Making modern ART work

Thomas Renggli, Head of Finite Reinsurance at PartnerRe Global, describes how non-traditional reinsurance complements the traditional reinsurance covers.

PartnerRe says it wants to strengthen its ART/finite operations in Europe. How will clients profit from this initiative?

We want to offer our clients a wide range of reinsurance solutions across various lines of business. ART is a great addition to our product range because it widens the scope of available risk financing solutions. By that I mean, for example, solutions for special situations such as replacement of equalisation reserves, run-off covers following mergers & acquisitions, risks that are either difficult to re/insure or non-re/insurable or, to smooth results over time. ART solutions also allow us to negotiate reinsurance solutions with clients that traditionally have not used reinsurance, such as health insurance companies or pension schemes. ART further offers an insurance company a way to manage the reinsurance cycle, by stabilising their budget for the longer term. To summarise, PartnerRe wants ART to complement its existing relationships with clients, and not to replace traditional reinsurance.

Thomas Renggli

What differentiates PartnerRe's ART solutions?

Non-traditional reinsurance solutions do not differ significantly from one provider to another. However, the approach of the providers is very different. At PartnerRe the traditional and non-traditional reinsurance specialists work in close co-operation, and ART products are seen as an additional tool to protect the client's portfolio. Our client partners, underwriters and actuaries have an in-depth knowledge of the client's portfolio and can blend traditional risk coverage into a non-traditional solution as needed. This knowledge sharing and close co-operation enables PartnerRe to offer coverage even for quite small transactions relating to a specific problem as well as for larger transactions across several business lines.

Many companies find ART solutions cumbersome in terms of administration and compliance with new accounting rules. How do you see this affecting the attractiveness of non-traditional reinsurance?

Looking back, ART deals used to be structured in a very complicated way. A deal was judged to be more creative the more complex the structure was. This complicated the administration. Today, deals tend to be more simple, in terms of structure and administration. There are three important characteristics to keep in mind when constructing an ART treaty:

- Risk transparency to all parties: insurer, reinsurer, auditors, authorities etc;
- There has to be a certain degree of risk transfer in one form or another (in categories such as underwriting risk, timing risk, credit risk or financial risk);
- There must be flexibility from both the insurer and reinsurer to change the conditions if the market/control environment changes over time (this is important when implementing multi-year treaties).

Today, the most creative treaty is the simplest.

Harmonisation of accounting standards is a burning issue for many insurers in the European market. How can ART help?

Take equalisation reserves as an example: new accounting and solvency guidelines will sooner or later make equalisation reserves a costly alternative in terms of capital requirements. Insurers with high premium volumes in volatile lines, such as liability, credit, marine and cat, will be most affected, as will life insurers who will no longer be able to include expected profits in solvency calculations. One solution is a multi-year contract, in which reinsurance premiums fund losses, whilst actual risk transfer is made of unexpectedly sudden or high losses. By using less reinsurance capital, all forms of non-traditional reinsurance can reduce risk financing costs. Further, as an advantage over increased self-retention, reduction in result volatility is also achieved – since the majority of these solutions involve a certain degree of risk transfer.

How will ART develop over the next five years?

First, I am convinced that ART will not replace the traditional way of transferring risk. But ART will become an even more important niche, in terms of offering risk transfer possibilities to such products as non-insurable risks or risks that are difficult to insure/reinsure through traditional means. I also believe that ART will offer help in the decision making process, as an alternative to the traditional ways of coverage. ART further allows risk transfer to be shaped over time or across business lines in more ways than traditional reinsurance does. Providing alternatives to traditional reinsurance is the key to success for both sides, the buyer and the provider. The buyer wants to have the choice but might buy traditional reinsurance in most cases; the provider can enhance the scope of discussion with his client by offering him these alternatives. So, the marketing of alternative and traditional reinsurance must be seen as a combined effort that will ultimately benefit the buyer.

Thomas Renggli can be contacted at +41.1.385 37 98 or thomas.renggli@partnerre.com.