It's 2018. Are you still monochromatic?

TigerRisk partner Wade Gulbransen discusses the evolving structure of reinsurance programmes, and how what were once simplistic, single towers have become more like mosaics

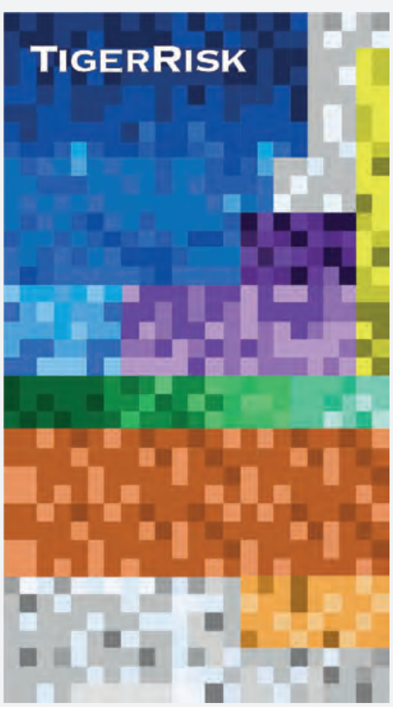
Mosaic as an art form has a long, rich history starting in Mesopotamia in the third millennium BC. It involves positioning different types of materials such as pebbles, stones, shells, glass, tiles or "tesserae" together to form a pattern or picture.

Venture through Monte Carlo and you'll find plenty of mosaics in places like Saint Nicholas Cathedral, the Oceanographic Museum and the Hexa Grace at the Casino. So, what do mosaics have to do with reinsurance?

Only a few years ago, graphic representations of reinsurance programmes were single monochromatic towers of capital.

Today, in a rapidly growing world of risk transfer solutions, the most efficient reinsurance programmes resemble mosaics – a blend of structures, risk-bearing vehicles and capital sources that together comprise something greater than the sum of its parts.

Their positioning, size and features represent myriad functions and goals. Risk profiles and appetites vary, fostering a fluid and competitive marketplace.



When properly positioned, these different capital products work together, like a mosaic, to create an integrated solution drawing on the strengths of each of its respective components.

Selecting the right "capital tesserae" is critical to optimise cost efficiency of customised risk transfer solutions.

TigerRisk embraces this rapidly evolving landscape of capital and has developed proprietary tools to critically evaluate sophisticated solutions. We enable our clients to access and allocate capacity where it is most cost-effective – saving our clients time and maximising their retained margin.

> "Selecting the right 'capital tesserae' is critical to optimise cost efficiency of customised risk transfer solutions"

Optimising different capital sources is both an art and a science. Like a mosaic, the needs of today's clients are extremely complex.

There is a multitude of questions to consider when evaluating these needs. What specific goals and objectives is the client trying to solve? Does the client require vertical tail protection, sideways aggregate protection, or a combination of both? What are the client's growth aspirations? What drives exposures? How have historical losses impacted the client's view of modelled losses and risk tolerance? All these questions feed into the overarching question of what today's clients should buy.

Designing a reinsurance programme that is robust yet flexible enough to attract multiple sources of capital to interlock and support the risk is key. Critical design considerations include:

- Holistic coverage
  - Multi-functional limit
  - Single shot vs. reinstated limit
  - Contingency options
  - Mix of indemnity vs. index triggers
- Comprehensive market panel
  - Syndicated vs. private layers targeting specific risk appetites
  - Balance sheet vs. collateralised capital
  - ILS / sidecar capital
  - Private placements / key partnerships
- Sustainability
  - Supported across market cycles
  - Blend of single-year and multi-year capacity
  - Flexible growth adjustment features

As more companies look to break away from the traditional one-size-fits-all model, a mosaic approach to pairing risk and capital is an essential element of any successful reinsurance programme.

Author bio

Wade Gulbransen is a partner and Global Head of Reinsurance at TigerRisk and specialises in developing/applying analytical tools as well as financial and catastrophe models.