Article from:

# Reinsurance News

August 2008 – Issue No. 63

# REINSURANCE EXECS PREDICT CAPITAL CHANNELS WILL BLUR

*by Jim Connolly*

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Looking at the future, a panel of executives from leading global reinsurers predicted a broader framework in which capital markets, reinsurers and direct writers would be able to provide ways to offer or free up capital.

Speaking at ReFocus 2008, Wolfgang Strassl, head of the divisional unit of the life and health division with Munich Re, Munich, Germany, said, "I wonder if it will be so definable who is the reinsurer and the direct writer?"

ReFocus is an annual life reinsurance conference co-sponsored by the American Council of Life Insurers, Washington, and the Society of Actuaries, Schaumburg, Ill.

Strassl also noted that this blurring has already happened in the U.S. health market. Legally, he said, there is a distinction, but practically, the two are not distinguishable.

That trend is global, the discussion revealed. Wolf Becke, head of the life reinsurance department with Hannover Re, Hannover, Germany, citing an example in South Africa where a reinsurer is underwriting on behalf of a client at the client's offices. Thus, he said, the reinsurer, through outsourcing, is both conceptually and physically taking on the job of the direct writer.

The blurring of more defined capital management functions is starting to be seen in other ways, according to Becke. In the event of a pandemic, he said, the "risk is simply too big to just take on ourselves. We will need the capital markets in order to manage this risk properly."

Additionally, Becke continued, life reinsurers are focusing on certain parts of the business now, and do not all look alike anymore.

Christian Mumenthaler, head of life and health reinsurance with Swiss Re, Zurich, Switzerland, recounted how Deutsche Bank competed and won a closed block of business last year as one example of how the businesses of reinsurers and capital market providers are starting to overlap.

Mumenthaler also said that Triple-X blocks of business are a challenge because in the current market environment there is a small spread and the costs are high. However, he noted that investment banks are extremely interested in this business.

As other capital providers become more involved in the insurance market, Mumenthaler said he anticipates seeing the development of indices to measure both longevity and mortality. At present, he continued, the capital markets are not willing to take that risk at current prices.

Another change that the panel discussed is the development of Solvency II standards in Europe. Mumenthaler said, "Solvency II" is like a tsunami. It is a very powerful force. The U.S. should be a leader rather than trying to avoid it. Europe is not going to stop.

"I'm a big fan of Solvency II. It brings the regulatory view much closer to the way that we manage business and see ourselves," Mumenthaler said.

One of the biggest risks, he explained, is on the asset side of the balance sheet and the Solvency II framework will enable this to be looked at in a better way. ✺

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