

Reinsurers: Foundational to the global insurance market

Running an insurer is truly complex. Developing and pricing products, assessing applications from prospective customers, managing computer systems and internal operations, investigating and paying claims, and ensuring regulatory compliance and sound risk management, not to mention financial reporting, marketing and public relations, are not for the faint-hearted. How do insurers with limited resources manage and finance this complexity, especially when starting out? They typically use a friend or two. Welcome to the world of reinsurance.

Articles are available at www.tresconsulting.co.za

16 JAN 2026

Insurance exists because customers of all kinds recognise that they cannot manage some of the risks that they are exposed to. Rather than bear the consequences of a long-term personal disability, stolen vehicle, professional lawsuit or flooded business premises, they outsource this risk to an insurer. They exchange an extreme potential loss for a known small premium.

The same principles apply to insurers. They cannot or choose not to absorb the risks associated with their large portfolio of disability policies or flood risk. They too understand the benefit of insurance. In this case, the provider of cover is typically not an insurer but a reinsurer, a specialist in protection for insurers.

Who are these reinsurers?

Ranking the world's reinsurance giants is not a trivial exercise, thanks to differences in measurement and financial reporting. Still, no matter how one looks at it, the table of reinsurers is dominated by European and then North American entities, typically with long histories. East Asian and Indian players are finding their way into the higher positions. A search for an African reinsurer would be rewarded a little further down the list.

You may wonder why the reinsurance industry is dominated by entities that are large and long in the tooth. Size matters because financial strength is critical in this space. Which entities were ultimately responsible for covering the damages caused by storms Sandy or Katrina, Mangkhut or Hagibis, or for the losses resulting from the destruction of the twin towers? The reinsurance industry ultimately stands behind these risks. It needs the financial muscle to do so with confidence.

Experience, skills and reputation are possibly even more important than financial capacity. The insurers covering property risk on the US Atlantic Coast need capable reinsurers with an unshakable reputation for risk management, underwriting expertise and reliable claims payment. Track record counts for a great deal in

this market. Reinsurers are the safety net of the global insurance industry. They must be impeccably reliable.

What do reinsurers do?

So, reinsurers provide protection to insurers. How exactly does this work in practice and how might it help the insurers? Consider a small South African insurer, a start-up perhaps or a specialist with a ceiling to its available capital. That ceiling imposes a practical limit to the volume of business that it can sell. Why? The capital represents the guarantee to the insurer's customers that it will be able to pay claims when they arise. Selling too many policies stretches this capital, leaving disaster just around the corner. In fact, experts serving that insurer, like actuaries and risk managers, are obliged to raise a danger flag concerning the possibility of disaster well before it happens.

One solution to this constraint is more capital. Increasing the capital base allows the insurer to sell more policies, perhaps also a greater range of policies. This in turn grows its reputation in the market. A virtuous cycle results, all going well.

But capital doesn't grow on trees. An alternative is to contract a reinsurer. If the insurer agrees to share half of the risk of each policy with the reinsurer, then, in simple terms, the insurer has the capacity to sell twice the volume of policies with the same capital. In other words, the insurer can grow its experience and reputation by sharing its risk (and profit) with a reinsurer.

An alternative to this proportional risk-sharing is to invite the reinsurer to take care only of the largest risks, say the claims individually or cumulatively exceeding a stipulated threshold. This also results in more efficient use of capital in return for a known premium.

Reinsurers typically also offer expertise in return for business. This gives to small or start-up insurers the technical know-how of an industry leader, an invaluable asset when experience is limited by scarce resources.

Behind many insurers are reinsurers, the bedrock of the global ecosystem. The best of them are industry stalwarts, superb at assessing and managing risk, and corporate citizens of the highest quality. Your insurance policy may be underpinned by the capital and expertise of a reinsurer. And if you are in the business of insurance, your key asset is most likely the reinsurer that shares your risk and guides you through extraordinary complexity. **Rob Rusconi**