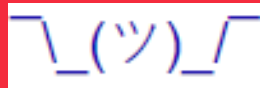


# Reinsurance:

"A form of insurance, being the insurance of one insurer (the 'reinsured') by another (the 'reinsurer') by means of which the reinsured is indemnified for loss under insurance policies issued by the reinsured to the public"!!

(Henry Kramer, *Reinsurance*, 1980)

But what does that mean?



# What is Reinsurance?

- insurance for insurance companies
- a method of loss mitigation / sharing
- a form of risk transfer
- a capital management tool (*not* available to non-insurance companies)

Focus has changed over time from loss mitigation (i.e. post-loss) to capital management (pre-loss)

# Reinsurance as Capital alternative

## ***Without Reinsurance***

Suncorp would need  
capital in the order of  
**>\$13bn**



## ***With Reinsurance***

we only need  
**~\$3bn**

# Reinsurance as loss mitigation

Event	Gross loss	Net loss	RI %
Christchurch EQs	\$4bn	?	?
East Coast Floods	\$1bn	?	?
Cyclone Debbie	\$800m	?	?

# Reinsurance as loss mitigation

Event	Gross loss	Net loss	RI %
Christchurch EQs	\$4bn	\$750m	80%
East Coast Floods	\$1bn	\$100m	90%
Cyclone Debbie	\$800m	Nil	100%

# Reinsurance as risk transfer

Customers

Insurance

Reinsurance

Retrocession



# Other benefits of reinsurance



## Financial Protection & Risk Management

- Fulfills a basic principle of insurance: diversification of risk
- Reduce volatility of results / maintain solvency
- Mitigate accumulation of risks / catastrophe losses
- Reduce individual large risk exposures
- Transfer unattractive business



