



**Dr Kai-Uwe Schanz**  
Principal Partner at  
Dr. Schanz, Alms & Company,  
Zurich

## The global reinsurance market: Confronting challenges on multiple fronts

**Dr Kai-Uwe Schanz** from **Dr. Schanz, Alms & Company, Zurich** discusses the short- and medium-term outlook for the global reinsurance industry.

The first two quarters of 2011 have seen an exceptional string of natural catastrophe losses. According to Munich Re, insured losses during that period of time, at around US\$60 billion, were five times greater than the average since 2001. The average reduction of shareholders' funds at global reinsurers was in excess of 10%, as compared to year-end 2010.

### Short-term pricing outlook

So far, the run of insured catastrophe losses in 2011 has not prompted any wholesale hardening of global reinsurance markets. This is also due to the fact that global reinsurers are faced with an accumulation of more frequent single-digit billion US\$ events which eroded their capital base without triggering meaningful rate increases. Overall, reinsurance capacity remains abundant and well above pre-crisis, year-end 2007 levels, helped by scaled back share buy-backs and the inflow of additional capital.

According to the major reinsurance brokers, the net decline in reinsurance capacity this year is limited to about 5%. There is still excess capital in the global reinsurance system. Except for those regions directly impacted by large-scale catastrophe losses, pricing continues to be driven by individual loss experience rather than losses elsewhere on the planet.

At the same time, growth in reinsurance demand in the developed world remains lacklustre as the economic outlook continues to be uncertain, with the spectre of a "double dip" looming large. Of course, markets would harden on a global scale if a \$50 billion plus event happened or global financial markets slid back into a protracted downturn.

### Regulatory challenges

Since the financial crisis, banks and insurers are contending with significant regulatory headwinds. Capital requirements are being tightened as credit, market and liquidity risk feature more prominently on regulators' agenda.

In addition, disclosure and reporting obligations are becoming significantly more onerous. Many regulators fail to properly distinguish between banks and insurers, especially when stipulating capital surcharges reflecting liquidity risk and the systemic relevance of certain institutions. Of course, many insurers' and reinsurers' pre-crisis claim that their industries were set to converge with the banking business, does not help the credibility of the current "We are different" mantra.

However, from a reinsurance perspective, there also lies opportunity in regulatory change: Direct insurers, ie the customer base of reinsurers, are expected to face particular difficulty in meeting higher risk-based capital requirements. Many, if not most, of these companies lack an appropriate



