

Allianz Re to mirror group's growth

Allianz has a comprehensive footprint across Asia, with its risks managed by a centralised buying strategy, says Amer Ahmed of Allianz Re, which manages the reinsurance programme for the Allianz group.

After consolidating and shrinking its reinsurance-buying programme, Allianz Re's reinsurance-buying pattern is now set to follow the expansion of its primary operations, according to Amer Ahmed, chief executive of Allianz Re, which manages reinsurance for the Allianz group.

Allianz has spent many years combining the reinsurance cover of its regional subsidiaries which now no longer buy reinsurance from third parties.

"We took advantage of our diversification across regions and businesses," Ahmed said. "Economically it was a smart move and we are also better protected than in the past."

The consolidation of the group's reinsurance needs within the group has resulted in a significant reduction of Allianz's cessions to third parties.

"We have probably come to the end of that process. What we are buying now is primarily driven by group appetite and I expect that to be relatively stable going forward," Ahmed said.

While there is always some fine-tuning from one year to the other due to organic growth or acquisitions which may need to be reflected in the reinsurance programme, there is unlikely to be any significant change to the overall programme, he explained.

Generally, Allianz expects pricing in the January 2019 renewals to be relatively stable as capacity remains high and there have not been any significant major losses.

"There is not much that could drive upward pressure. We will see the continuation of a relatively stable pricing environment, maybe with a minor downwards drift," Ahmed said.

While reinsurance rates are expected to remain fairly attractive from a buyer's perspective, that would not motivate Allianz to transfer more risk to the reinsurance sector.

"Most of the reinsurance we buy is driven by strategic risk management, and if the price moves up or down a little, it does not tend to change that," Ahmed explained.

He expects that conversations with reinsurers in the upcoming renewals season will focus on understanding any changes in



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the underlying exposures or in the models, and the extent of any potential loss activity.

Managing floods

In 2018 the Asia-Pacific region has experienced devastating floods in the southern Indian state of Kerala, Typhoon Mangkhut hitting the Philippines and China, and Typhoon Jebi causing widespread flooding in Japan, as well as an earthquake and tsunami in Indonesia.

While these events may not have triggered major insured losses, they have been sizeable events, Ahmed noted.

"These are likely to be topics that will be on peoples' minds at renewals in the region. In addition, reinsurers will want to discuss the treatment of cyber in the insurance portfolios," he said.

Ahmed does not rule out that Allianz may look into transferring more risk to capital markets in the future. "This has become an ever more significant component of the market," he explained.

Insurance-linked securities (ILS) are bringing additional capital sources and

capacity providers to the marketplace, which Ahmed describes as a positive development.

"While we may not use it directly so much, some of our reinsurance trading partners will certainly have ILS capital backing them, so we are at least using it indirectly," Ahmed said.

The ILS market faced what is described as the first major stress test in 2017 after hurricanes Harvey, Irma and Maria (HIM) hit North America. But investors have injected fresh money into the alternative reinsurance segment after the losses, suggesting that the segment remains attractive and that capacity is readily available to transfer new risks.

"It certainly seems that there is enough interest from existing and potential new investors in that area," Ahmed said. While capacity remains abundant, there may be an opportunity to look into new risks that could be transferred via ILS, he suggested.

"The question is whether there is enough risk that can be made available to investors. That is where the opportunity for the insurance market lies."

The re/insurance industry has been pointing to the significant protection gap that exists in many parts of the world, in emerging economies as well as in developed markets. In the US, for example, the majority of flood losses from hurricane Harvey had not been insured.

"If we can find ways to protect society better, and generate more insurance coverage, then we have more risk that we can transfer into the ILS market. It should hopefully create opportunities to grow the pie of insurance risk," Ahmed said.

ILS may be an attractive and efficient source of cover for new risks as it is a relatively easy way to raise the required capital, while at the same time reducing the permanent capital held by insurance or reinsurance entities.

"We will continue to monitor how things develop. It's a segment of the market which is here to stay, and sooner or later we may use more capital from those sources," Ahmed concluded. ●

Amer Ahmed is the chief executive of Allianz Re.