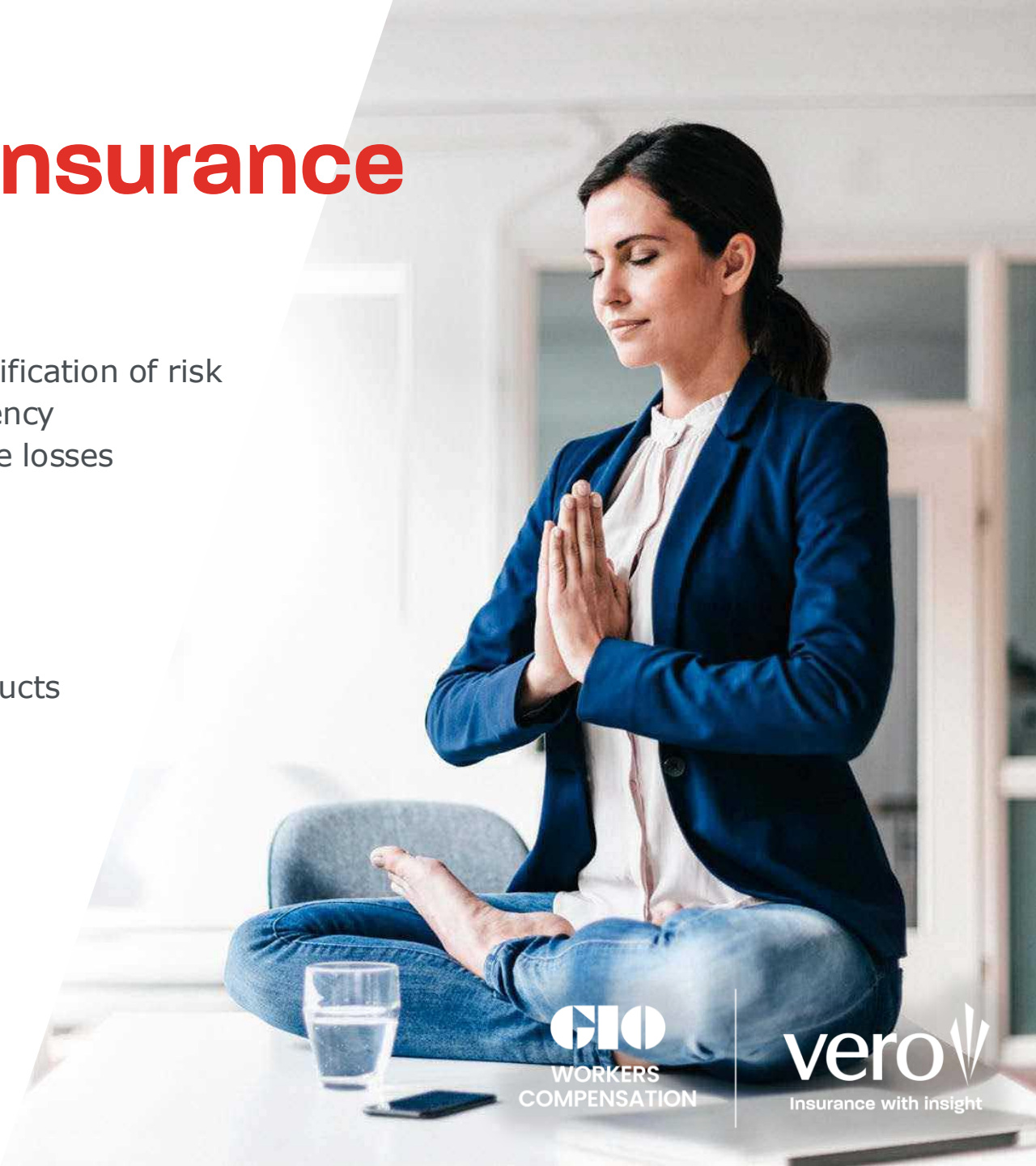
## Capacity

- Helps finance growth: new initiatives, products
- Allows larger policy limits to be offered



## Expertise

- Reinsurers can assist in developing new products and assist with complex claims
- Specialist reinsurers



# Thanks to reinsurance, we can provide you with:



## Competitive Pricing

- More affordable



## Capacity

- Ability to offer larger lines / limits



## Coverage

- Catastrophes (flood, cyclone, bushfire)
- high hazard occupations
- boutique covers





# Meet the reinsurers...



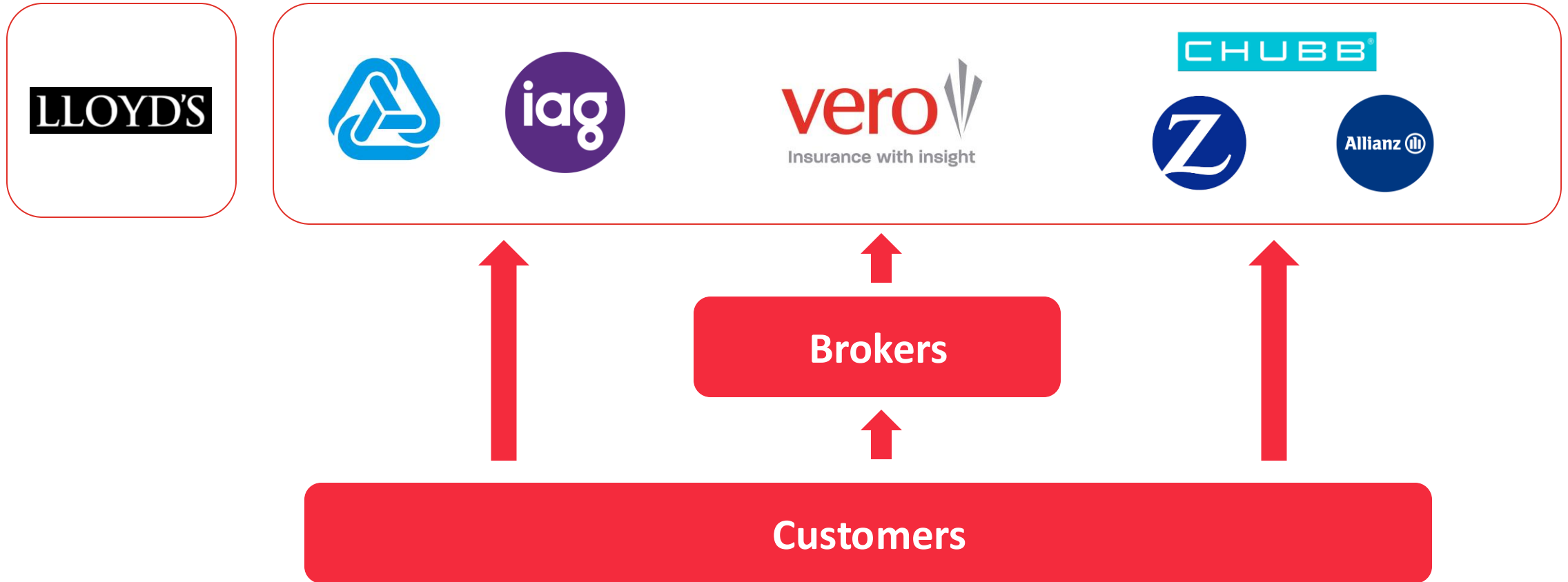
# Reinsurers – relative size (market cap)



