

# We've converged! Where do we go from here?

**David Spiller** urges reinsurers to take a back-to-basics approach, with a keen focus on the fundamentals of data



**David Spiller is president and chief executive of Guy Carpenter.**

Considering capital-market solutions for risk transfer is no longer an exception, it's an expectation. The much-anticipated convergence of the capital markets and reinsurance markets is here.

Catastrophe bonds, sidecars and index products were utilised with unprecedented frequency in 2006. Last year's catastrophe-bond market alone saw new highs in everything — from total transactions (\$4.6bn) to number of issuances; from number of perils securitised to diversity of trigger type.

Now that we know traditional reinsurance and capital-markets solutions can happily coexist, even when conventional reinsurance capacity is generally widely available, what's next?

I believe that in order to move full speed ahead into the future of convergence, we need to go back to basics and focus on the fundamental importance of data. At the same time, we must concentrate on building and continually improving the analytical tools that allow these data to be interpreted and understood by investing parties.

Years ago, when I first joined this great industry of ours, data were less important than they are now. Major underwriting decisions in the reinsurance industry were based, to a large extent, on a subjective assessment of the management calibre of ceding companies. Ours was a people business; relationships ruled.

In today's 'converged' world, information is king. Terrible losses — such as those from Hurricane *Andrew*, European storms and the World Trade Centre attack — have shone a harsh light on the industry's need to understand its catastrophe-loss exposure better. Significant strides in data collection and modelling have been made ever since.

That investors have become more comfortable in the realm of insurance company risk is a credit to our progress in collecting more and more granular data. The march must continue.

Just as insurers need to understand portfolio information and quantify exposures for reinsurers and rating agencies better, insurers and reinsurers must be able to give investors meaningful information to comprehend the amount and type of risk they are assuming.

Inert data doesn't do the trick. Data-powered

analytical tools do. For instance, consider an insurer that has a portfolio of residential policies in Florida. This information as such is of little value to investors.

The loss profile of that portfolio, however, is a different story. The ability to slice and dice risks to understand them better — and to serve them up effectively to an ever-wider variety of investors, each with a specific risk appetite — must continue to grow.

Such increased scrutiny of risk will not be restricted to the insurance side of the fence. Investors will also be driven to a more detailed analysis of their general portfolio of assets. The fact that catastrophe-insurance risk is generally uncorrelated

> In today's 'converged' world, information is king. Terrible losses have shone a harsh light on the industry's need to understand its catastrophe-loss exposure better.

with economic risk and equities-market risk makes it attractive to investors seeking diversification. But what about an investor seeking to diversify into California earthquake risk, not realising

it is already carrying a hefty California exposure in its Real Estate Investment Trust venture? This type of scenario compels the development of more finely refined investment data as well.

In addition, the more capable we become at pulverising data and sifting it into meaningful information, the better indices we can create for capital markets' risk-transfer structures, and the better we'll get at quantifying (and, hence, minimising) basis risk.

Capital markets' insurance risk-transfer solutions are now an integral part of our business. We welcome them as vital complements to traditional reinsurance mechanisms for shouldering catastrophe risks. It is now our role as reinsurance brokers to allow our clients to move fluidly and productively between the realms of the reinsurance and capital markets, enabling them to consider their full spectrum of options for transferring the great-est of risks.

It is now also our responsibility as an industry to continue to invest in collecting appropriate data and building the tools needed to interpret the numbers. We have done it before, as our ongoing advances in analytics for traditional reinsurance risk assessment attest; I have no doubt we'll do it again.

**Editorial**

**Editor**  
Mark Geoghegan  
**Reporter**  
Mairi MacDonald  
**Sub-editor**  
Jane Cahane  
**Art director**  
Nicky Brown  
**Editor-in-chief**  
Antony Gould  
**Editorial tel** +44 (0) 20 7484 9933  
**Editorial fax** +44 (020) 7484 9900  
**E-mail addresses**  
name.surname@incisivemedia.com

**Advertisement sales**

**Publisher**  
Jonathan Trinder  
**Sales manager**  
Graeme Roche  
**Advertising tel**  
+44 (0)20 7484 9942  
**Advertising fax**  
+44 (0)20 7484 9992  
name.surname@incisivemedia.com

**Incisive Media**

**Chief operating officer**  
James Hanbury  
**Group editorial services director**  
David Worsfold  
**Managing director, insurance division**  
Graham Harman  
**Marketing manager**  
Ro Osborne  
**Group production manager**  
Lorna Graham

**Customer services**

**Tel (UK)** +44 0870 240 8859  
**Tel (US)** +1 (212) 925 6990  
**E-mail** cs@incisivemedia.co.uk

**Subscription hotline**

**Tel** +44 (0)20 8606 7516  
**Fax** +44 (020) 8606 7303  
**Email** sigs@wdis.co.uk

**Annual subscriptions:** UK £225 Airmail Europe £242 (€357) Airmail RoW £272 (€402). Remittances by cheque or international money order to be sent with order and made payable to Incisive Financial Publishing Ltd. Overseas cheques should be drawn in sterling.

**Head office**

Incisive RWG Ltd, Haymarket House, 28–29 Haymarket, London SW1Y 4RX  
**Tel** +44 (0)20 7484 9700

**US & Canada office**

Incisive RWG Inc, 270 Lafayette Street, Suite 700, New York, New York 10012, US  
**Tel** +(212) 925 6990

**Asia & Pacific office**

Incisive RWG Ltd, Unit 2708, 27th Floor, The Centre, 99 Queen's Road, Central, Hong Kong, SAR China  
**Tel** +(852) 2545 2710

Average net circulation from 01/07/2005 to 30/06/2006: **9,298**



© Incisive Media Investments Ltd  
ISSN 0048-7171  
Reproduction: CTT, London  
Printer: The Grange Press, Southwick  
Member of the Audit Bureau of Circulations

