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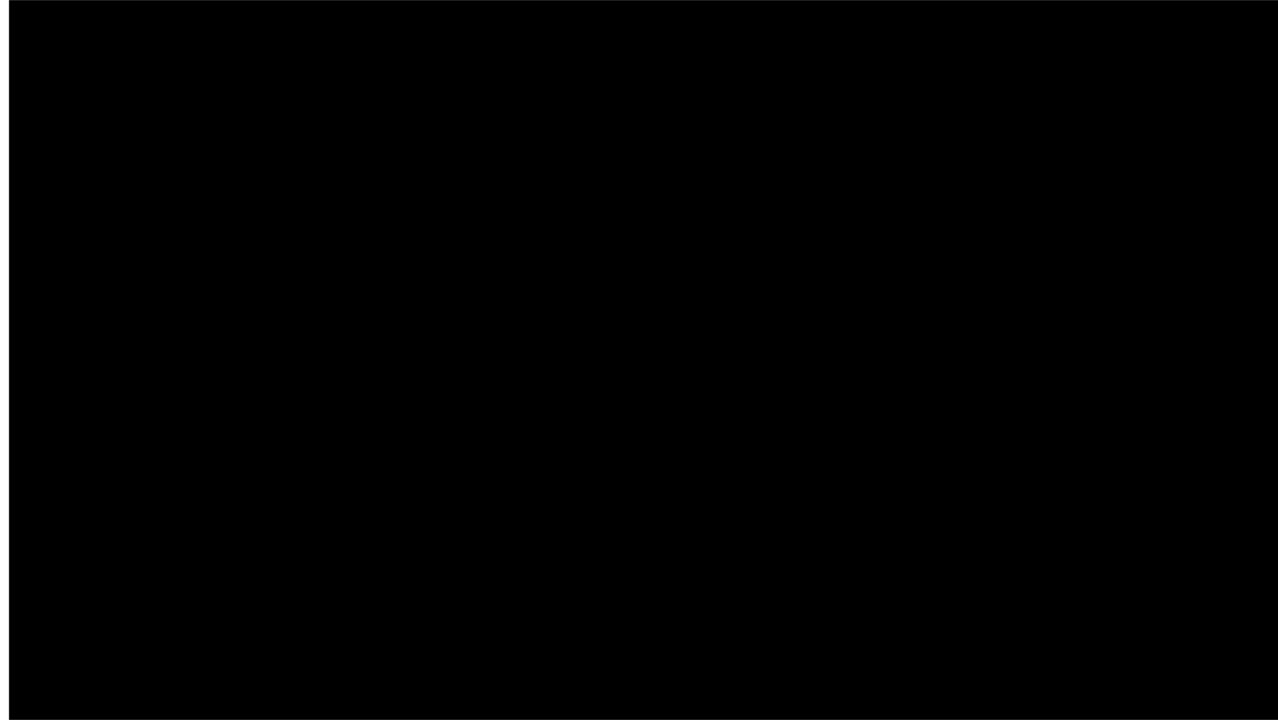
# If you can't beat them, join them