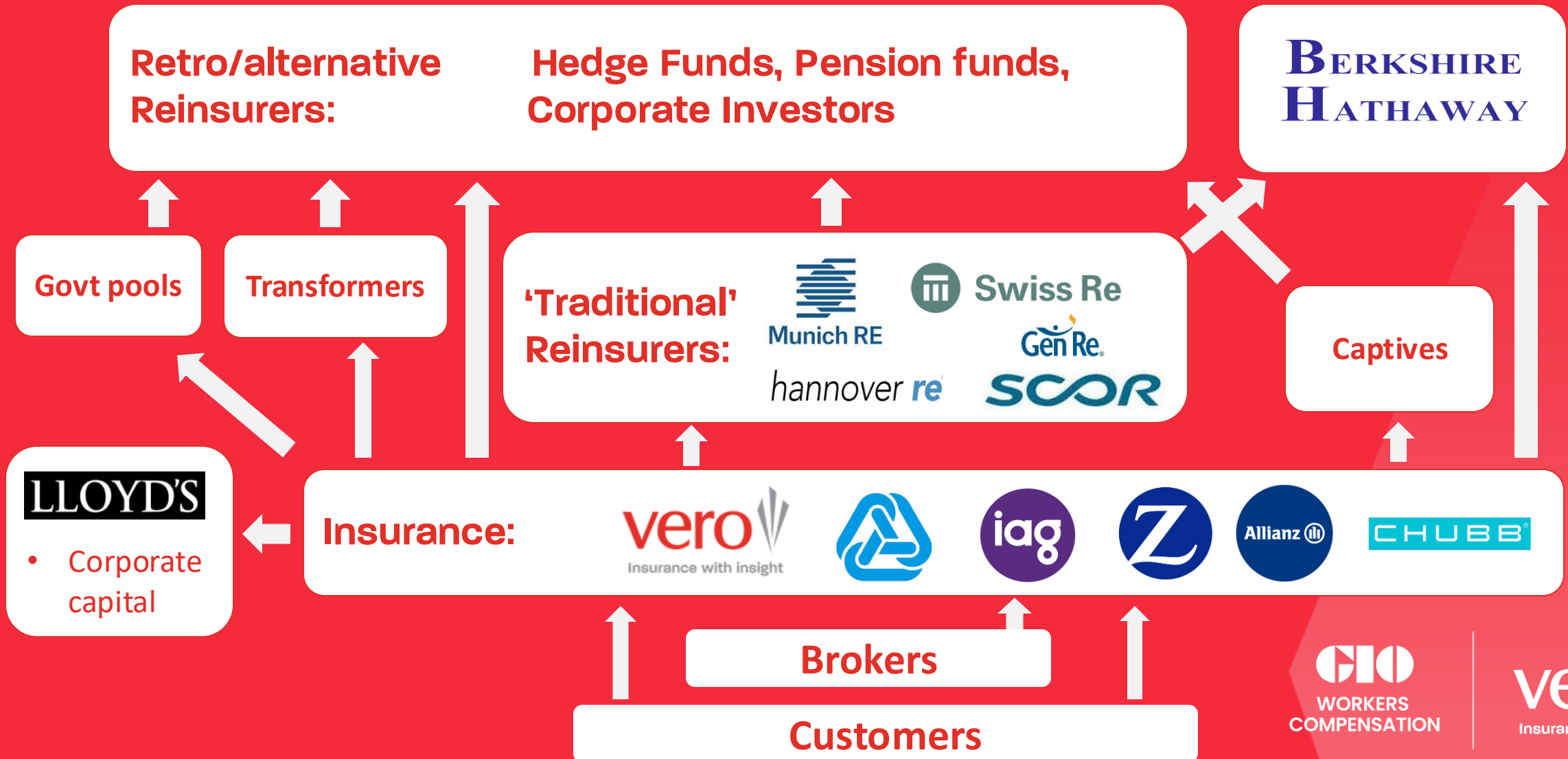
# Reinsurers – relative size (market cap)



