

Reinsurance: the Cap on Capital

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Hussain Ahmad

Swiss Reinsurance Company Ltd.



SWISS RE
150
YEARS

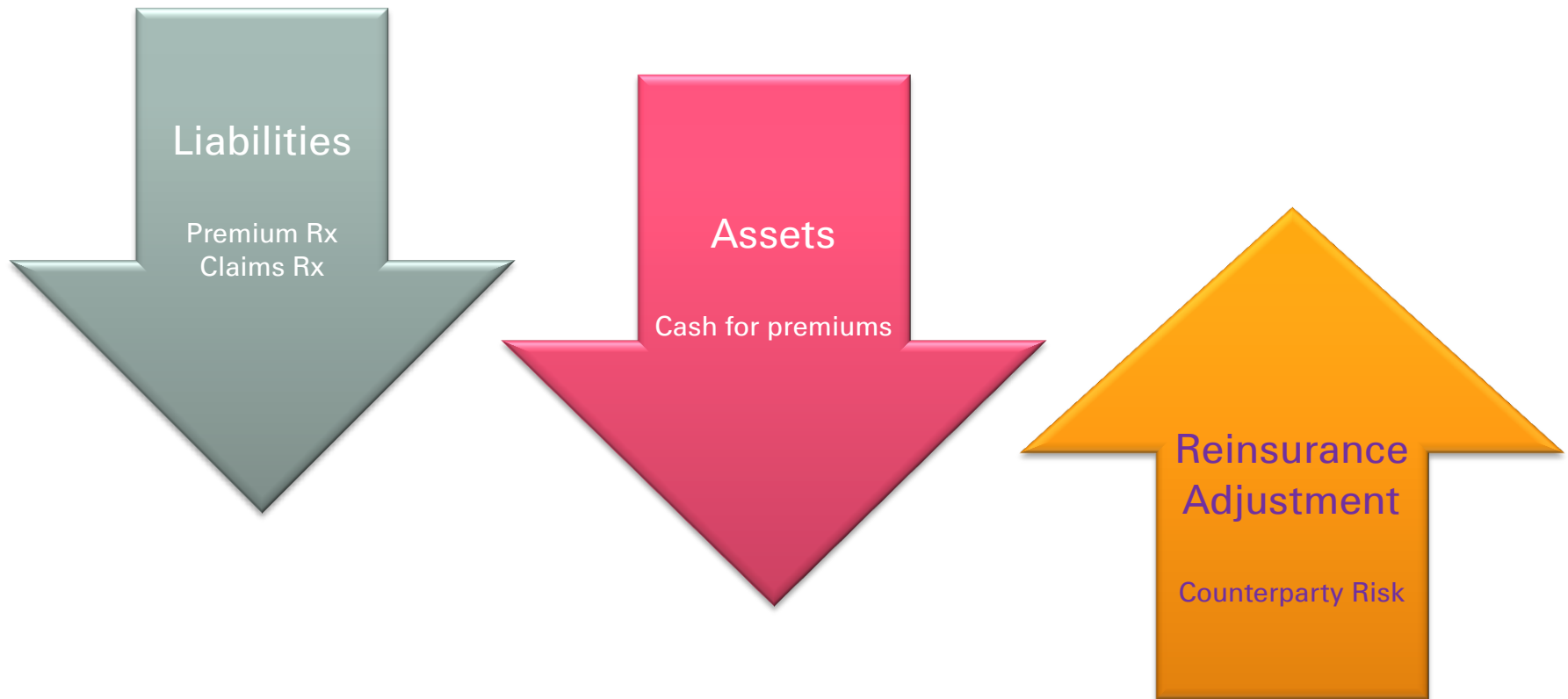
Reinsurance – expense or capital?

