Press release

Date	November 15, 2015
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PwC: Growth opportunities as reinsurance market adapts to continuing influx of alternative capital

Hamilton, Bermuda – The influx of alternative or third-party capital continues to reshape the insurance industry – with that capital being deployed in less traditional areas and the industry increasingly seeing it as a complementary form of additional capacity.

At the tenth annual Bermuda Reinsurance conference November 10, sponsored by PwC Bermuda and Standard & Poor's Ratings Services, industry leaders considered the next phase in the alignment of risk and capital and whether alternative structures and even more alternative players will take this space further.

"There continues to be significant growth in the ILS market reflecting the abundance of capital still available and the attractiveness of this market as a means of diversification," said **PwC Bermuda managing director David Gibbons**.

"We are seeing a shift away from the growth being in the more traditional catastrophe bond space and catastrophe covers to more complex structures and more diverse property and casualty lines. However, cat bonds are still an important and active piece of the ILS market."

Mr Gibbons added: "There also continues to be a significant interest in the life space. The variety of products offered there with very different liquidity and return dynamics are very attractive to a growing segment of the market."

John Seo, co-founder & managing principal of Fermat Capital Management LLC, said he saw alternative capital as complementary to traditional reinsurers, particularly in closing the insurance gap.

He told panel moderator, Scott Watson-Brown, Asset Management leader for PwC Bermuda: "I definitely see it as a complement and the protection gap is really the biggest place I believe alternative will play. The protection gap by definition is actually systemic risk – these are risks that are so big from single events that they can't all possibly be covered. So I do think it's a complement and in particular how I think it's going to break out is you are going to see more alternative capital providing coverage on an index or parametric basis."

He noted that more economic loss is occurring though business interruption and less on the physical damage side.

Craig Wenzel, senior vice president, Capital Markets, XL Group, said: “I think there are plenty of things the alternative capital market can do that traditional reinsurers and insurers are sometimes loath to do - those channels aren’t set up properly to do that - but they are also looking at us to provide leadership in underwriting and understanding risk and packaging it in the most appropriate way.”

Lixin Zeng, CEO, AlphaCat Managers Ltd, said “My belief is there is going to be a long-term equilibrium where traditional capital and alternative capital coexist and play to their respective advantages and lower the overall cost of risk transfer for society.”

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