Optimising efficiency of reinsurance capital

Mr Holger Tewes-Kampelmann

Mr Kenrick Law

As a global business, **Allianz Re** views the world through a very wide lens. We spoke to the reinsurer's **Messrs Holger Tewes-Kampelmann** and **Kenrick Law** to see where the opportunities and risks lie in the Asia-Pacific region and what the year ahead might hold in store.

By Paul McNamara

Global reinsurers have the benefit of being able to take advantage of favourable pricing in some geographies while deemphasising others. But the downside to being a global reinsurer is the prospect of being exposed to costly Nat CAT activity wherever it might happen.

To understand how Allianz Re views such market opportunities and threats, we spoke to CEO Holger Tewes-Kampelmann and regional CEO and head of P&C client management Kenrick Law.

Four pillars

The reinsurer views its business in four discrete areas. "The first is the internal pooling of our business from our sister companies and buying retrocession for that," said Mr Tewes-Kampelmann. "The second is about optimisation of capital and managing legacy liabilities. Number three is CAT management - and four is third-party reinsurance business. In Asia, a lot of what we do is around third-party reinsurance business."

In terms of the first focus, what caused challenges last year was Nat CAT in Europe. "Given that Allianz Re is pretty strong there, we have seen the highest CAT losses in Europe - and to some extent also in the US from the winter freeze," said Mr Tewes-Kampelmann.

"It was quite a high CAT load last year in our internal business. The programmes and tools which we put in place worked as expected, but it was really a test for our set-up, for the reinsurance structures that we had put in place," he said.

Return on equity

For Allianz Re, capital management focuses mainly on legacy liabilities, especially on the life side of the business.

"With low interest rates, you still have in-force liabilities that reflect higher yields," said Mr Tewes-Kampelmann. "While those liabilities don't end up with significant losses, you end up with relatively low-yielding capital, perhaps single-digit return on equity.

"Actively managing our capital by addressing those life liabilities has improved our return on equity," said Mr Tewes-Kampelmann.

"Another high point last year was our third-party business, which ended up with the best result in a decade with close to EUR100m ($108m)profit contribution," he said.

Traditionally, the reinsurer has had an 80/20 mix of internal business and external business. "Last year, our external profit contribution was more than a third," said Mr Tewes-Kampelmann. "This reflects that while there were Nat CAT challenges in Europe and the US, Asia, excluding Australia, has been a rather benign CAT environment - and that's why overall our results on the third-party side outperformed."

Looking ahead

Allianz Re 1 January renewals have been good so far. "Overall, we continue to see some growth in Asia," said Mr Tewes-Kampelmann. "Prices in Europe, as of 1 January, went up a lot. Price development in Asia, given the more stable environment and given that some price actions took place earlier, didn't go up to the same extent."

Overall, Mr Tewes-Kampelmann expects continued growth. "I think that our overall portfolio is good, and we have further opportunities, but it won't be a complete or significant change," he said. "We want to continue on our moderate growth plan and keep an eye on the margin, which seems to be moving in the right direction."

"We want to look beyond the 12-months horizon in working with our clients on optimising capital, with the increased relevance of return on equity. We see this requirement for Allianz sister companies around the world and we want to incorporate that into discussions with clients - to see to what extent we can work on targeted solution to improve their capital situation. I can see that some of those developments from the other parts of the world will, over time, also become more relevant in Asia Pacific," said Mr Tewes-Kampelmann.

Different markets, different pricing

How does Allianz Re respond when rates in different parts of the world diverge – with rates rising in Europe but not in Asia?

"It depends," said Mr Tewes-Kampelmann. "If you look at rates in Europe, which went up quite a bit, it also reflects the fact that prices were quite low to start with. So, it's a relative change."

Naturally, it is more complex than that. "The other question is to what extent it reflects what we see as a technically-adequate level," said Mr Tewes-Kampelmann. "There was some catching up in Europe because Europe benefitted from low cat activity for a long time and this led to relatively low cat prices. Given that we have an internal business in Europe, and because rates in Europe have been rather low, we haven't done third-party CAT business in Europe to a meaningful extent."

The technical-tactical overlay of Asia

"In Asia, it's more diversifying for us but, in relative terms, the rates in some developed markets were more adequate than those in Europe," said Mr Tewes-Kampelmann. "And therefore, we have underweighted Europe already. Depending on further rate developments, we might reduce the underweighting of Europe over time, while keeping in mind that we have a fair share of our internal business already.

"In general, we look at rate adequacy. We have to see if we have a more tactical, higher allocation to the one or the other - and that's what I would describe as a technical-tactical overlay.

"On top of that, there is a strategic risk allocation, which, given the business mix, will always lead to a higher share for us in Asia. Normally, we always will be higher in Asia - and that's the direction for third- party business," he said.

Political risk profile of China

Allianz continues to see China as an important market from a group perspective and especially so from an Allianz Re perspective, in spite of the country's recent moves towards 'common prosperity' that leave it unclear what place foreign financial services companies might play in the country in future.

"We have a significant presence in the Chinese market," said Mr Tewes-Kampelmann. "Allianz Group has the first 100% fully foreign-owned holding company established in China. We also have P&C and life entities in China."

"Over the longer term, from the Allianz Group perspective, we still see China as an important market. If you look at the GDP growth and look at the size of the market - by 2050, it will be the number one insurance market in the world. So we take a more long-term view on the market," said Mr Law. "Because the group has a long-term view on the prospect of China, we are committed to the market."

So the longer term view that Allianz Re has of China hasn't changed in the last year or so?

"Indeed, no," said Mr Law.

Would the regional position of Hong Kong changing in favour of Singapore have any bearing on Allianz Re business in the Asia-Pacific region?

"Allianz Re has a relatively lean operating structure globally," said Mr Law. "Singapore has always been our regional office for the past 30 years, serving the Asia Pacific markets. This operating model won't change in the foreseeable future. Our commitment to the region remains unchanged."