Reinsurance is
(mostly) purchased as
if it were an expense

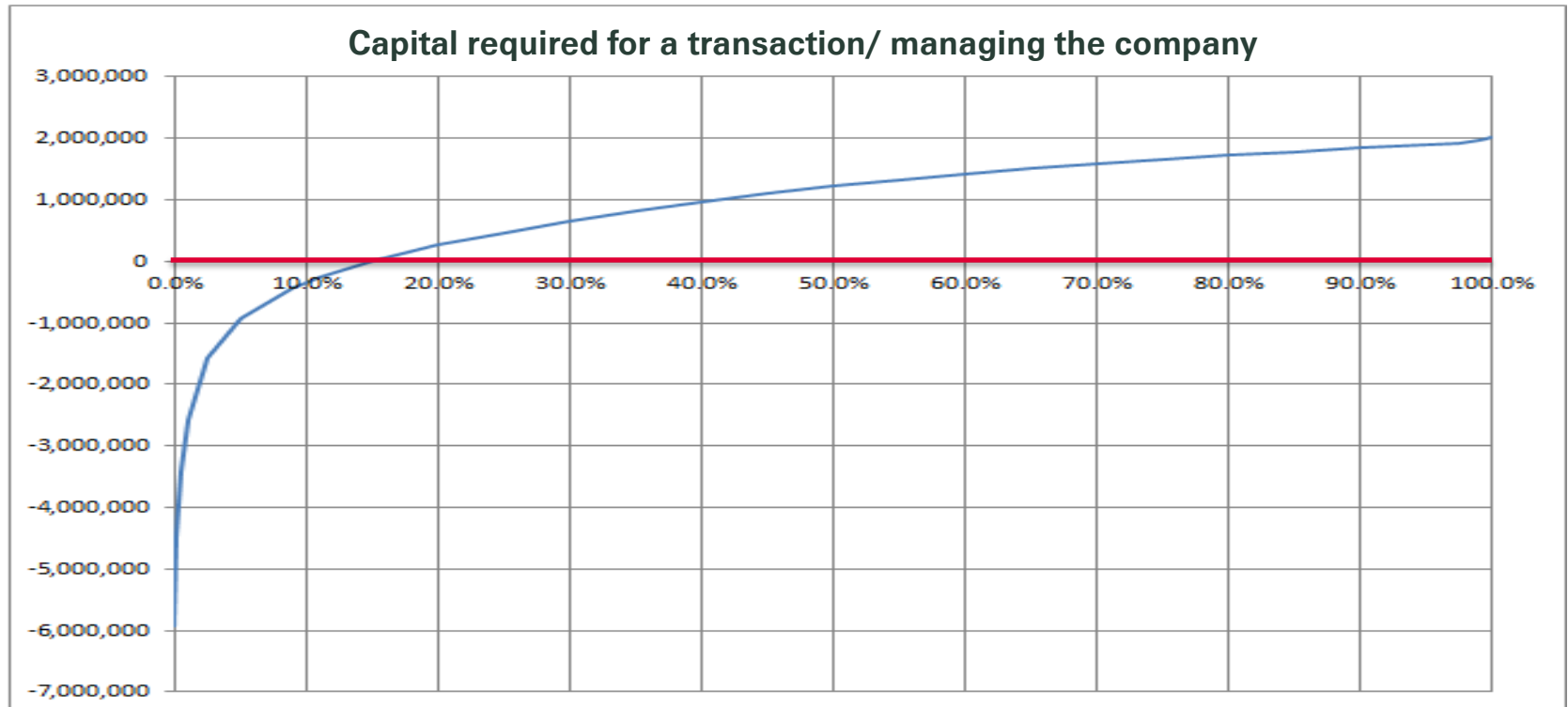
Reinsurance is (mostly)
sold as if it were an
expense

Time to set the record
straight...

Risk-Based Capital View – impact of reinsurance purchase



Thinking in terms of economic capital...

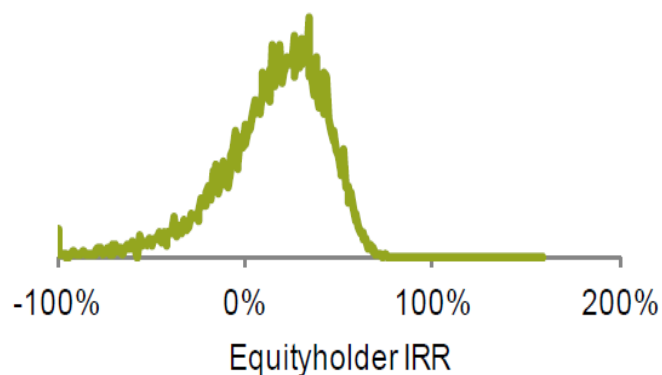


It all comes down to the cost of capital

- I'll refer to paper written for GIRO by James Karim, "Reinsurance Structure and Shareholder Value"