*Change in reinsurance markets with the rise of alternative capital*

Christian Bird, Validus



# They took our jobs



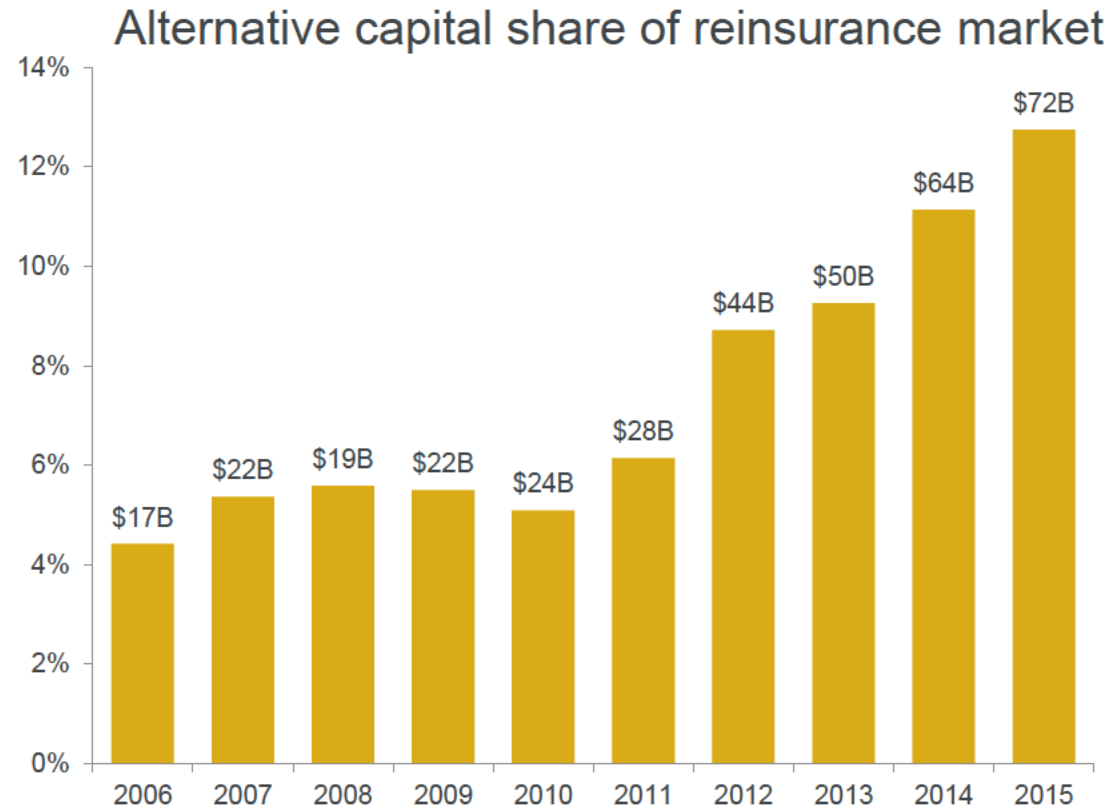
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# They took our jobs



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# A firm foothold and rapid growth