# The insurance universe



# The reinsurance universe



# 'Alternative' v 'Traditional' reinsurance:

## Alternative capital:

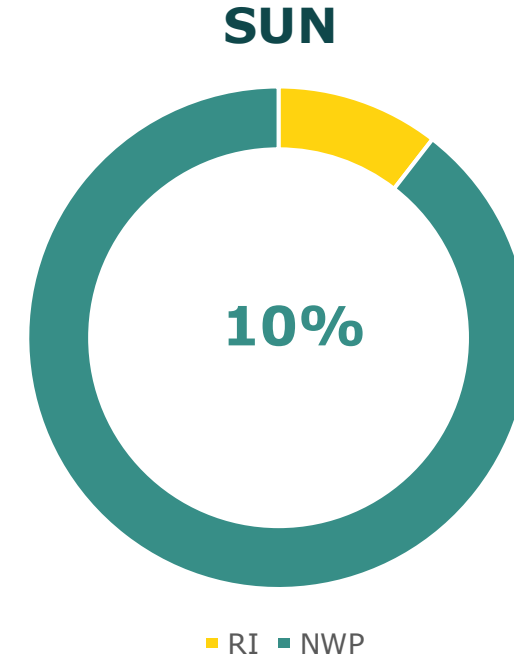
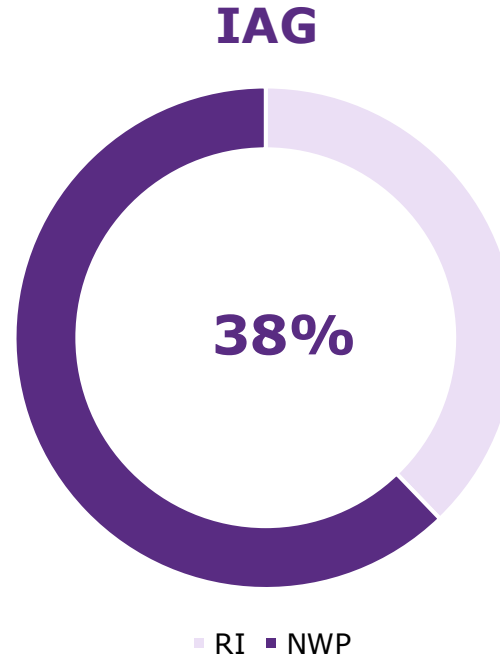
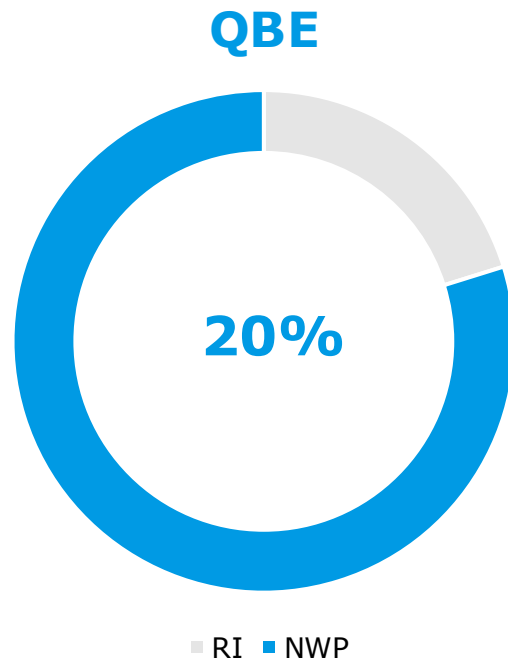
- Unlikely to go bust
  - (although sidecars...)
- Exotic
  - alternative structures & triggers
  - (although basis risk...)
- Appeal to directors, analysts
  - (but not APRA...)
- Less flexible on pricing, exclusions or claims
- Transient

