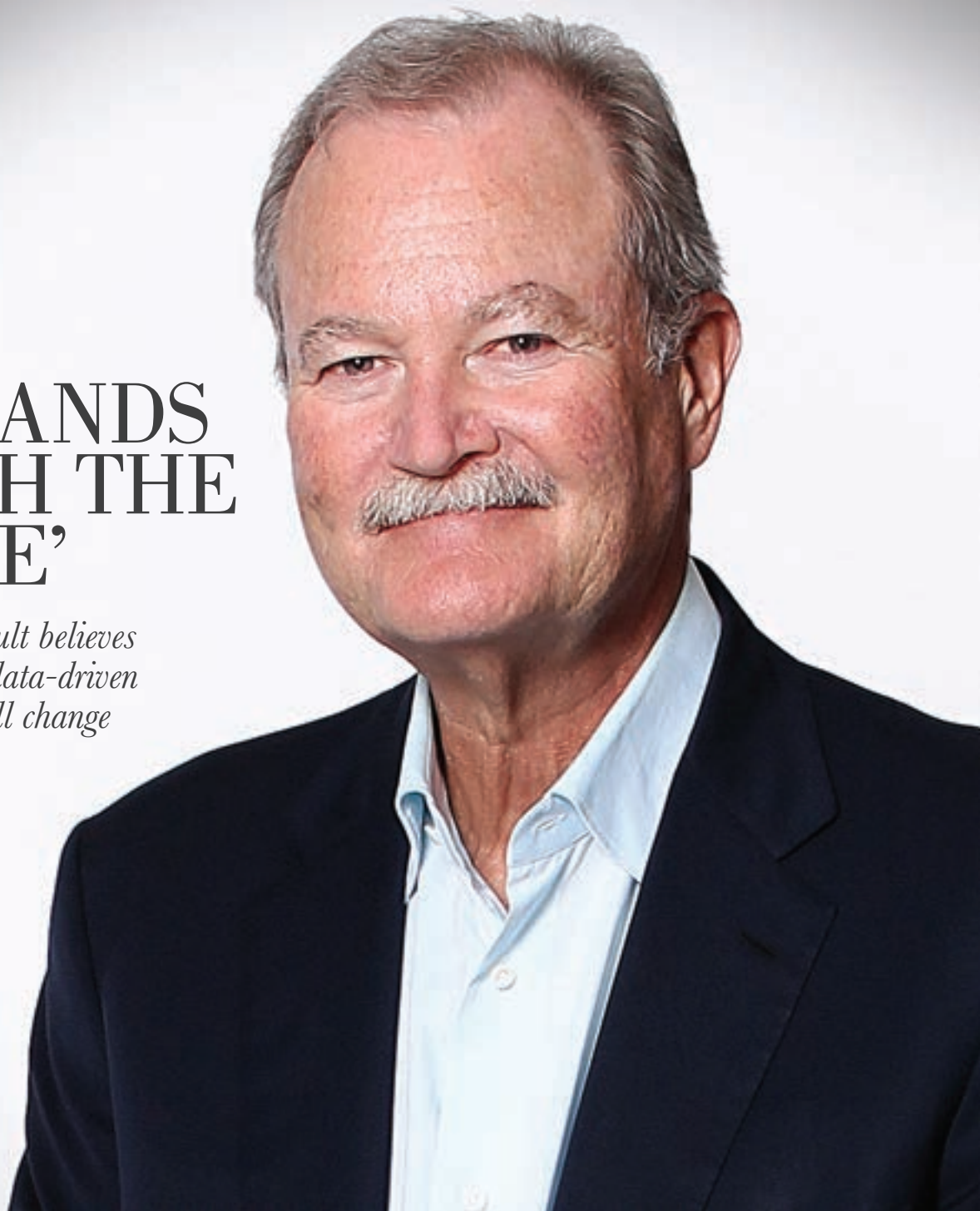


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# INTELLIGENT INSURER

## ‘NO HANDS TOUCH THE TRADE’

*Brian Duperreault believes  
technology and data-driven  
underwriting will change  
the industry*



