Platform for growth

Pat Ryan tells *IQ* how Lloyd's will play a central role in Ryan Specialty's European MGA expansion plan

At last year's reinsurance *Rendez-Vous* in Monte Carlo a benign hurricane season, recovered balance sheets and the absence of major industry events allowed tongues to be freed up for idle chatter around the coffee tables of the Place du Casino.

And featuring heavily among the topics of conversation was the rebirth of an industry icon.

With a high-profile assault on the US wholesale broking sector under way, Pat Ryan had already made his presence felt on his return to the market.

But while rumours had been circulating about the Aon founder's plans to grow his new Ryan Specialty Group (RSG) venture across the Atlantic, little was known about his international strategy and its ultimate end-game.

Occasional sightings of former Beazley executive Johnny Rowell – designated as Ryan's right hand man in London – had started chatter about a potential Lloyd's start-up, while the recruitment of a trio of HCC Europe alumni pointed towards a Continental foray.

A year on, the picture is beginning to become clearer.

Although RSG has matured at a faster rate in the US, solid roots have now been put down in London with a deal to buy Jubilee for around £35mn agreed earlier this year.

Ending a protracted pursuit for a way into Lloyd's, the deal also positioned RSG as the first broker to own a Lime Street syndicate in more than 30 years.

Under the radar, the start-up has been active in the managing general agency (MGA) space in London as it looks to build out its distribution platform in EC3 and Europe.

So it was that *IQ* headed out to the humid heat of Chicago in early August to track down Ryan and establish just how the firm's international presence is being pieced together.

A new incarnation

Sat on the 20th floor of the Aon Center looking out over the city's Millennium Park it is hard to disentangle the path of RSG from that of the company Ryan built to become the world's largest (re)insurance broker.

We are in the offices of Aon, a firm in which Ryan continues to own a significant investment and with which RSG and AmWINS have just been named as exclusive US wholesale partners.

It might be tempting to think that RSG will simply become the wholesale arm that Aon has lacked since the post-Spitzer sale of Swett & Crawford; or that with an international blueprint Ryan is looking to mould his new project in the image of the platform he spent 44 years building.

However, Ryan is adamant that his new incarnation will be very different.

It is his firm belief that the big three – Aon, Marsh and Willis – will not go back into the wholesale business in the US. "There was a new model created in 2005. In my opinion those days are past," he says.

Nor, despite his pride in playing a major role in the building of Aon Re (now Aon Benfield), is Ryan interested in re-entering the reinsurance arena as a broker, in treaty or fac.

"I love the reinsurance business, but I want to work with reinsurance brokers and not compete with them."

That theme of not wanting to compete with clients extends to London, where RSG will not be embarking on a wholesale broking model that would see it rub up against the Lloyd's broking arms of the big three.

Instead, his strategy stands on four main pillars – or legs of a stool as he likes to put it: wholesale broking (where not in competition with clients); MGA start-ups and acquisitions; risk-carrying via Lloyd's and providing "other services" to agents and brokers.

Ryan admits that the biggest growth opportunities currently exist in the US, where buyers are driving the wholesale market as much as sellers are in the MGA arena.

So what of the international opportunities?

In wholesale broking, RSG will look to Latin America as well as certain European countries where it does not compete with its retail clients from other geographies.

But it is the firm's plans for Lloyd's and the potential to grow its MGA platform from there to Continental Europe that gets Ryan fired up with enthusiasm.

> "I look at the MGA strategy as one of fulfilling a need in a specialty line, then having the ability to get access to the distribution"

"That opportunity is outstanding, hence our Jubilee strategy," he proclaims.

"The UK happens to be the regulatory domicile, but while some wait for the business to come to them, others go out and get it by moving their company into other jurisdictions. That's what we'll do."

For RSG, Lloyd's long history with coverholders provides the perfect opportunity to operate both as a risk taker and as a facilitator by bringing risks to be written by its peers into the market through MGAs.