## Traditional reinsurers:

- Understand insurance
  - more flexible on T's & C's
- Will negotiate on price
  - not purely driven by algorithms & models
- Expertise:
  - can provide underwriting and claims advice
- Committed to the market

# How much do we pay for reinsurance?

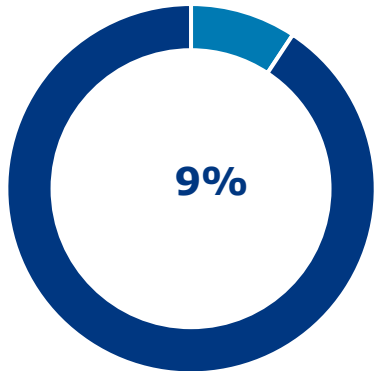
# How much do insurances companies spend on Reinsurance?





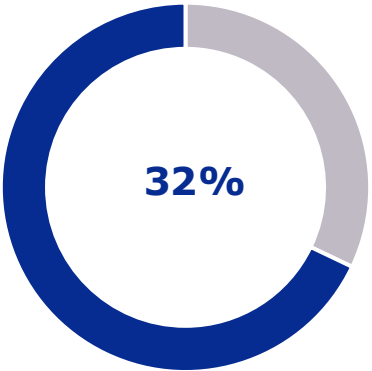
# Reinsurance Structures

Allianz



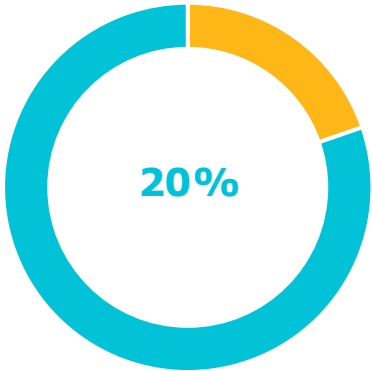
■ RI ■ NWP

Zurich



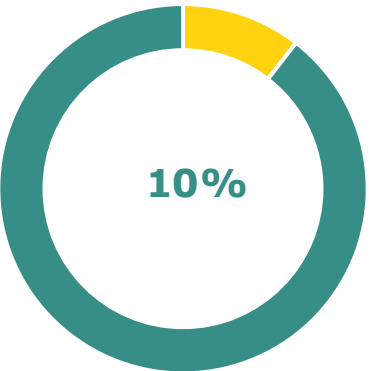
■ RI ■ NWP

Chubb



■ RI ■ NWP

SUN



■ RI ■ NWP

RI Structures	Cedant 1	Cedant 2	Cedant 3	Suncorp
RI Decision Structure	AU/NZ reinsures with <b>Group Captive</b>	AU/NZ reinsures with <b>Group Captive</b>	Group treaties with specific territory treaty buydowns	Group treaties with specific territory treaty buydowns
Cat Excess of Loss	✓	✓	✓	✓
Cat Aggregate	✓	✗	✗	✗
Proportional	✗	✗	✓	✓
Per Risk Excess of Loss	✓	✓	✓	✓

