



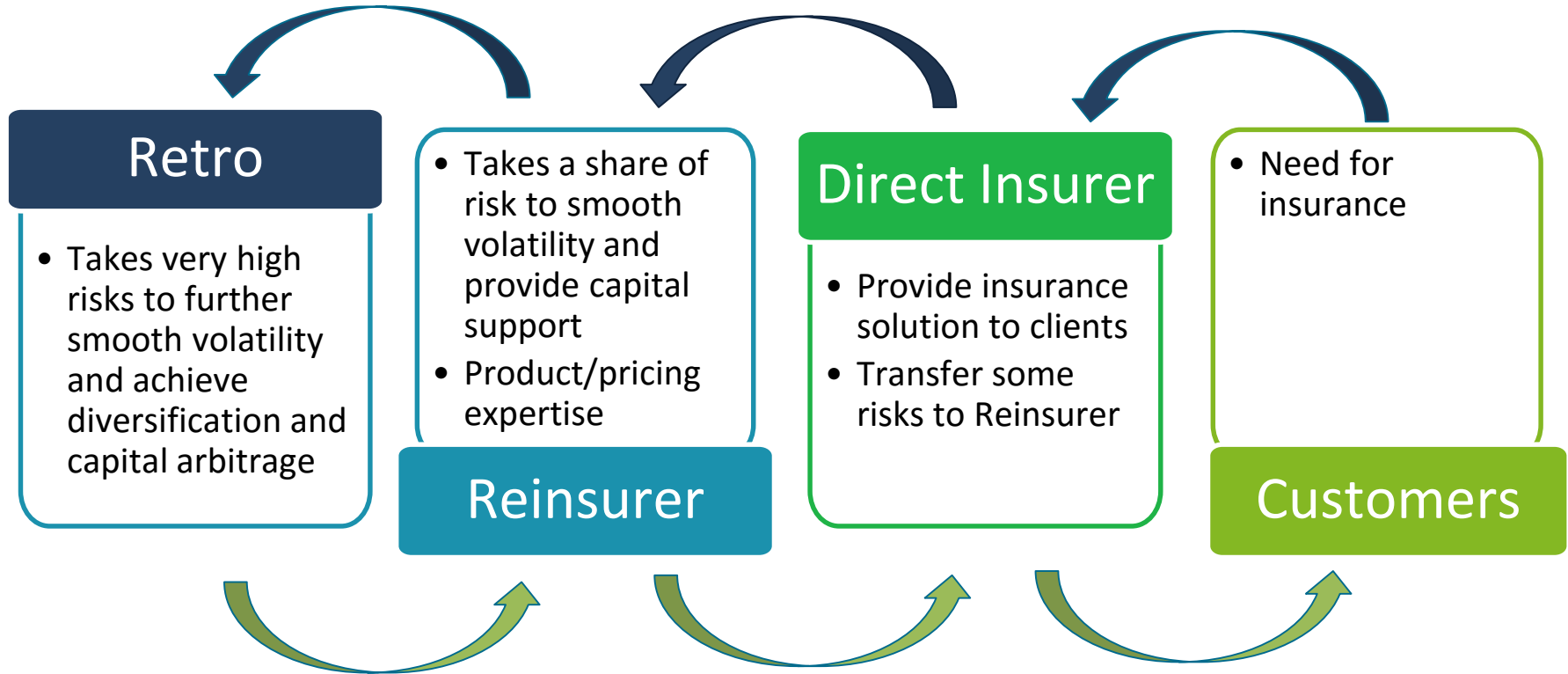
**Actuaries
Institute**

Reinsurance Demystified

Presented by Nicole Marshall



What is Reinsurance?



Benefit of reinsurance to consumers and society

Provides
protection

- Risk diversification (including globally)
- Law of large numbers

Reduces
price

- Reinsurers help set assumptions
- Capital efficiency
- Profit volatility management

Types of Reinsurance

	What	Reasons to use
Proportional (quota share/surplus)	Reinsurer shares equally in premiums and claims	Capacity, diversification, volatility management, reinsurance services
Excess of Loss	Reinsurer covers losses once above a certain level	Volatility management, protection from large losses, capital benefits
Catastrophe	Reinsurer covers losses related to a specific catastrophic event	Volatility management, protection from large losses, capital benefits
Financial Reinsurance	Reinsurer provides capital relief	Capital relief, liquidity

Global Reinsurance Market

- ❑ Around 200 companies offering reinsurance.
- ❑ Global life reinsurance market is around \$100 billion in written premiums.