"The percentage of underwriters in Lloyd's that know, appreciate and respect the MGA as a way of doing business is much higher than in the US, Europe or Latin America. We don't need to change that in the US, but we hope to do so in Europe and Latin America," Ryan explains.

According to Ryan, taking risk on a Lloyd's platform via its own MGAs is not in conflict with RSG's aims to avoid competition with clients.

"It looks like it's a conflict, but we really believe that Lloyd's is a unique franchise in that you get 200 cross-jurisdictions of authority, of which the US is just one. It's a unique opportunity to be creative – not in a competitive way but in a complementary way to carriers and on behalf of retail brokers," he says.

The industry veteran points to the scenario where a niche opens up for an MGA in a line of business or geography in which there isn't a local carrier prepared to fill the need as a risk carrier.

"We can do that, say take 10 percent, and then syndicate it back into London so that many of our trading partners become involved and it becomes accretive. That creates a multiplier effect back into London.

"It could come from Asia, the US, Latin America or Europe –

it's about facilitating opportunity rather than being competitive. I've explained that to several of our good friends – important London leaders, and they like that," reveals Ryan.

There are limitations imposed by Lloyd's on RSG's dealings with Jubilee that mean only 20 percent of its book can come from related parties.

Ryan explains that there is an agreement in place with Lloyd's franchise performance directorate that the firm will "be very cautious" in growing Jubilee beyond its 2011 capacity of £127mn.

"We will not look for much growth at all in 2012 and prove to them that the house is in order in relation to regulatory, financial and operational before we look to expand," he says.

Prologue to Euro growth

Expansion in Europe through MGAs is under no such constraints, however.

Although he acknowledges that there hasn't been a great history of MGA relationships between Lloyd's and Europe, Ryan believes "the past is not necessarily a prologue".

And in his eyes, the recent relocation of carriers – particularly from Bermuda – to Dublin and Zurich need not present a barrier to an MGA strategy.

"I look at the MGA strategy as one of fulfilling a need in a specialty line and then having the ability to get access to the distribution.

"As carriers are looking to expand, should they set up an infrastructure or have an MGA relationship that gives a variable cost as opposed to infrastructure costs? I believe the latter," Ryan suggests.

Rather than targeting expansion geographically by setting up offices in key European territories, the focus of RSG's MGA strategy will be dictated solely by niche opportunity in specialty markets.

"Fundamentally it comes down to whether there's a need for a specialty approach and talent, and whether we can differentiate ourselves with that talent and reach into the distribution system to get the quality of exposure we need.

"I think the answer to all of those is yes, but on a very 'rifle shot' basis," the firm's founder explains.

In the company of Ryan it is impossible not to admire his hunger for the industry and his focus to prove that he can create and build a high quality business again.

And it is in Lloyd's that Ryan, the ageless entrepreneur, identifies kindred spirits.

"One of the great things about the insurance business is that it's so fragmented and that creates many opportunities. In an environment such as Lloyd's where so many syndicates are founded by entrepreneurs, entrepreneurs can become important," he concludes.

> "I love the reinsurance business, but I want to work with reinsurance brokers and not compete with them"

From private Ryan to public?

Progress at Ryan Specialty has been rapid. With 14 months of revenue now booked for a total in excess of $1bn, RSG expects to have its full organisational structure in place by early 2012.

Founder Pat Ryan also expects an injection of third party investment into the business early next year, supporting expansion that has so far effectively been financed out of his own pocket.