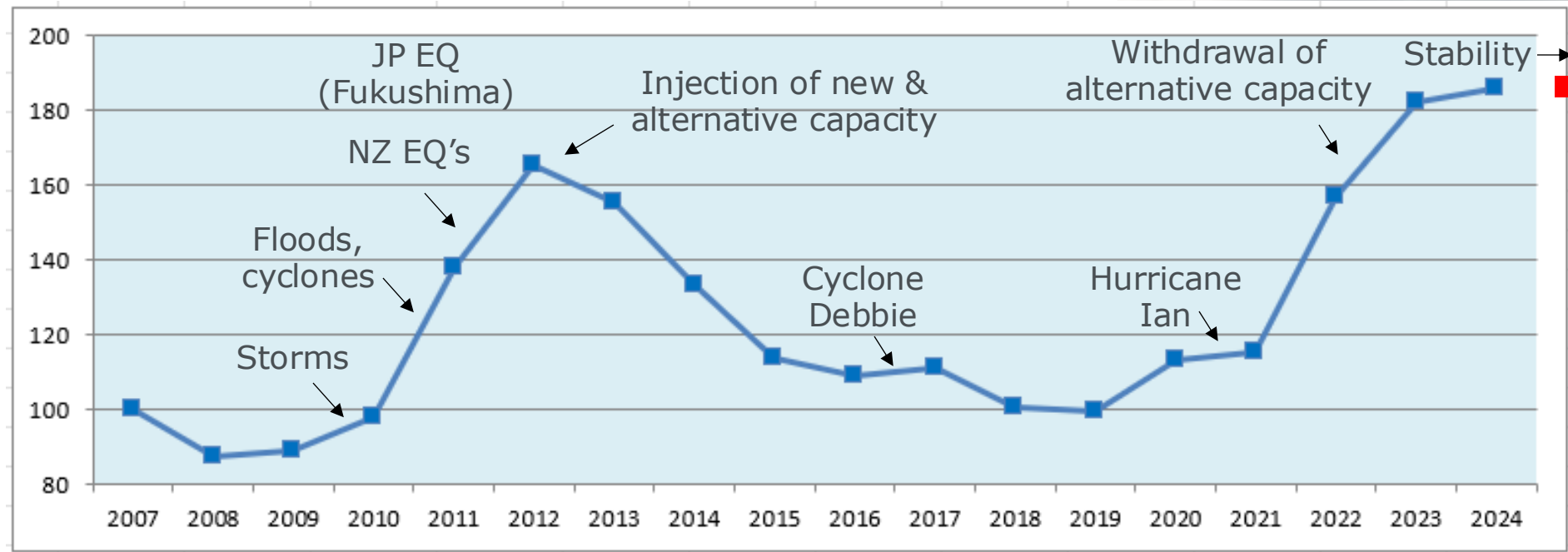
# Reinsurance: peak perils (single perils)