#### WHAT IS BIG DATA?

*Just a trendy buzzword or can  
its use revolutionise the industry?*

#### PLOTTING M&A MOVES

*The industry is overdue change:  
expect consolidation in 2015*

#### US/BERMUDA AWARDS

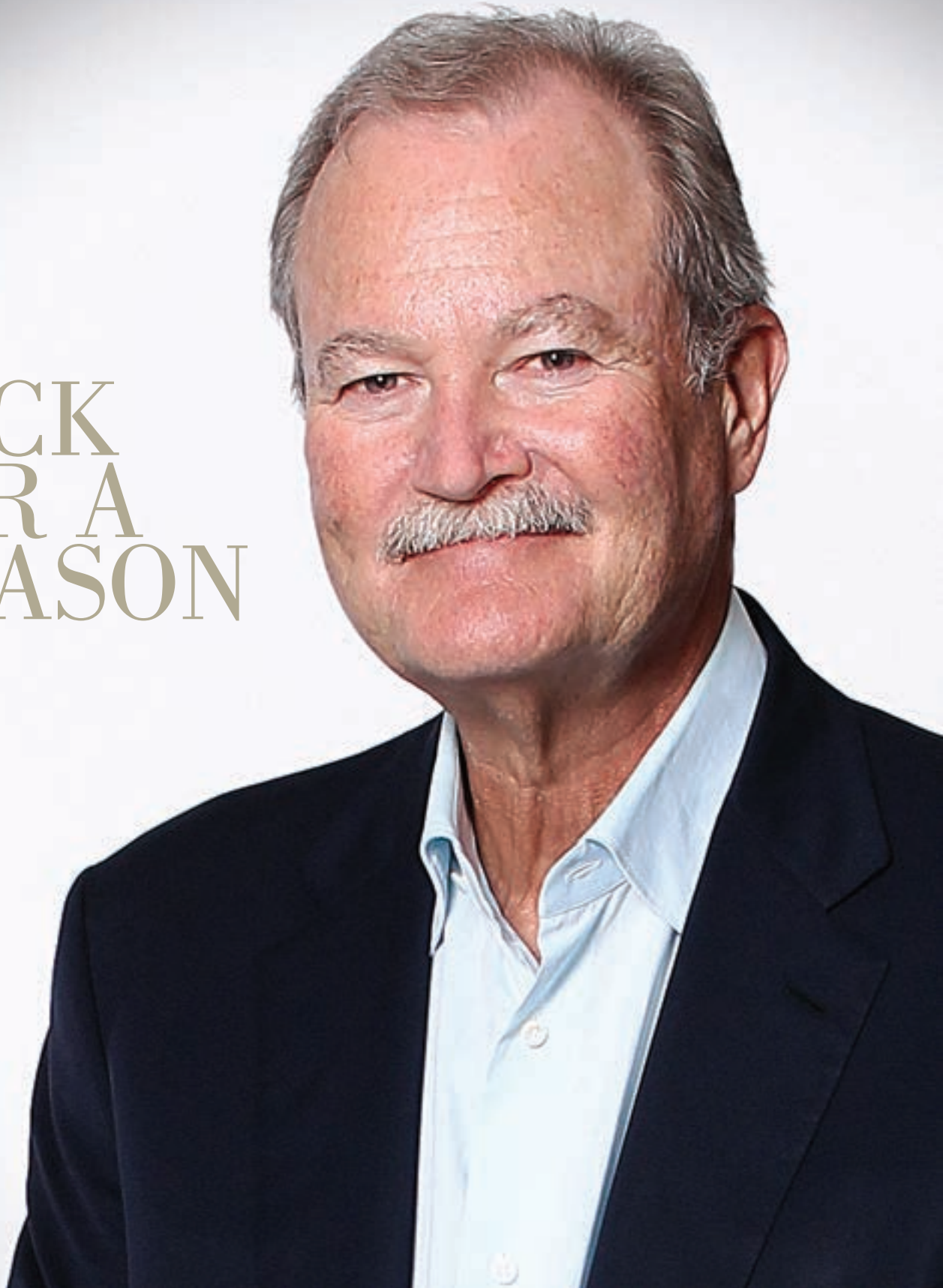
*The most highly rated reinsurers and  
brokers in the US and Bermuda*

#### ONE SIZE CAN'T FIT ALL

*Why the drawbacks of ILS deals are  
making some cedants reconsider*

Interview: Brian Duperreault

# BACK FOR A REASON



*It would always have taken something special to convince Brian Duperreault to come out of retirement for a second time—but he believes he has found just that in Hamilton Insurance, as he explains to Intelligent Insurer.*

After a remarkable career in insurance that has spanned more than 40 years and included spells running global brands such as ACE and Marsh & McLennan (MMC), Brian Duperreault could easily be forgiven for seeking an easier life now—reflecting on his achievements and enjoying his hard-earned wealth, perhaps.