Figure. 1

100% Equity financing

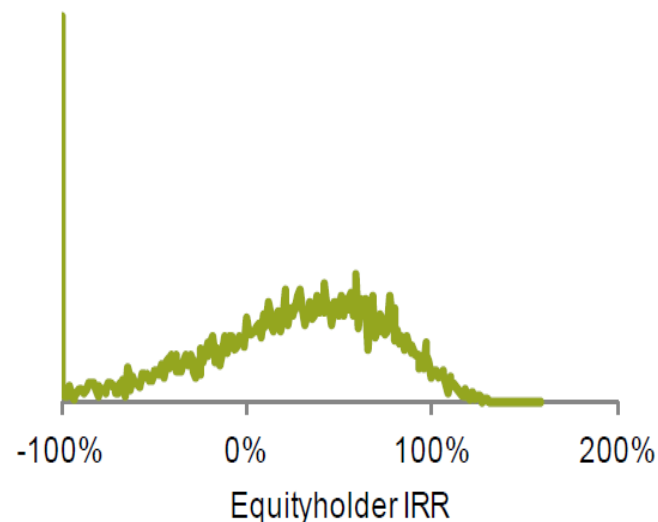


Mean

15.13%

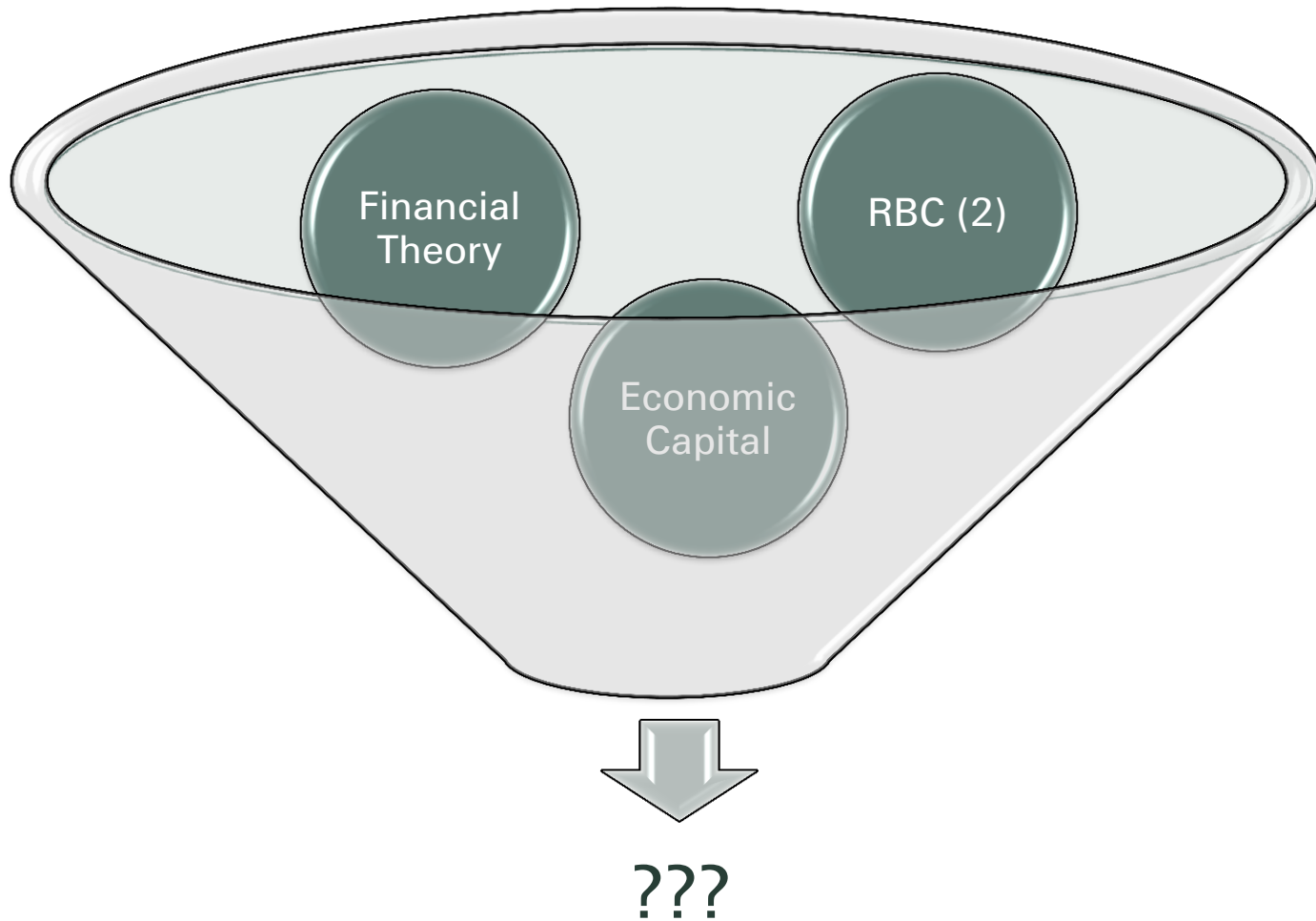
Figure. 2

50% Equity + 50% debt



Mean

23.48%



So when was the last time you were involved in a strategic discussion around reinsurance?

Thank you

Hussain Ahmad

Ph. +65 6232 3482

Structured Reinsurance Solutions & ERO - Retrospective Solutions

Hussain_Ahmad@swissre.com

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