

Global reinsurance market is resilient, says IAIS

The resiliency of the global reinsurance market is noted in the latest IAIS GRMR. **Dr Sebastian von Dahlen***, Principal Administrator responsible for reinsurance at the Secretariat of IAIS, and **Dr Marcelo Ramella***, Assistant to the Chair of the IAIS Reinsurance Transparency Subgroup (RTG), tell us about the report which gives detailed data and analysis as well as market trends and developments and which encourages supervisory recognition.



Dr Sebastian von Dahlen



Dr Marcelo Ramella

Global reinsurers remain resilient amid financial crisis and...

The International Association of Insurance Supervisors (IAIS) recently published its annual overview of the financial condition of reinsurers, Global Reinsurance Market Report (GRMR) 2008.

Reinsurance market stability and linkages of the reinsurance sector as well as the impact of the current turmoil on the reinsurance sector are assessed within this IAIS report. Members of the IAIS Reinsurance Transparency Subgroup compile worldwide data as a foundation for the GRMR. On that basis, the report provides unique reinsurance related information and analysis in order to inform interested parties, including insurance and reinsurance supervisors, regarding the resiliency of the global reinsurance market.

...contribute to the security of individual insurance customers...

It was noted in the report that “reinsurance and, in particular, this annual GRMR are areas of high priority for the IAIS” and that the report indicates that “amid the ongoing financial turmoil, the global reinsurance market has proven relatively robust and resilient against direct shocks thus far, which has contributed to both the stability of the global insurance markets as well as ultimately the security of individual insurance customers”.

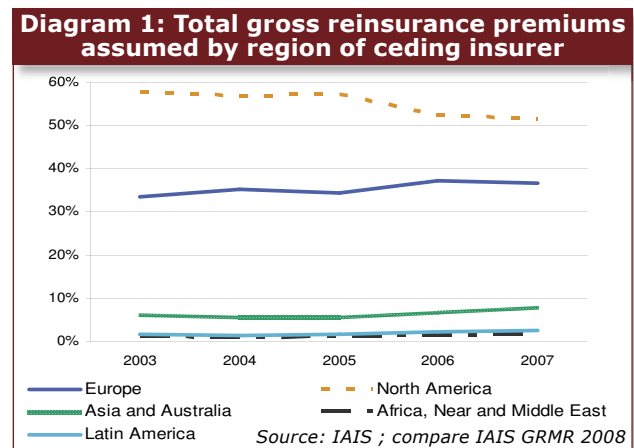
...provide shock absorbing capacity

Moreover, the report stated as a part of the preface of the IAIS report: “We can’t underestimate the role reinsurers play in the efficient functioning of the global insurance market through their shock-absorbing capacity, including against major reinsured natural catastrophes. ...This IAIS GRMR initiative has reconfirmed its value towards enhancing transparency in the reinsurance sector in relation to credit risk transfer and beyond in 2007/2008.”

GRMR time series analysis as a new feature

Initially the IAIS global reinsurance statistics were requested by the Financial Stability Forum (FSF). Over time, the GRMR has evolved from providing general reinsurance related data and analysis to including up-to-date coverage of market trends and developments. As announced by the Chair of the Reinsurance Transparency Subgroup, Mr Jeremy Cox, the fifth anniversary of the report was also taken as an op-

portunity to include some time series analysis in the GRMR 2008. One example is the following Diagram 1.



According to the IAIS report thus far, economies with high levels of insurance cover are the predominant buyers of international reinsurance coverage and hence participate in the worldwide diversification and sharing of risks.

However, the relative business share of other regions, has increased as worldwide economic development and interconnectedness progresses. Moreover, there were manifest differences in regional growth. Despite the fact that the share of the global market for Asia/Australia appears to have grown slightly, ie from 6 - 8%, the differences in growth rates are quite significant. Between 2006/2007, the Asia/Australia market increased 30% while the worldwide reinsurance market expanded by 10%.

As strong international reinsurers are important...

Reinsurers play an important role in the functioning of efficient insurance markets through their shock absorbing capacity, including coverage against major reinsured natural catastrophes. Following record losses in 2005 and despite some major catastrophes due to winter storms and hurricanes, both 2006 and 2007 were profitable years for reinsurers. In fact, 2007 was an especially profitable year for reinsurers, with some reporting the best results over the past five years.

As a result, the GRMR indicates that the global reinsurance industry has a solid financial base to face the challenges of the continuing financial crisis (Chapter I of GRMR).

... IAIS GRMR encourages supervisory recognition

In assessing linkages of the reinsurance sector (Chapter II of GRMR), the GRMR also refers to the IAIS efforts towards the mutual recognition of reinsurance supervision.

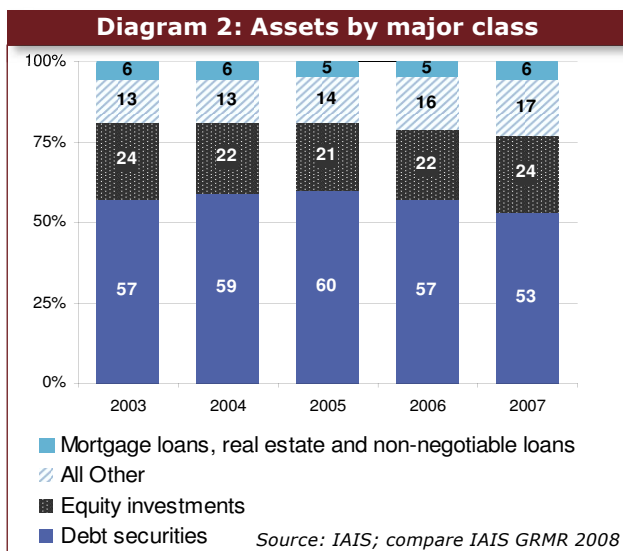
In particular, the long-term resilience of the reinsurance market stands to benefit from appropriate supervisory recognition approaches that may include unilateral, bilateral and multilateral structures. Such approaches could help to “remove significant amounts of unnecessary regulatory and supervisory requirements for reinsurers”, and to increase transparency by promoting the exchange of information among supervisors.