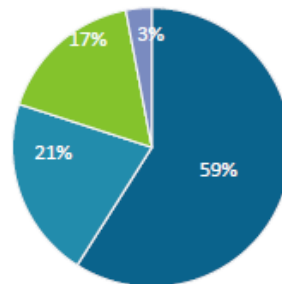
Life reinsurance enjoys significant barriers to entry...

- ❑ Only long-established life reinsurers with a global presence are able to deliver **economies of scale and scope**
- ❑ **Strong capital base and ratings** are needed
- ❑ **Regulatory constraints** apply
- ❑ **Long-term capital investments** are essential for successful participation in life reinsurance business

No successful global new entrant into the life reinsurance market in the last 20 years

...which results in a significant degree of concentration

Market shares¹⁾

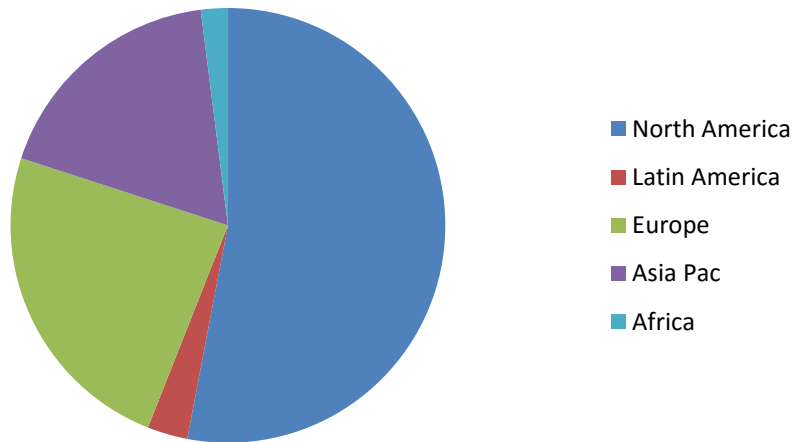


Global life & health reinsurance

■ Top 3 ■ Top 4-5 ■ Top 6-10 ■ Others

Global Reinsurance Market

Life Inforce Reinsurance Market



- ❑ However, growth in Europe and North America has slowed down leaving Asia Pac as a large growth engine globally
- ❑ Australian group business retendering every 2-3 years makes the Australian reinsurance market one of the most active globally

Australian Reinsurance Market

- ❑ Around 20% of Australian life insurance inforce business is reinsured. New business cessions tend to be higher.
- ❑ \$280m of new individual business reinsured per year.
- ❑ Group reinsurance market is around \$2.5b.
- ❑ 7 local life reinsurers:



