Getting more risk covered

Allianz Re CEO **Amer Ahmed** believes that overcapacity should spur the industry to bring more risk into the reinsurance fold.

By Ridwan Abbas

Allianz Re expects that alternative reinsurance capital is here to stay for some time but while the additional capacity may continue to stifle rates, it also means the industry is in a position to ensure that more risk around the world is being covered.

"Insurance-linked securities (ILS) will act as a dampener to pricing levels in the near term and I believe overall pricing in the reinsurance market is not where it should be. There is a lot of capital looking for risk to invest in, and the best thing we can do is to bring more risk to that capital.

"A lot of the economic losses in disaster events remain uninsured so if we can find ways to bring those risk into the insurance market, it will allow societies to be more resilient in the aftermath of disasters," said Allianz Re chief executive officer Amer Ahmed.

Stable pillars of the business

Asia Pacific represents the second largest region for Allianz Re in terms of gross written premiums (GWP), accounting for 9% of its GWP in 2018. Western Europe still represents the bulk of business accounting for 84% of GWP last year.

As Allianz Re marks 20 years in Asia, Mr Ahmed told Asia Insurance Review that the region provides a unique opportunity for the reinsurer to acquire new business which complements the group's primary insurance portfolio.

"There are markets in Asia where Allianz is not present so it is attractive to acquire the business which the primary side has no access to," he said.

While Allianz Re's Asian portfolio has a proportion of 80-20 in favour of third-party business, the ratio is reversed on an overall group basis where the reinsurer's mandate remains to provide efficient reinsurance buying for the Allianz group of business.

"We have continually expanded the scope of reinsurance protection that we buy, but on a whole I expect the reinsurance programme for the internal group business to be stable," said Mr Ahmed.

"As for third-party business, volume is not a big driver for us. We are focused on serving the needs of our clients with whom we have developed a strong relationship and get access to quality risk."

He added that Allianz Re's unique value proposition for third-party clients comes from its technical knowledge as well as its ability to access other capabilities within the wider Allianz group.

Prudent approach

Catastrophe risk presents something of a conundrum for reinsurers bearing in mind that rates have risen in some areas, although significant catastrophe losses of the last two years - totalling $240bn - remain fresh in the memory. As a result, reinsurers that are too conservative may lose out on good business at a time of rising CAT rates, although overexposure may also prove disastrous as demonstrated in recent times.

"We have seen the market react in terms of pricing for some of the losses, especially in Asia. For Allianz Re, we try and take on risk which we understand well and which is adequately priced.

"There are areas where pricing is not where we want it to be, so even if there aren't any losses, we would still not go there."

On the whole, Allianz Re expects January renewal rates to improve in some segments of the market. "There have been meaningful losses in recent years and so there is reasonable expectation for some price increases in parts of the market," he said.

Commenting on the magnitude of loss creep that has been seen in recent months, Mr Ahmed said: "Each loss should make us a little smarter. For example there were some specific characteristics of Jebi, in terms of wind speed and areas it impacted, that previous experience didn't sufficiently reflect, so that is new information that we can build in for future scenarios."

Looking ahead, he believes the insurance industry will need to improve its efficiency by simplifying its products and processes.

"The development in technology provides us real opportunities to be faster, cheaper and to be more efficient and responsive to our customers. I truly believe it's something we have to do to prove that our proposition is value added."