

Reinsurance: Bracing for more volatility, higher returns

Allianz Re's CEO, **Amer Ahmed**, talks about the changing profile of the reinsurance business.

By **Ridwan Abbas**

Expect to see more volatility in the balance sheet of reinsurers as cedants seek cover for more high severity-type risks, said Mr Ahmed on the fundamental shift in reinsurance buying behaviour.

Noting the reduced demand for reinsurance as bigger players retain more on their books, he said the composition of risks flowing into reinsurance tend to reflect more extreme events which are low in frequency.

"The premium they cede is smaller but the risk is higher, so premiums for reinsurers are less but they are more profitable. So if the market works effectively, then reinsurers should be more profitable per unit of premium, but it will also be more volatile," he said.

A new normal

To borrow an oft-quoted phrase, the reinsurance industry is facing a "new normal" where there is excess supply of capital and reduced or stable demand at best from the primary market, said Mr Ahmed.

Touching on the supply side, he said: "Non-traditional capacity providers now understand insurance risk can be an attractive part of their portfolio, so I think they are going to be here to stay."

And as for demand, insurers are adopting revised capital management strategies which are changing the type and amount of reinsurance they purchase.

"Instead of buying by line of business or by company, they tend to buy for the overall group portfolio and that's a strong trend we see across the industry. So looking at it from a group's overall balance sheet compared to an individual company basis, you would need much less reinsurance.

"Even within the Allianz group of companies, we have reduced reinsurance buying by a few billion euros over the last eight years and we're not alone in doing that."

He added the change in supply and demand dynamics is not a cyclical trend but rather, a structural change in the market. "We've had a fundamental shift in the market, it may come back a little but not back to what it was a few years ago.

"We're seeing consolidation activity and in some cases, these are really strong companies with strong balance sheets which are choosing to merge, and I think it's a clear reaction to some of the changes that we've seen."

Implications

Looking at what the ongoing changes will mean for the various stakeholders, Mr Ahmed said shareholders would need to train their eyes on bottom-line results rather than top-line performance, going forward.

"The top line cannot be a driver in reinsurance: we have to accept that top lines will shrink and make sure share-

holders understand what that means. We have to be driven by the bottom-line and the key is maintaining profitability and also managing expectations in terms of volatility."

Given the soft market and low investment yields, insurers will have to find ways to diversify their portfolio and find the best mix possible, he said.

Mr Ahmed also added reinsurers need to continually add value by helping clients understand and manage risk even better.

"As a buyer, I'd want reinsurers who can help us understand our risk position and essentially bring risk intelligence to the table," he said.

Sustaining Asia's growth

While the reinsurance industry has to contend with changing market dynamics, it still has an important role to play, especially in Asia. For one, the industry has a tremendous capacity to help countries in the region become more resilient.

"The industry can do more to increase protection, and it's not just selling more policies to individuals, but helping governments and quasi government bodies build mechanisms that support a post-disaster scenario," Mr Ahmed said.

"I see a significant opportunity here for the industry to grow and help society."

Mr Ahmed believes through more private-public partnerships involving (re)insurers, the awareness for risk can be translated into sustainable solutions.

"It's by having more dialogue and being central to the broader discussion on resilience, and not insurance being an after-thought." 



Mr Amer Ahmed