

News Release

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Baden-Baden Reinsurance Symposium Considers the Opportunities and Threats Created by Volatility

New York, October 22, 2012 – Guy Carpenter & Company, LLC, a leading global risk and reinsurance specialist, hosted “Volatility – Opportunity or Threat?” the Reinsurance Symposium held in Baden-Baden on October 21. The event examined how volatility is viewed within the insurance and reinsurance sectors, particularly from a financial perspective, and explored the potential which market turbulence can generate.

Nick Frankland, Chief Executive Officer of EMEA Operations at Guy Carpenter, provided the Symposium’s opening remarks and the event was moderated by Chris Klein, Head of Sales Operations (UK/EMEA) and Market Relationships at Guy Carpenter. Michel Liès, Group CEO of Swiss Re, delivered the keynote speech which was followed by presentations from: Carlos Montalvo, Executive Director, EIOPA; and Kean Driscoll, CEO, Validus Re. Wolfgang Gerstner, Lord Mayor of the City of Baden-Baden, welcomed attendees to the city.

Opening the Symposium, Nick Frankland explained the reasons behind the theme for the discussion. “Volatility is a much used and abused concept but, nevertheless, is a reality that lies at the heart of our business. Most seek to shed or mitigate it, we as brokers look to transfer it and some see it as a route to enhanced returns. It is one of those words that we all bandy around before coming, usually rather quickly, to the orthodox conclusion that it is a bad thing. Well, we want to test that conclusion today, and to ensure no prejudice we have titled the question ‘Volatility – opportunity or threat?’”

In his keynote speech, Michel Liès highlighted the critical role that reinsurers play in supporting clients through difficult market conditions. He said: “Volatility is a fact. As reinsurers, volatility is our opportunity to help our clients reach their goals during challenging times, and fulfill our role as a shock absorber within society. With the gap between insured losses and economic losses continuing to grow, last year’s largest ever catastrophe-related economic losses serve as a reminder that there is significant potential for our industry and the solutions we provide.”

Turning the discussion towards volatility in the context of market valuations, Carlos Montalvo said: “A market consistent valuation reflects market movements when they occur – it cannot distinguish between ‘good’ and ‘bad’ volatility. The transparency of a market consistent valuation is key for the understanding of – and communication on – an insurer’s or reinsurer’s economic reality. The past has shown us where a prudent measurement with perceived conservative assumptions and historic costs has brought us. There is arguably no alternative to a market consistent valuation to fairly reflect an insurer’s or reinsurer’s solvency position.”

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Kean Driscoll raised concerns about the increased volatility caused by the use of third-party catastrophe models. He said: “Group think is a terribly dangerous phenomenon. By outsourcing the pricing of catastrophe risk to third party vendor models the reinsurance industry is introducing an unacceptable level of volatility. Reinsurers and clients should be committing more resource to better understanding the complexity of catastrophe risk, and building the costs into their pricing.”

Bringing the discussion to a close, Chris Klein said: “We can’t make volatility disappear and we can’t hide it. Instead, we must accept its existence, understand it better and not allow ourselves to be frightened by it. Above all, we must ensure that those who seek to mitigate volatility by moving it somewhere else pay the right price for doing so.”

TAGS/KEYWORDS

Guy Carpenter, Baden, insurance, reinsurance, Frankland, Klein, Liès, Montalvo, Driscoll

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