Bridging markets: the convergence of financial investors and reinsurers

As alternative capital becomes a permanent feature of the reinsurance landscape, the focus is shifting from capacity to long-term investability, says Marsh Re's Laurent Rousseau

The convergence of reinsurance and financial market capital is no longer a niche development. Catastrophe bonds are firmly established, sidecars have returned as a meaningful source of broad peril capacity and insurance-related strategies are now top of mind for most alternative asset managers looking to deploy their assets.

The most important question facing the market is whether alternative capital will remain reliably available through the next market cycle, the next major (re)insurance industry loss and the next bout of financial market stress.

Sustainability of this increasing capital supply matters greatly. In periods of benign loss activity, capital can look plentiful. The true test is whether it stays committed when events cluster, when loss development surprises or when narratives about correlation shift. The market is still working out what makes insurance risk sustainably investable — and therefore what the long-term architecture of global reinsurance will become.

> **The future of reinsurance will not be a binary contest between traditional reinsurers and capital markets. It will be a mixed ecosystem**

Investors and (re)insurers alike prize diversification. Insurance risk often behaves differently from equity and credit markets, making it attractive for institutional portfolios: this decorrelation of insurance risks with financial risks is at the heart of investors' interest. Securitisation helps speed this capital deployment. Special purpose vehicles and modern structures move money faster than traditional reinsurance cycles. With the growth in new exposures, such as digital infrastructure, cyber risk and climate-related perils, innovative capacity that can be structured to fit investors' risk appetites creates demand.

CAPACITY IS THE OUTCOME; INVESTABILITY IS THE PRODUCT

Alternative capital is often described as incremental capacity that can smooth volatility or narrow pricing and bridge market ruptures. But "more capacity" is a surface-level description of a deeper change. Financial investors are not simply providing capital; they are imposing a different set of requirements on how risk is defined, disclosed and governed: alignment of interest and contractual relationship are two anchors.

Catastrophe bonds and sidecars are two of the best-known channels. Broadly considered, they allow third-party investors to assume a specified slice of insurance risk through structured vehicles and predefined terms, without sponsors relinquishing control of their core franchises. As investors do not have full underwriting capabilities, they will look for alignment of interest. And as (re)insurers do not always have full asset management capabilities, they should also seek alignment of interest with the investors — some of them looking to generate large fees from managing the sidecar's assets, using their own in-house strategies.

THE WAY FORWARD

The future of reinsurance will not be a binary contest between traditional reinsurers and capital markets. It will be a mixed ecosystem: nimble financial structures supplying modular capacity alongside experienced reinsurers providing underwriting expertise and claims capability. Ultimately, we could see a reinsurance placement structure whereby a share of around 20% could go to pre-agreed structures backed by financial investors, following the terms set by a few leading traditional reinsurers. This could be the reinsurance version of the lead/follow structure of placements in the commercial lines insurance world.

Laurent Rousseau, CEO of global capital and advisory, and Europe and IMEA, Marsh Re

HOW MARSH RE CAN HELP

Since it appears that alternative capital is in the market to stay, and will be working alongside traditional reinsurance, the advisory relationship is increasingly important. Marsh Re's global capital and advisory team offers expertise in catastrophe bonds, surplus notes, structured reinsurance (tail) solutions, capital raising and M&A transactions. Reinsurers and carriers need guidance on which capital strategies work best for their particular situations, especially as they deal with economic volatility worldwide. The opportunity lies in shaping capital solutions built to withstand uncertainty and support growth.