

Growth in reinsurance fronting

Citadel has found a niche helping small to medium sized players, as CEO Tony Weller and director Mike Palmer explain.

Fronting is a tried and tested mechanism allowing insurers without licences to write business they could not otherwise entertain. It is less common, but the same also occurs in reinsurance. Often, reinsurance fronting transactions are actually bespoke deals and involve only moderate amounts of risk transfer.

Tony Weller, chief executive of Citadel Risk, which is rated A- by AM Best, said the company is seeing a lot more requests to front business for other carriers.

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“We are unquestionably seeing transactions we would not be seeing if it were not for our rating,” he said. “This does not seem confined to any geographic segment. It is constrained only by our own international reinsurance licences, although we have become quite adept at applying for and procuring licences.”



Tony Weller



Mike Palmer

He says that opportunities often emerge because a cedant's preferred reinsurer has a rating constrained by a sovereign rating. Using Citadel can result in a positive upwards change. The reinsurer tends to specialise in helping small to medium sized players—a sector that does not garner much interest from the bigger carriers.

“Smaller and medium size cedants are just as interested in this kind of transaction, but it may be of little interest to other A- or better carriers as they believe the premium volume is not sufficient. Small deals, given time, often become better ones with prudent underwriting and some patience,” Weller said.

Mike Palmer, director of Citadel Risk, added that many deals are never disclosed. “Sometimes anonymity will be required on a transaction, because a cedant does not want the market to know who the reinsurance is with, or the reinsurer may not want the cedant to know who is ultimately bearing the risk—again, for competitive reasons. In all cases, we have to make sure that the rationale is legitimate.” ■