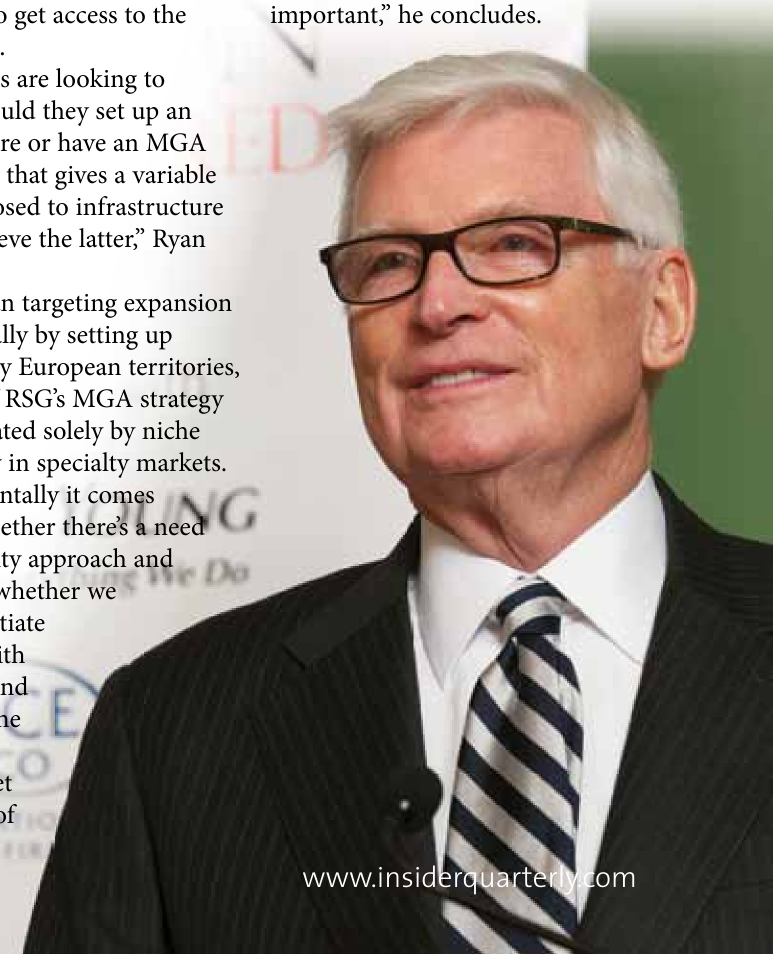
Initially the industry veteran is talking with "family and friends – people that know us", rather than institutional investors. But institutional investors are not being ruled out, depending on timing and the state of the financial markets.

"If the markets were terrible early next year and people had lost a lot of money in their portfolios, making the family and friends deal less robust than it might be, then we may add professional investors who've got funds and are anxious to put them to work," he explains.

At this stage, the expansion strategy does not include a fixed journey towards a public window for the company.

"We're trying to build a company that's in very high cash flow businesses that will be able to give investors a good deal, and periodically be able to recap to allow people who want to be able to get liquid on all or part of their investment to do that.

"If it's right at some time to take it public we'll do that, but I don't want to say it will be in five or seven years because too often that doesn't work out," he says.



Testing the water

IQ talks to two leading cedants about their reinsurance expectations ahead of the Rendez-Vous de Septembre

***IQ* caught up with senior figures at two international insurance groups to get the view from both sides of the Atlantic on what reinsurance buyers make of the current market and their expectations of reinsurers.**

***Insider Quarterly* (*IQ*):** How important is reinsurance protection to your business model?

Timothy Mitchell (TM): At RSA we are quite conservative in our risk appetite, and as such are a large buyer of reinsurance. As the UK's largest commercial insurer the risks we write are large and varied.

Britton Glisson (BG): We consider reinsurance a critical piece of Markel's business model due to our desire to cover property catastrophe exposures and offer our customers limits greater than our per risk appetite. We also derive value from the expertise of our reinsurance partners.

***IQ*:** How does this importance fluctuate with the market cycle?

BG: Market cycles have relatively little impact on our reinsurance buying strategy. We have been steadily increasing our retentions for the last several years despite the soft market.

TM: Reinsurance is always the biggest risk-mitigating tool for an insurance firm, regardless of where we are in the cycle. While the market cycle obviously plays a role in reinsurance pricing, we expect to be treated individually by reinsurers on our own merits.

***IQ*:** Would you advocate more frequent/more in-depth data sharing and interaction between insurers and reinsurers? Why?

> "Reinsurers need to better align their operations to how their clients wish to purchase reinsurance"
> **Britton Glisson, Markel**

TM: We already share in-depth data with our reinsurers. I am not sure more frequency is necessary.