In other words, from a financial stability perspective, the ongoing financial turmoil should not lead to barriers but rather to the promotion of supervisory recognition approaches and reduced barriers in order to contribute to the long-term resilience of the global reinsurance market.

Assessing reinsurance market stability

Amid the financial turmoil, reinsurers’ investment profile provides some safety from market volatility, as displayed in Chapter I of the GRMR.

According to the GRMR, reinsurers mainly rely on fixed income products, along with real estate and high quality equities in line with their traditionally long-term and conservative investment patterns. Assets of reinsurers, it appears, were largely sheltered from the most severe effects of the turmoil due to the aforementioned traditional investment strategy. Assets by major class held in reinsurance companies are displayed in Diagram 2.



Rising loss burdens according to long-term trend analysis

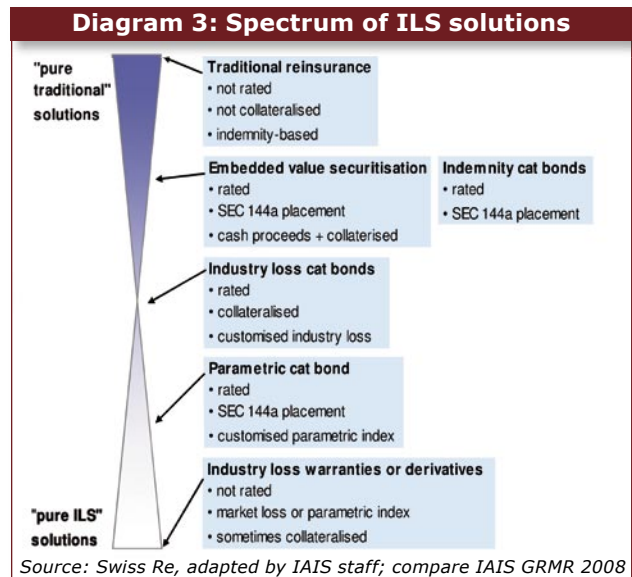
Despite the above-mentioned profitability in recent years, the long-term loss statistics display a significant increase regarding natural disasters. In the light of intense and more frequent extreme weather events, including heavy rain, flooding and wind storms, industry experts are facilitating measures to mitigate potentially increasing risk exposures.

This incorporates measures under the heading “promotion of climate protection”, including the development of new products for public and industry sectors that are most likely affected by potential effects of climate change, eg agriculture, hydropower, real estate and tourism.

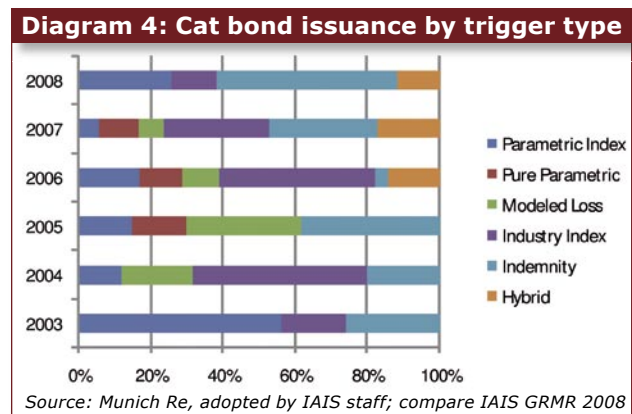
The whole IAIS Global Reinsurance Market Report can be found at http://www.iaisweb.org/_temp/Global_Reinsurance_Market_Report_2008.pdf

Transfer of peak risks

The GRMR considers some capital market techniques that have been developed to provide additional cover regarding insured major man made and natural catastrophes. These techniques are used to transfer insurance risks to the capital market. Such financial markets solutions are commonly known as Insurance Linked Securities (ILS). Diagram 3 displays a spectrum of different solutions.



To date, the primary property and casualty (P&C) securitisation approach are so called cat bonds. They are used to transfer natural catastrophe risks to the capital markets. The GRMR then also differentiates cat bond issuance by trigger types, as summarised in Diagram 4.



However, traditional reinsurance coverage will continue to remain, by all means, most important to absorb major insured events. Therefore, the IAIS aims at facilitating an environment in which international reinsurance companies are able to apply the law of large numbers in the best possible manner; including by way of supporting supervisory recognition agreements. The latter could help to lower existing barriers to market entrance, if any, for international reinsurance companies.

As a result, reinsurance companies would then be able to apply the law of large numbers on a worldwide basis. Therefore, the IAIS reinsurance report 2008 specifically indicates how supervisory recognition agreements could benefit through the IAIS GRMR.^A

*The views expressed in this article are those of the authors and do not necessarily represent the views of the IAIS, BIS or any affiliated institution.