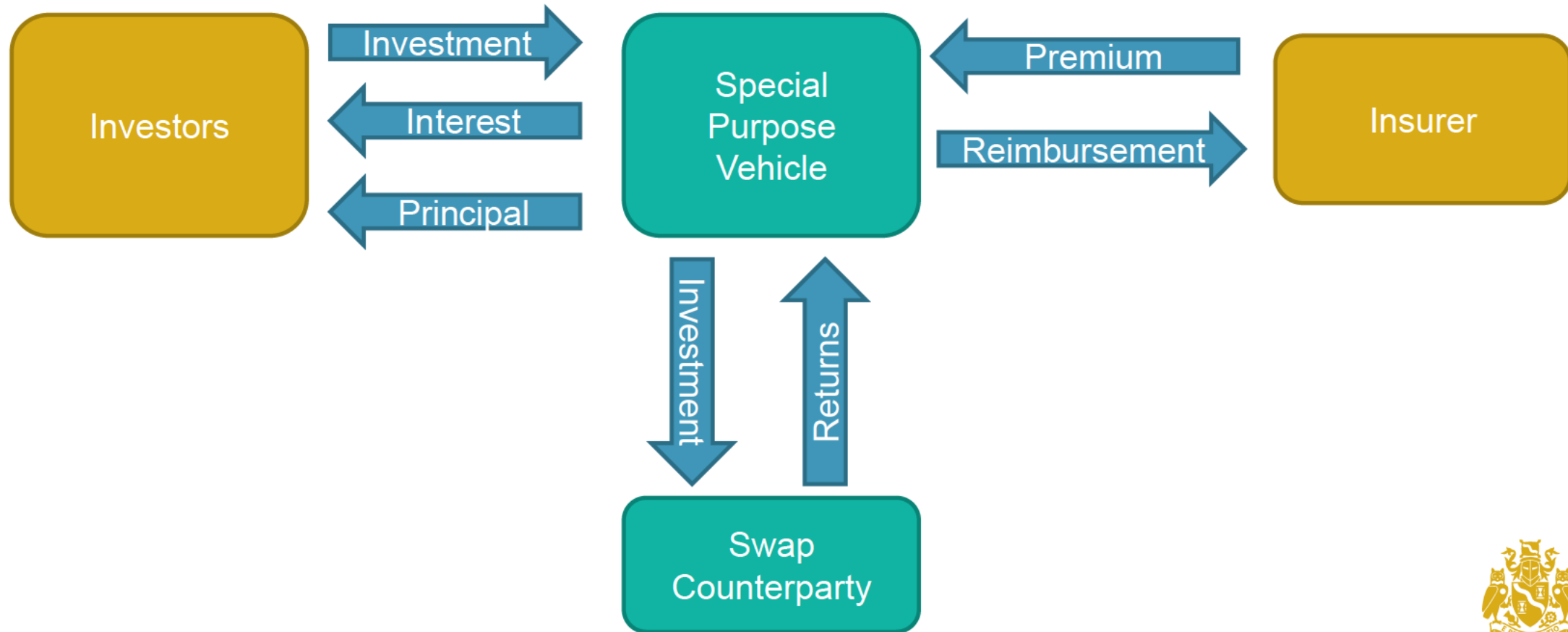


Source: Aon Benfield Aggregate

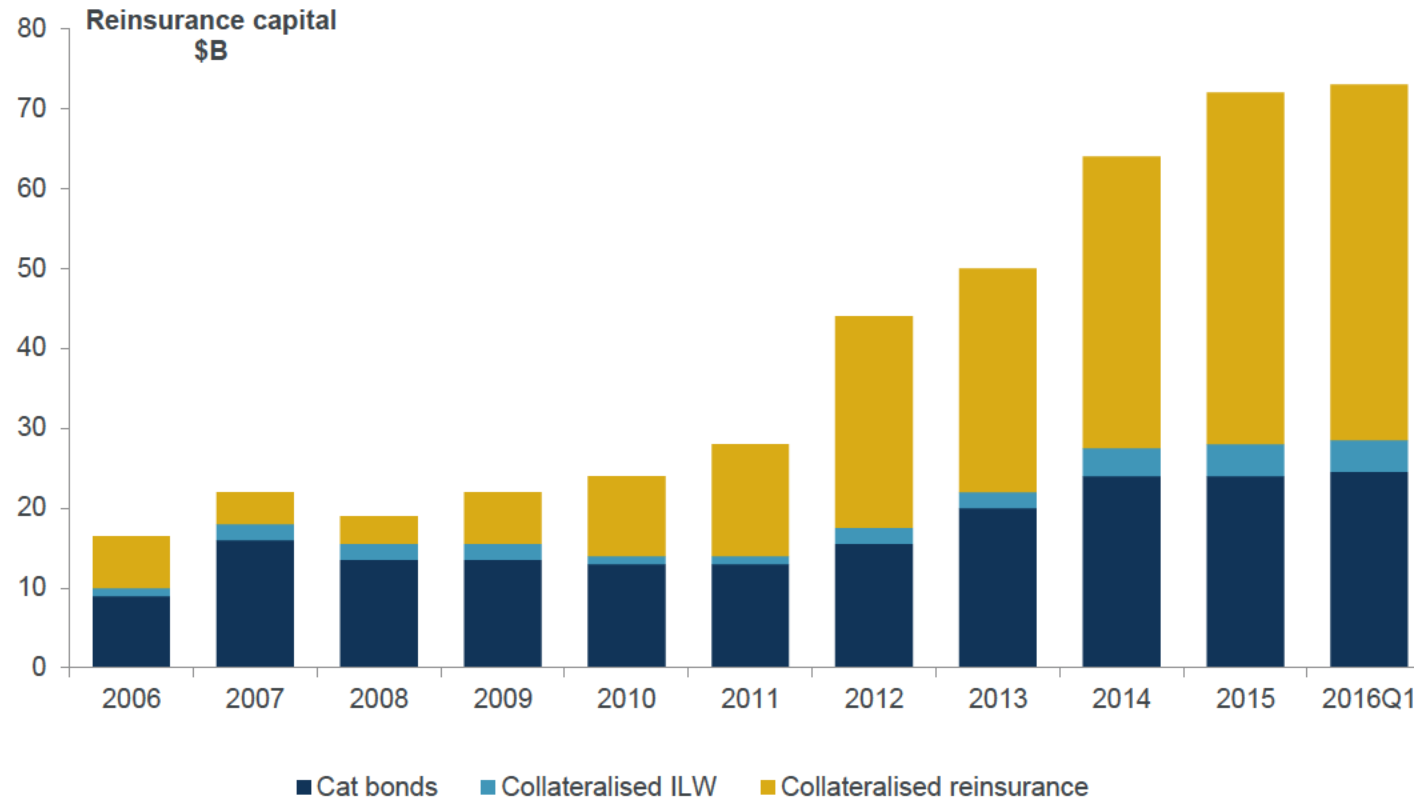


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# Catastrophe Bonds



# The rise of collateralised reinsurance



Source: Aon Benfield Aggregate



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# What is collateralised reinsurance?