Yet, as with many truly successful business leaders, retirement and Duperreault are not natural bedfellows. He has tried to retire several times—first he was lured back by MMC; this time it has been by a technology investment company that promises to deliver a new slant on an old industry.

Two Sigma Investments is a New York-based hedge fund that uses a variety of forms of technology including artificial intelligence, machine learning and distributed computing to inform and drive investment strategies. In a nutshell, it tries to remove the potential for human emotion and error from investment decisions, and it has been very successful employing this strategy so far.

Two Sigma Investments approached Duperreault some two years ago. The fund was interested in how its technology-driven approach might be applied to the insurance industry and felt Duperreault could be a perfect sounding board and potential partner on such a venture.

They quickly got his attention. “When I met them I was pleasantly surprised by what I learned and their take on the insurance industry,” Duperreault says. “I quickly realised that their approach and the use of

technology more generally has the potential to reshape insurance. These people are very good at what they do. I wanted to be part of that.”

Initial discussions were fast-forwarded, however, when the opportunity came up to acquire the former SAC Re. Despite the extremely competitive conditions in re/insurance at the time, the partners moved decisively. The deal was done in December 2013 and Hamilton Insurance was born.

### SEIZING THE DAY

Duperreault sees no problem in starting a re/insurance venture in what many describe as the softest market the industry has seen in decades. If the idea is sound, the business model robust and the right people recruited, he believes any venture can succeed regardless of timing.

“We had discussed a time frame but then the opportunity to acquire SAC Re came up and we brought the time scale forward by about two years,” Duperreault says. “I get the question about the timing a lot but why not now? If you feel you can do something well and make a difference, market conditions should not hinder that.

“In that sense, there is never a right or wrong time to start a business. This industry has been my life’s work. It is all I know and there is no time like the present. I had been pondering a start-up and I believe we have an exceptional mix in Hamilton of people, ideas and business partners. There will always be business opportunities in any part of the cycle. On that basis, I believe we will do very well.”

*“Even for a start-up, there is a lot of data we can get our hands on and use. I am very excited about what might be possible.”*

Duperreault’s confidence stems from the cutting edge he believes the involvement of Two Sigma Investments will give the venture. He can build a solid and well-run re/insurance operation—his track record, expertise and contacts will ensure that. But he believes the involvement of Two Sigma Investments will take Hamilton to another level.

First, he stresses that Hamilton will benefit on the investment side, given their track record in applying data analytics to asset management.

“That is the first benefit of having Two Sigma Investments as a business partner: they are deep in on the investment side. They use technology to get superior returns and that means we are blessed with that as well,” Duperreault says.

The true benefit of the partnership could take longer to emerge but be more profound. The two companies are developing methods by which the technology-driven investment strategy developed by Two Sigma Investments can be applied to the world of insurance and risk-transfer.

“The next stage is to develop technology that can be applied to insurance. It would use data management, data analysis and algorithms and apply this methodology to elements of insurance such as underwriting, claims management and other areas,” Duperreault explains.

“The idea is to help us make better and more informed decisions about how to manage and what to charge for risk. The process will be the same as they use on the investment side but applied to a different industry.

“The insurance industry is very rich in data; it is just a question of collecting it and processing it in a more efficient manner. When Two Sigma invests, they work on the basis that ‘no hands touch the trade’, meaning that everything is driven by technology and maths and data.

“That is where we would like to get to on the underwriting side. It is about assuring the accuracy is there and that we have the mechanisms to make decisions about risk in a more efficient way. Even for a start-up, there is a lot of data we can get our hands on and use. I am very excited about what might be possible.”

## AHEAD OF ITS TIME

Duperreault believes the potential for real innovation in the industry lies in primary insurance. While US operations are being established under Hamilton USA CEO Conan Ward, Duperreault is setting about building a well-run reinsurance company along more traditional lines—albeit with a better than average investment performance guaranteed in the background.