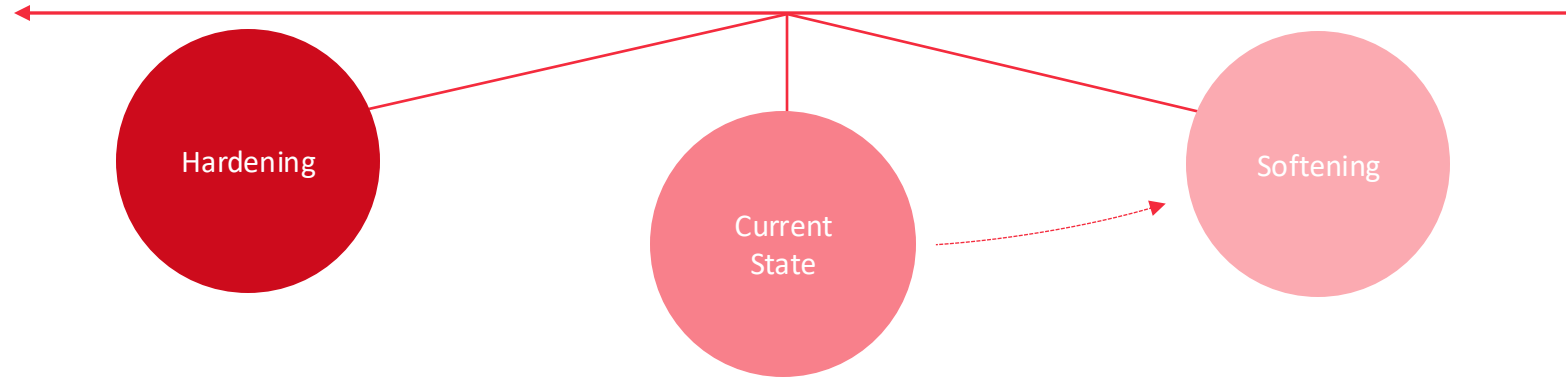
## A world map with a light blue background. Overlaid on the map are several circular icons representing different services or locations. In North America, there is an icon of two buildings. In Europe, there is an icon of a factory and a ship. In East Asia, there is an icon of two buildings. In Southeast Asia, there are icons of a cloud with rain, a fire, and a ship. In the bottom right corner, there is an icon of two buildings. The CIO logo is in the bottom right corner.



# Where are we in the cycle?



# Where are we in the cycle?



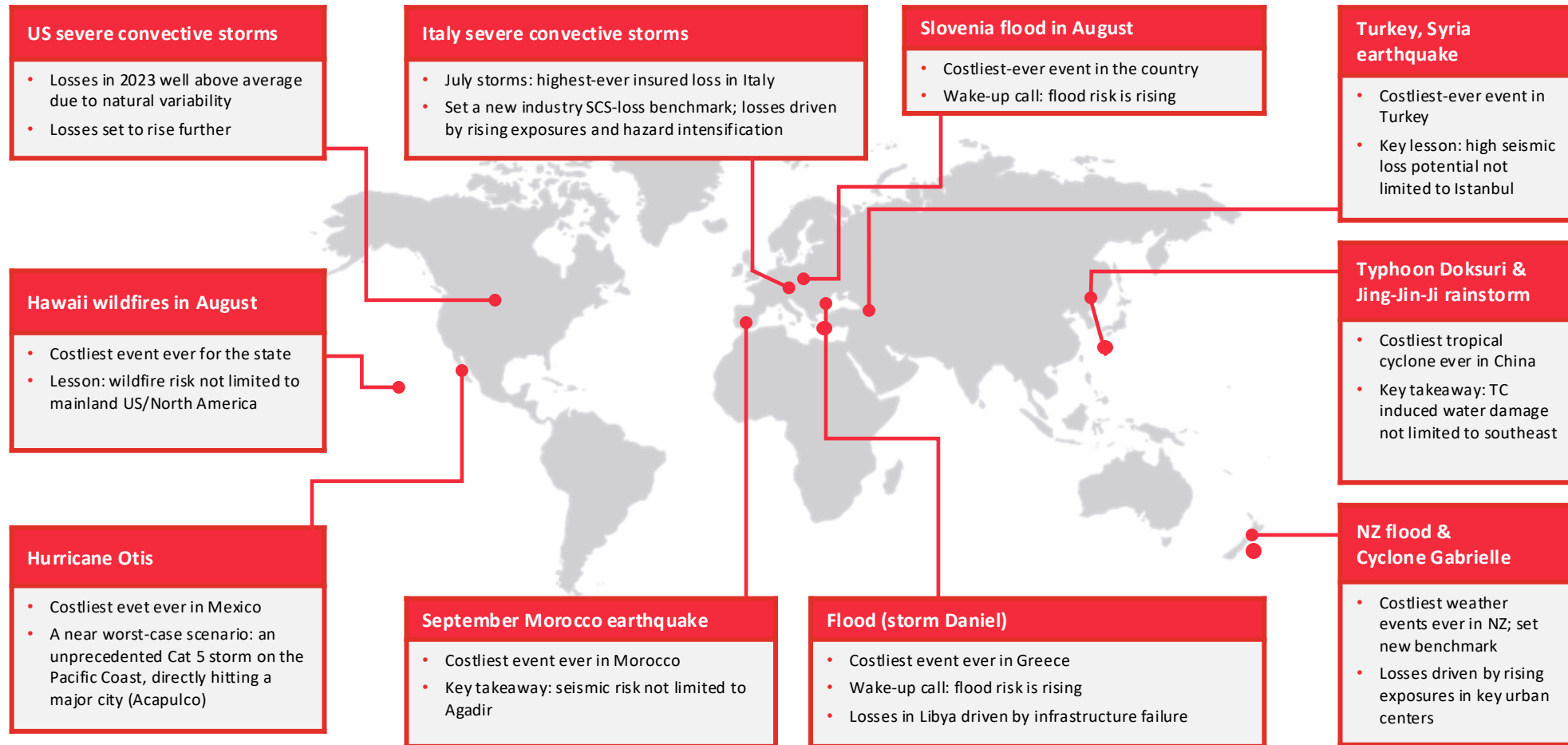
- Positive and stable market trends continue in Australia and New Zealand.
- Reinsurers remained disciplined with pricing & retentions, even with ample capacity.
- Property programmes broadly renewed as expiring.
- Casualty remains stable with sufficient capacity.

