Reinsurance is a very good solution to have

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As the reinsurance sector continues to grow in size and scope, complexity naturally increases and more bespoke solutions begin to emerge. We spoke to **Guy Carpenter Asia Pacific**'s **Mr Hussain Ahmad** about the growth and challenges of structured solutions within reinsurance.
By Paul McNamara

Financial engineers like nothing better than manufacturing and developing increasingly esoteric products. Not so long ago, reinsurance structured solutions were at the cutting edge of development but have rapidly assumed a central role in the reinsurance palette around the world.

We spoke to Guy Carpenter head of structured reinsurance solutions, Asia Pacific Hussain Ahmad about the trends that have developed in the past year and where the signs are pointing for the next 12 months.

Market dynamics

Some of the major developments Mr Ahmad has seen in structured solutions in APAC in the last year are not so esoteric.

“There’s been a lot more demand,” said Mr Ahmad. “There’s a lot more interest, a lot more conversations. The supply side was somewhat constrained in 2023, but we see that changing now. As a result, more new deals are starting to flow as we start 2024.”

And this is a market segment that is always changing.

“Coming into 2023, we saw reinsurers significantly re-evaluate appropriate pricing and structure thresholds in light of changing views of risk, leading to two thematic changes for our clients,” said Mr Ahmad. “In particular, retentions went up and reinsurance prices also increased. That has left insurers with two decisions to make: One is operational and the other is strategic.

“The operational decision concerns whether to afford a higher retention. If a loss happens, what do I do? Do I have the money to pay? If I don’t, then I need to buy a sub-layer for an excess of loss (XOL) cover. I need to find some sort of solution, and if traditional reinsurance isn’t available, how do I still manage my net loss? That’s an operational decision that needs to be taken in the near term,” he said.

The strategic decision is a little more complex.

“The strategic one is more about what do I do tomorrow,” said Mr Ahmad. “Do I increase the prices of the cover I am selling to my customers? Do I sell differently? Do I reduce cost? Do I want to grow in a higher rate environment? And all that ties into a capital conversation. How do I maintain the capital to execute my strategy?

“Alternative reinsurance solutions are available to support both types of decisions. There are tools available – like multi-year XOL covers, or structured aggregate covers to help manage the volatility in the absence of traditional solutions. And then you’ve got the conversation on capital, where other alternatives like structured quota shares and retrospective reinsurance can come into play,” he said.

“Both of these decisions are true globally. They’re not just questions for Asia. If I look at Europe and America, I see similar trends.”

Mr Ahmad thinks that the operational aspects are a more immediate concern with conversations revolving around retention buy downs.

“Despite the demand for solutions last year, supply was limited whereby reinsurers said they would not look at bottom layers of the XOL programmes at all,” said Mr Ahmad. “This was true, to a large extent, even for structured solutions where the cover, if offered, was very remote. But supply returned as 2023 went on into 2024, and we see new deals and a strong pipeline.

“There has been a quicker move to the capital conversation in other parts of the world, while in Asia generally, insurers are now just starting to settle the volatility question and move to a broader capital strategy,” said Mr Ahmad. “And I’d say, in the current environment, raising capital has become increasingly challenging. However, reinsurance offers a highly effective solution to address the issue.”

Future growth

Mr Ahmad sees this segment growing in the year ahead, driven by the same dynamics.

“In the year ahead, the two factors remain the same,” said Mr Ahmad. “Retentions are a concern and capital is a concern. Those two will dominate in the next 12 to 18 months. We’ll see a lot more activity in the traditional space just because the market conditions are right.

“On the retention management, volatility management side of things, supply is starting to come back in. Reinsurers are happy with the changes they’ve made to terms, to pricing, made to their portfolios.

“Generally, the messaging throughout the conference season has been, ‘we are happy to move forward on the basis where we are right now’. And that now includes growth in various segments, including structured,” he said.

Mr Ahmad also believes that supply is catching up to meet the demand.

“There will be a lot more capital conversation,” he said. “Insurers have had time to absorb what has happened. They have their strategies realigned with the higher retention.

“They are asking, ‘How do I manage my book? What do I need to do?’ Where there is a need for capital, they think reinsurance can help. That conversation will be coming in, I think quite significantly, including in Asia, particularly in Australia,” he said.

But it is a sector that requires acute knowledge of the client.

“It’s difficult to lump Asia Pacific into one,” said Mr Ahmad. “It’s always going to be different by country given the consumer dynamics and the different regulatory frameworks. Even within each country, the approach to these issues is a bit different for each client. Certain clients are advanced in their thinking around the strategic use of reinsurance, while others still consider it a cost.

“But these different dynamics coupled with the macroeconomic outlook continue to create different opportunities for us to help our clients,” he said. A

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