He has started writing business through the Bermuda-based Hamilton Re. Duperreault attended the Monte Carlo *Rendez-Vous* in September, meeting cedants and drumming up business, working alongside the company’s chief executive Kathleen Reardon.

The company has also recruited some well-known names on the reinsurance side. Claude Lefebvre was the former head of casualty at Arch Reinsurance while Tim Duffin was a property catastrophe underwriter at Platinum Underwriters, focusing on the US account and outwards retrocession purchases.

Other individuals bring a wealth of experience and connections to the company in other ways. Bob Deutsch, Hamilton’s chief strategy officer, was a founder and the chief executive of Ironshore; David Brown is the former chief executive of Flagstone Reinsurance; and Sandy Weill, the chairman of Hamilton Insurance, is the former chief executive of Citigroup.

This extraordinary team of experience mixed with some of the younger talent in the company represents an attractive proposition for cedants, Duperreault says. They are intrigued by the technology offering the company is developing but also happy to do business for now on a more traditional basis.

“For now, the only area we are taking on premium is on the Bermuda reinsurance side,” he says. “But we are finding that cedants want to operate with new trading partners as long as they feel there is the expertise and experience there to really help them. You can’t just be a capacity provider any more.

“We certainly have that added benefit through the quality of our team. We have experts to offer and people want to work with them. The clients value the talent we have and see us as a good trading partner with potential other benefits through the technology further down the line.”

## SEEKING GRITTY DETAIL

The true benefits of a technology-driven approach will be felt on the insurance side to a greater extent than on the reinsurance one. Being closer to the risk would benefit this approach, he believes.

“You can find useful data in almost anything these days—it touches everything we do from buying airline tickets to buying insurance. We will not find the perfect formula straight away but I believe we will start working out what is possible on the insurance side first. We will experiment with different lines and different geographies and see what works.”

In terms of starting to write insurance, he believes the company will have several platforms up and running by 2015. It is in the process of securing a US licence to write business by acquiring a shell company and it is in negotiations that would see it acquire its way into the Lloyd’s Market—giving it the global distribution mechanism that comes with that.

Forty years in the business has given Duperreault the benefit of patience, however. He says he is in no rush to do everything at once. Setting up the US and Lloyd’s platforms are big undertakings for the company and they need to be done correctly before the firm can think about the future too much.

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“I am a patient man and I recognise the reality of the world,” he says. “We would like to be trading in both markets in 2015 but there is no rush—we will do things right rather than quickly. They are big steps for us—we want a strong base in each and then we can start thinking about building premiums.”

He is also careful to stress that the company will never apply a one-size-fits-all approach. The market has changed, he says, away from a simplistic model of hard and soft markets to a far more dynamic and complex picture better suited to more selective and sophisticated re/insurers such as Hamilton.

“You will never remove the cyclical nature of the market completely—it is the very nature of what we do,” he explains. “We are trying to put a price on an event that has not happened yet. No matter what models you use, that is fundamentally true. And in such a scenario there will always be room for discretion on pricing.

“So if you have a few years without a loss, what do we do? Do we just keep all the money or—due to competitive pressures—start giving some back to clients? We do the latter, of course. That means the price gradually creeps down until there is a big loss. At that point, all bets are off. Pricing corrects itself and the cycle starts again.

“The cycle will never change until we somehow have a crystal clear view of the future, allowing us to accurately price it—and that can never happen. We

are betting on the future yet in a much more complex way than a traditional bet. And that lends itself to the ebb and flow of pricing and capital.”

But there is not one global market affected by one seismic event, Duperreault says.

He notes what has happened after some of the larger catastrophe losses of recent years including the Japanese and New Zealand earthquakes where pricing adjusted in those specific geographies and for specific risks but there was little impact on the wider markets.

“Capital is never really wiped out, it just withdraws until there’s a reordering of knowledge. That is often the case after a big loss and it is usually because there was something in that loss that was unexpected and not forecast by the models. That was the case with the Japanese earthquake where no-one foresaw the full effects of the tsunami.

“So you will see parts of the markets harden and soften on this basis. The aviation business has seen rates increase after some big losses, for example, but that has not led to a universal hardening.

“In fact, much of what we are seeing in the market now is driven by better modelling and the way people use that. It means that different risks can be assessed individually and without connection to the wider pricing environment. What we are planning could take this logic to a whole new level.” □

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