

The Zurich axioms

Have re/insurers learned the lessons of the financial crisis and subsequent economic environment, and how can they maximize profit in the present pricing environment? **Kai-Uwe Schanz** rounds up the answers to these thorny questions proffered by industry leaders at a recent conference in Switzerland

Reinsurers have emerged in relatively good shape from the financial crisis and the subsequent 'Great Recession'.

However, the industry's outlook is far from rosy: Primary insurance markets remain anaemic as real economies recover only sluggishly. The precarious fiscal condition of certain countries of the Eurozone has raised the spectre of significant losses on the industry's massive sovereign debt holdings.

And, on top of all this, regulations are expected to become significantly more onerous and intrusive.

Against this backdrop, about 70 reinsurance executives gathered in Zurich to discuss the current state and future prospects of the industry at the EuroForum Conference in May.

CEO of SCOR Switzerland Benjamin Gentsch opened the presentations by addressing the virtues of diversification. Mr Gentsch acknowledged that diversification is core to the notion of insurability. But he advised delegates to tread carefully in this area. Mr Gentsch pointed to the complexity of issues created by diversification and warned that, ultimately, reinsurers may find themselves 'di-worse-ified'.

Swiss Re executive committee member, Michael Liès, adopted the perspective of ceding companies and their expectations vis-à-vis the reinsurance community. The major global insurance groups are primarily interested in huge underwriting capacity whereas the small-and-medium-sized cedants look at reinsurers' specific expertise and willingness to enter into long-term relationships, he said.

MODEL TEMPTATIONS

Franklin Montross, chairman and CEO of General Re, kicked off the session on 'Strategies in a slowly recovering economy,' urging his fellow reinsurers to draw the right lessons from the crisis. They would do this by fostering a 'corporate culture which emphasises rational economic decision-making and puts substance over form'.

Mr Montross specifically warned delegates not to be seduced by 'sexy quantitative models'.

Karl Mayr, president and CEO, AXIS



Re Europe, pointed to the difficult current reinsurance market environment, highlighting the anaemic state of primary markets, increasing retentions and the unabated influx of new players as particular challenges. Mr Mayr called upon his colleagues 'not to change the measuring stick and the threshold of walking away from underpriced business'.

Christoph Lamby, a member of the Board, R+V Versicherung AG, gave an upbeat assessment of the prospects of mid-sized reinsurers. In light of the financial crisis insurers are increasingly keen to properly diversify their reinsurance panels in order to limit counterparty risks.

But it was the crisis' impact on investment returns that was the 'single biggest challenge ahead of the industry', according to Stephen Catlin, CEO of Catlin Group.

This was particular given re/insurers' traditionally heavy reliance on this earnings contributor. He urged delegates to 'adjust your underwriting philosophy to the prospect of modest investment returns going forward'.

CHINA'S \$1.5TRN MARKET?

In a session focused on new reinsurance hubs and centres, Andreas Molck-Ude, CEO & Managing Director, New Re, a member of the Munich Re group, emphasised the professionalism of regulators, the proximity to clients, the quality of the business infrastructure and the availability of talent as key differentiators of any re/insurance centre.

While John Tan, CEO of Asia Capital Re, highlighted the fact that dynamic GDP and primary insurance market growth, combined with political stability, a pro-business environment and increasingly sophisticated regulatory regimes were major factors

contributing to the attractiveness of Asia.

"China, of course, will play a particular role in Asia's future re/insurance marketplace. Its insurance markets could be worth \$1.5trn by 2030," he said.

Meanwhile the theme of the potential in the world's emerging markets was reflected by Shashank Srivastava, acting CEO of the Qatar Financial Centre Authority.

He presented Qatar's strategic intent to develop into a leading reinsurance hub in the Gulf region, underpinned by robust economic growth, the rule of law, free access to its domestic markets and high-profile initiatives in the areas of electronic risk trading and insurance education and research.

The afternoon session was dedicated to the needs of reinsurance customers. Ivo Furrer, CEO Switzerland, Swiss Life elaborated on two main ways for life insurers to handle the challenges ahead: first, through product design, and, second, through reinsurance 'which would also help cedants address increasingly relevant capital market risks'.

KEEP A COOL HEAD

Meanwhile Clemens von Weichs, CEO of Allianz Re, expected the large global insurance groups to gain in importance as reinsurance buyers. He called on reinsurers to place more emphasis on meeting their specific needs which focus on coverage for concentrated catastrophe risks.

Alastair Speare-Cole, COO of Aon Benfield said that achieving differentiation, through the quality of re/insurers' capital and advisory services, is one of the biggest challenges facing the sector.

However the last word went to Costas Miranthis, CEO Europe and global CEO designate, Partner Re. In Mr Miranthis' view 'success in the reinsurance business is not measured by product innovation, but rather by keeping a cool head and avoiding excess risk taking'.

"Size in terms of capital is more important in reinsurance than premium. You can put premiums on your books very easily. However, the real differentiator is how much margin you make and how much risk you assume with that premium," he said. ®