INTERVIEW

Reinsurance renewals – It's about sustainability, not "payback"

Industry players have mostly managed to cruise along amid a tough investment climate and excess capacity, thanks to benign loss activity over the past several years. But **Allianz Re** CEO **Amer Ahmed** says changes are due, particularly in pricing, if the reinsurance market is to survive.

By Dawn Sit

Abundant capacity, from both traditional and non-traditional sources, as well as relatively light loss activity have led to a downward trend in reinsurance rates globally over the last few years. But the natural catastrophe events in the last several months of 2017 could – and should probably – change things.

Pricing adequacy underscores industry's sustainability

Price adequacy, Mr Amer Ahmed shared, is a key concern for the overall health and sustainability of the market, and it "has been squeezed for a number of years".

While industry players have mostly revealed satisfactory balance sheets, the global reinsurance market's underlying health is not all that rosy and one cannot overlook the fact that pricing levels in "some parts of the world and certain business sectors" have not been sufficient.

With the occurrences of major events like hurricanes Harvey and Irma in the US and the Caribbean quakes, reinsurers are likely to face a tough financial balancing act, particularly with the significant loss estimates recorded.

2017 events' impact on rates undetermined

Clearly, the results of reinsurers will be impacted and the next question that follows will be how the market will react – which is unclear at the moment. "Obviously in markets directly affected by the losses, one would expect a reaction. But what is not clear, is how far-reaching and wide-ranging that impact might be," he said. The blow to Allianz Re however, is not expected to be especially notable, given its relatively smaller exposure in the US market.

"We probably won't see softening in any place but how much hardening of rates there will be, is difficult to tell. Not only is it a supply and demand issue, it's a question of up to what level capital is willing to be exposed."

Segueing to Asia briefly, he noted that the CATs in the region may not affect renewal rates nor reinsurers'

financials as much, given the massive under-penetration. "It's not necessarily a good thing when we see these economic losses not impacting (re)insurers much because we're missing our reason for being here."

One thing Mr Ahmed emphasised in lieu of the renewal season, is that industry stakeholders – whichever markets or regions they may be – should bear the greater purpose of reinsurance's existence in mind.

"I hear comments for example, that Asia should not be paying for the losses for the US, and I can understand that to a degree. But it's got to be taken into context, which for me, is twofold."

"We're all in it together"

The first is that the reinsurance marketplace is a global one, and while there are variations in regional dynamics to some degree, everyone benefits from the global spread of risk. "So we enjoy that benefit, but when there's a shock to the system, there's also bound to be some ripple effects across the whole market."

Secondly and crucially, it is not about payback; rather, it is about rates being adequate and sustainable, he reiterated. In those classes of business or market where rates are already inadequate, the added blow of loss events inevitably reduces the ability or willingness for reinsurers to continue with under-priced covers. "Whether you're a buyer or seller, it's in everyone's interest to have a sustainable marketplace. And for a sustainable market to exist, the capital at risk has to have a reasonable return."

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"If we don't have that, then we're either going to face capacity shortages or more volatile pricing movements and reactions, neither of which will be good for the long-term health of our industry," Mr Ahmed said, adding that the reinsurer's role is to support its clients' needs, be they managing volatility or capital positions. "All we're asking for is a fair balance of risk and reward."

Regulatory sophistication, but also protectionism

Turning to challenges on the horizon, Mr Ahmed pointed to regulations. While regulatory frameworks have increased in sophistication in terms or risk monitoring and capital requirements, there also appears to be an inclination towards protectionism.

"Reinsurance is, and can only be effective as a global business. The cost of risk only mitigated if we take a global view, so if we put up national barriers, we are harming the nation involved. I can understand why [protectionism] happens, but it's ultimately flawed," he cautioned.

Further, as governing frameworks become more localised to individual markets, the chief executive said there remains great value in the establishment of global standards too. "It can be market-specific, but if we have a common global framework, then everyone will have a common yardstick, and this can only be a good thing."

He also expressed hopes for regulations to be designed around issues that fit the business. "If there are activities that are driven just for the sake of rules, will it eventually be a good thing? The more we can align regulations with the business, the better the quality and its impact will be.