## ***But...***

- The upcoming Atlantic hurricane season is predicted to be more active than usual.
- We continue to experience 'record breaking' events every year:

# Natural Catastrophes: 2023 Lessons

## Learnings from key events of 2023



# Pressures on reinsurance

**inflation**  
**risks**  
**emerging**  
**climate change**  
**heightened claims costs**  
**catastrophic events**  
**Economic cycle**

## reinsurance

Reinsurance *can reduce* the cost of insurance (due to lower cost base, diversification etc.) and these savings are passed onto customers.

*however...*there are pressures on the various components that go into reinsurance pricing and so the benefit is shrinking which gives the impression that it is responsible for increased insurance premiums.

So it is easy to blame reinsurance for increased premiums but insurance is subject to the same pressures.





# Conclusion – what does this mean for you?

- Reinsurance provides many benefits; without it, premiums would be (even) higher, capacity would be scarce and innovation would be stifled
- Through its parent Suncorp, Vero is one of the largest buyers of reinsurance in the world and is therefore able to negotiate and secure quality capacity at reasonable pricing
- We prefer to deal with traditional reinsurers who are more likely to understand the product, pricing and claims and who are not simply capital providers
- However, we believe there has to be a balance between profit ceded away and prefer to maintain control of pricing, underwriting and claims
- In conclusion, reinsurance provides security and consistency and, used properly, adds value to our core capabilities of underwriting, risk selection and claims service
- Finally, reinsurers are in it for the long term and also operate in a competitive market. Vero is well placed to ensure that your customers are among the first to benefit when the cycle improves.



# Reinsurance:

"...reinsurance is first and foremost a commercial enterprise. Above all else, *it depends upon people and on the personalities of people* as much as on their technical skills."

(Carter, *Reinsurance* 2<sup>nd</sup> edition, 1983)

So it's a people business!

# Additional resources

## Online reports on reinsurance:

- Swiss Re: Sigma publications
- Munich Re: Topics Online
- Aon Reinsurance: Thought Leadership
- Guy Carpenter: Insights
- Gallagher Re: Slipcase
- Artemis: Reinsurance News

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