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Reinsurers — alternative capital is a friend, not a foe, say panelists

By [Catrin Shi](#)

The global reinsurance community could reap big rewards if it stopped erecting barriers between traditional reinsurance and alternative capital markets, industry experts said at the C5 Reinsurance and Capital Markets Convergence Forum in London on July 8.

But despite the potential benefits of the two sides working together rather than against each other, some reinsurers could find such a rapprochement hard to stomach.

After all, the surge of alternative capital has been identified as the major driver in the softening reinsurance market, which saw [further declines](#) in pricing at the July 1 renewals. As a result, traditional reinsurers are struggling to make margins — and in some parts of their industry, insurance-linked securities are seen as the enemy.

Given that backdrop, panelists at the London event debated whether alternative capital is in fact a friend or foe to reinsurers.

"I would definitely say a friend," stated Henning Ludolphs, director of ILS at Hannover Re. Alternative capital allows reinsurers to write off risks that otherwise would be difficult, he explained. "Either you work with it or you lose, in my view. There is a partner there for the reinsurers," he said, noting that reinsurers would do well "to make up their mind to what extent they want to take advantage of what the ILS market offers. Otherwise there will be real competition if the reinsurer focuses on peak zones."

Competition between the two spaces is likely to further increase as the expertise of the ILS market grows, noted Chris Parry, head of international capital markets at Aon Benfield Securities.

"Having dealt with a number of the ILS funds [I can tell that] they certainly are very sophisticated now," he said. "They have capabilities that do match that of the reinsurance market. I think it's a misconception [that] some people believe ILS funds do not understand the risk."

His advice? "If you can't beat them, join them."

[Hannover Re](#), [SCOR SE](#) and [Renaissance Reinsurance Ltd.](#) have already set up stable hybrid structures so that third-party capital is used to compliment the greater balance sheet, Parry added.

The way Kirill Savrassov, CEO of Phoenix CRetro Reinsurance Co., sees it, competitive pressure resulting from the extra capacity has led many reinsurers to shut their eyes to the benefits ILS can bring to their business. But at the same time, he believes that it's up to traditional reinsurers to spearhead efforts to create these hybrid products.

"Large reinsurers should lead the way in creating hybrid modeling, because they have enough underwriting expertise and underwriting scenarios to analyze and create some products in house," he said.

Reinsurers can also be effective facilitators for the third-party capital, he added.

"These hybrid models should take the best of both worlds — and that is where I think the future development of the market is going," said Savrassov.

"Professional reinsurers, to my mind, are the best suited and best placed to merge and unite the best of the two approaches."