Two Versions of Reinsurance

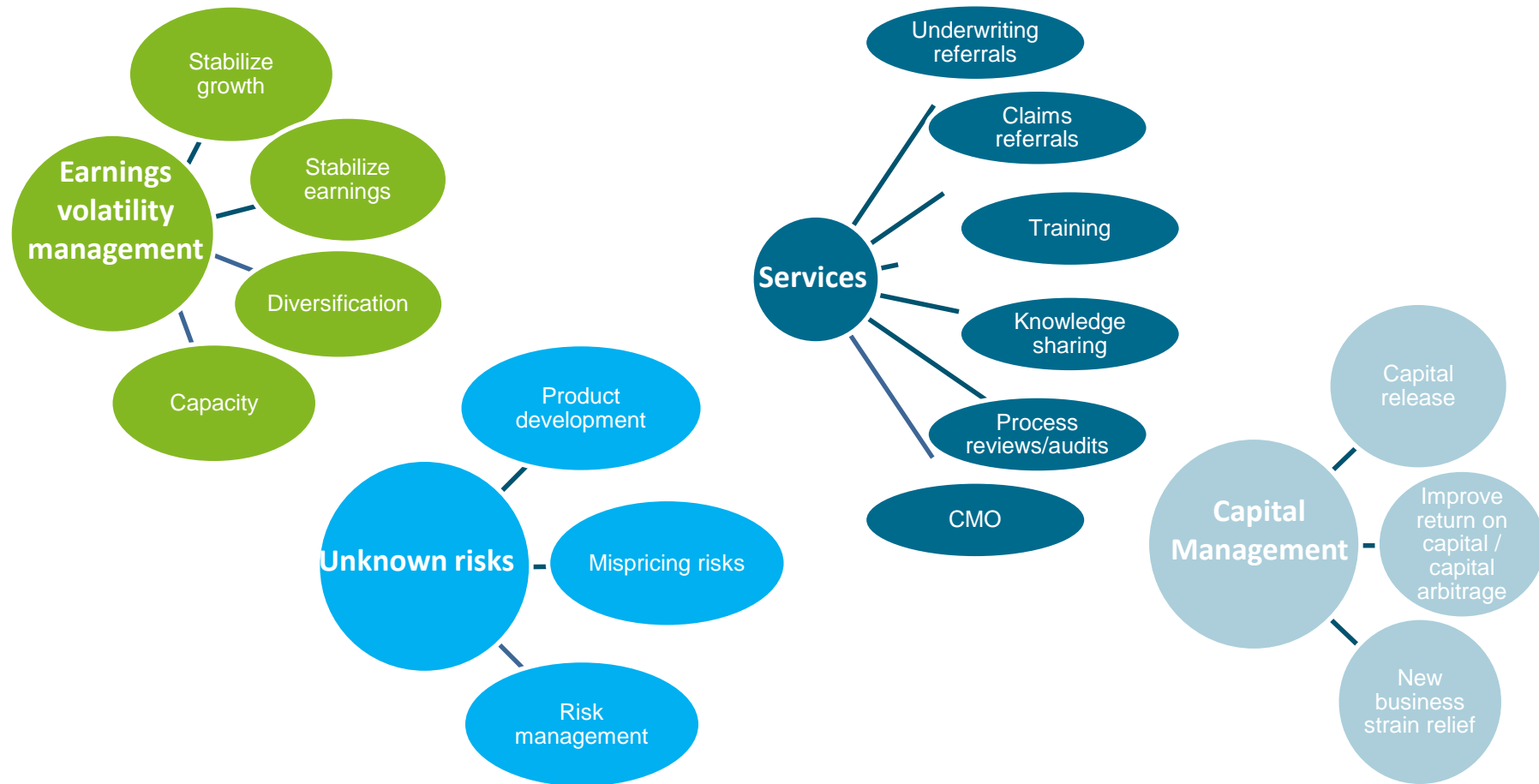


- ☐ A commodity
- ☐ Just a price-driven product



- ☐ The provision of value-added products and services
- ☐ A long-term partnership
- ☐ Consistency of supply over time
- ☐ A local presence with local expertise

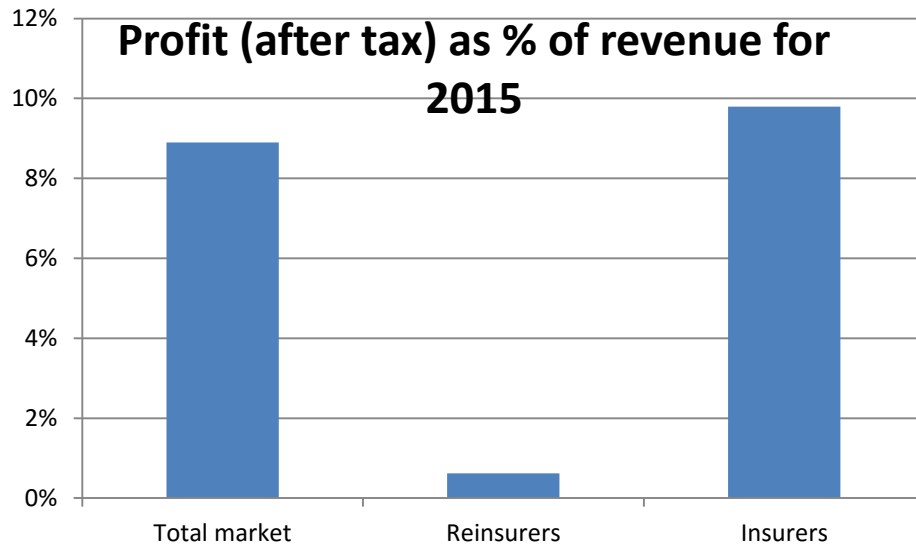
Client Needs: Uses of Reinsurance



Reinsurance in Australia

Group	Retail
Typically quota shares (10-50%)	Typically surplus arrangements for lump sum
Some surplus elements	Some surplus and quota share in IP
Facultative reinsurance – eg larger industry funds	Most risks covered under an automatic treaty
Automatic treaty reinsurance – eg corporate treaties	Very high sums insured dealt with on a facultative basis

Life is tough for reinsurers



Source: APRA Statistics

So what is working at a reinsurer like?



Not quite!