... it is just reinsurance, but it is fully collateralised



# The players



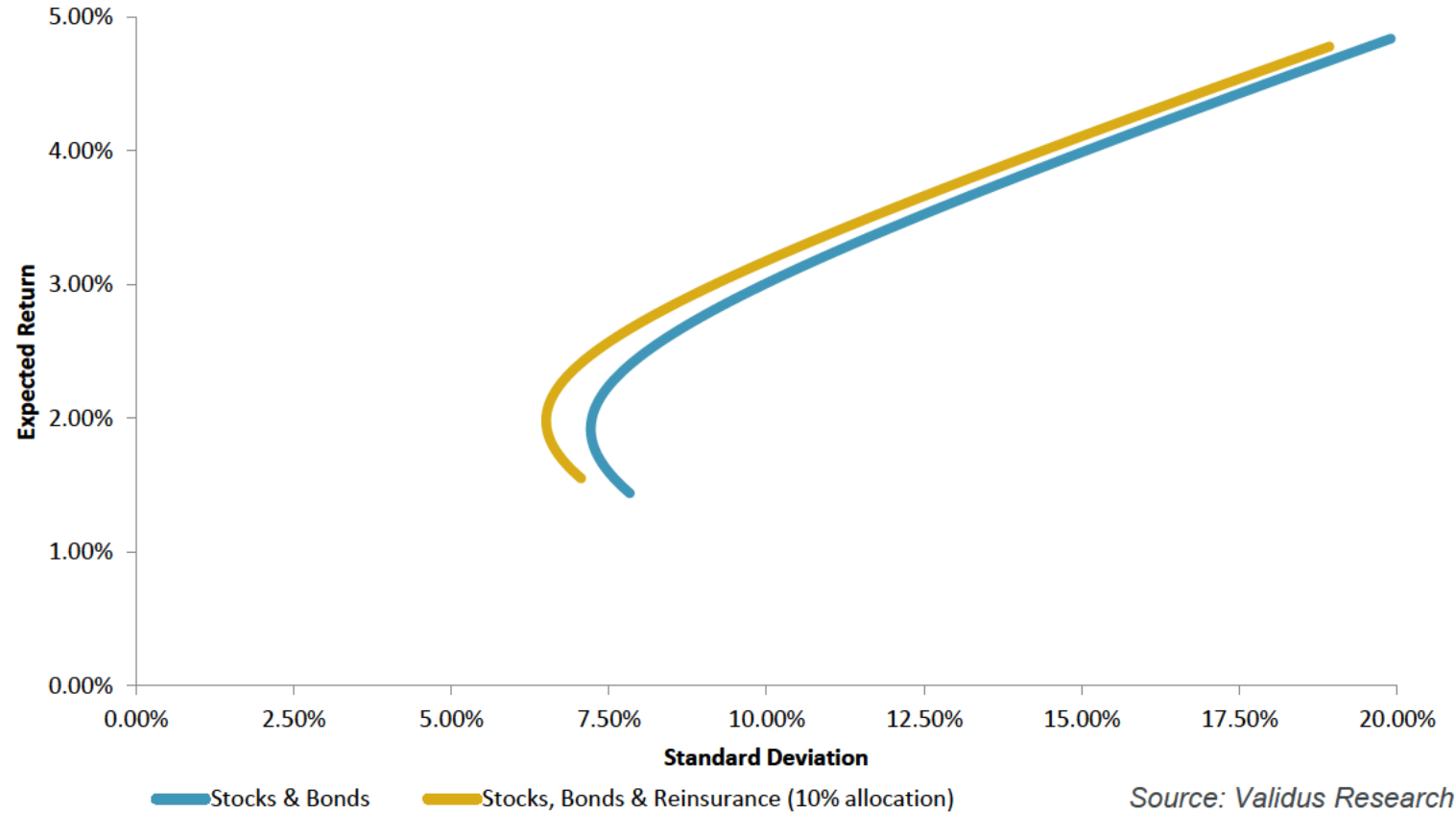
Top 10 by AUM as at August 2016  
source: Artemis.bm



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# The appeal to investors



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# Should it work?

## Traditional (re)insurance should benefit from capital leverage...

Example, household insurance – semi-detached 3 bedrooms, outer London, £200k rebuild cost

	Traditional insurance	Collateralised insurance
Capital Required	£100	£200k
Cost of Capital	8%	4%
Price	£150	>£8k !!



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# Should it work?

... but the leverage may not be enough

Example, \$100m xs \$100m catastrophe reinsurance contract, expected loss = \$5m

	Traditional reinsurance	Collateralised reinsurance
Capital Required	\$50m	\$100m
Cost of Capital	10%	4%
Price	\$13m	\$11m

*\* Assuming 20% expense loading*



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## Threats to other markets



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# Other developments

Hedge fund reinsurers

Total return reinsurers

Lloyd's SPS / SPA

London ILS framework

UK foreign aid cat  
bond



Long tail business for  
“float”

Securitizing reserve  
runoff



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# Opportunities for actuaries

*“In the middle of every difficulty lies opportunity”*

- Albert Einstein



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# Questions

# Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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