Reinsurance is different - ?!

- As or direct insurance, reinsurers assume risk, **albeit** the fact it may be transformed (eg. Non-proportional vs pro rata covers)
- Reinsurers also price and set loss reserves, **although** the processes differ somewhat (see e.g. “Reinsurance Standard”, Part I)
- As with insurance, the Law of Large Numbers **equally** applies
- **Contrary** to insurance, “All business is global”
- As a consequence, reinsurance requires tremendous width of know-how of many subjects, lines of business and countries

Reinsurers have established the relevant competency over decades if not centuries as this is the business they are in
If reinsurance is a little different …

… then supervisors must equip themselves with the relevant expertise in order to

■ Truly understand and assess the risk a reinsurer has assumed

■ Expertise needed in respect to
  - Lines of business
  - Geographic region/country/state
  - Processes

■ At the core is the ability to understand how the overall risk is managed, ie.
  - accumulation
  - diversification
Example: Diversification

Insurers pool direct Homeowner risks in one country.

Reinsurers pool Peak (XL) Portions of (QS) risks in

from Several insurers in one country

And across many countries around the world.

Ability to diversify is very high
Managing risk in reinsurance

Resinsurers are not confined to local risks (eg: Eurowind exposure) but pool many different local risks (Eurowind, US Hurricane, US EQ, Japan Typhoon) leads to maximum diversification due to their independence.
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What supervisors need to be prepared for ..

Be able and equipped to assess the total risk from:

- All **types of risks** …
- …across **many countries** …
- … and **specialties** such as aviation, space, agribusiness, excess and surplus, umbrella, marine energy, …
- … and how risk is assessed (**pricing**, **reserving**) as well as …
- … managed through **diversification**.

- Gain confidence in reinsurers’ ability to assess risk, ie. trust sophisticated **internal models** more than “sledge hammer” standard models
Reinsurance Supervision - Are Supervisors Prepared?

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