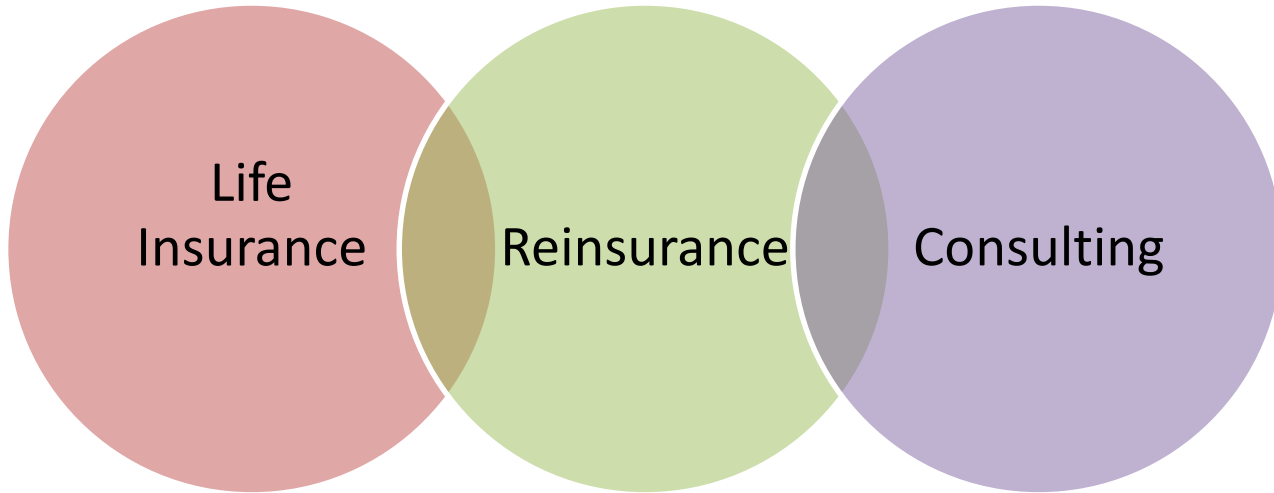
Similar to direct insurers:



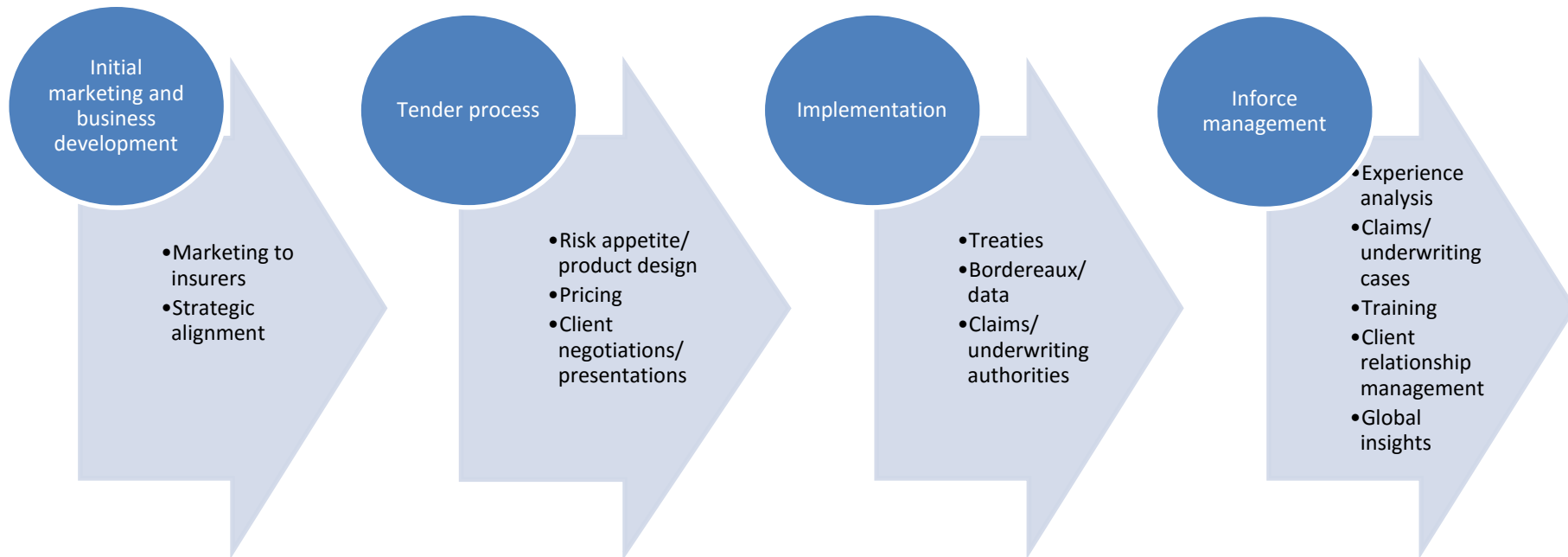
Key differences:



What is Reinsurance work like?



Business Process at a Reinsurer



What's next in reinsurance?

- ☐ Longevity?
- ☐ Big data?
- ☐ Predicative underwriting?
- ☐ Digital solutions?
- ☐ Medical developments and R&D?

Thank you

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