

Future outlook of reinsurance

Hans-Joachim Guenther, chief underwriting officer and head of reinsurance, Europe & Asia/Pacific at Endurance Specialty Insurance Ltd. gives his views.

Do you agree with the widely held industry view that Solvency II will mean the end of pro rata treaties?

No. There has been much discussion that Solvency II will significantly skew the market toward excess of loss (XOL) treaties as companies seek to cap the severity or tail risk in their portfolios. While I agree that XOL programs are an efficient way to reduce tail risk, ie. losses related to catastrophe and severity risks, which can significantly free up risk-based capital, I believe that they should be considered as only one tool in a cedant's strategy to protect its financial strength and address Solvency II objectives. Capital is also subject to pricing cycles, inflation and other market forces for which pro rata programs can offer additional flexibility to raise underwriting capital by leveraging a company's balance sheet as an attractive and cost-efficient alternative to traditional capital sources.

Given the convergence of global markets, would you expect more of a market hardening in reaction to the catastrophic events of the last year?

I believe that we have seen a significant shift in the last ten years in the manner in which markets react to catastrophe events, with local or micro-cycles becoming the predominant response to specific market losses. We have recently seen this in the aftermath of the Australian floods and the Japanese and New Zealand earthquakes, where market pricing was minimally affected beyond the local areas. This phenomenon could be rationalised by various market mechanisms with local pricing reacting to updated expectations regarding potential loss frequency and severity in the impacted location, while pricing on a wider scale remains correlated to the excess capacity in the industry on a global basis.



Hans-Joachim Guenther

What other factors will impact potential market hardening?

The increased reliance on models and the convergence of those models has moved our industry toward a commoditisation of the services reinsurers offer. I believe that the reinsurance industry is somewhat unique in that there is a level of transparency between reinsurers and cedants that is not found in other businesses. Although reinsurance pricing ultimately depends on a set of assumptions related to assessment of risk, in general, cedants have access to the same models and can therefore anticipate pricing limits. While the emergence of complex models for exposure-based risk pricing has significantly improved the forward-looking aspect of pricing, it has also led to a level of transparency amongst market partners which supports aggressive competition and flattens market cycles.

What can be done to counter this trend toward commoditisation?

Reinsurers who can offer value to their

cedants in the form of global market knowledge can differentiate themselves as more attractive business partners. Reinsurers, like brokers, have wider access to exposure and pricing data than cedants and can provide benchmarks and market trends based on analysis of this collective information as well as their years of transactional experience in a large number of markets.

Endurance is entering its fourth renewal season since opening offices in Zurich and Singapore. What makes you successful in a global market?

Companies often expand into the global market with an enthusiastic perspective focused on diversification opportunities and economies of scope and scale, yet they tend to underestimate the associated organisational, cultural and regulatory challenges. Having an experienced underwriting team with in-depth knowledge of the European and Asian marketplaces, we took a thoughtful and measured approach to expansion. A targeted client and product strategy remains at the core of our operation. We get to know the philosophies that our clients seek in reinsurance partners, offer multi-line capability to meet their capacity needs, and ensure that we provide both in-depth product and market knowledge to every account.

Endurance invests in analytic tools and models, but we recognise that technology is just the foundation for a successful company. The importance of talented professionals and a customer-centric culture cannot be overlooked as the necessary characteristics of a successful reinsurer. We continuously invest in advanced tools, stay current with emerging claims issues, and work with our clients to truly understand their evolving business risks.