

## Consolidation in the Reinsurance Industry

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Reinsurance is used by insurance companies to transfer some of their risk to other parties. The company willing to accept the risk is known as the reinsurer and the company transferring the risk is known as the “[ceding company](#)”. The reinsurer agrees to indemnify the ceding company against some of the primary insurance risks underwritten by the ceding company under one or more insurance contracts. The ceding company pays a premium to the reinsurer and in return it will receive a payment if specified event occurs. Examples include extensive damage from flooding and earthquakes.

Almost all insurance companies (and gambling companies) obtain reinsurance coverage. With reinsurance, the ceding company can issue policies with higher limits than would otherwise be allowed under regulatory rules. As such, it helps the ceding company mitigate the risk of natural disasters and events in the insurance world while reducing the liabilities on the balance sheet of the ceding company.

It was recently announced that two large insurance companies, [PartnerRe](#) and Axis Capital Holdings, agreed to merge as the industry looks to consolidate to compete against new entrants into the industry. Asset managers, hedge funds, and institutional investors have recently [entered the reinsurance space](#) in search of the high premiums offered. Institutional investors are also attracted to the space as reinsurance has little or no correlation with other asset classes (for example, there is little or no correlation between the risk of a large hurricane season and the direction of the equity markets). All this new competition in the reinsurance space has put downward pressure on the premiums received by the reinsurers.

That has prompted reinsurers to merge, looking to gain more scale and cut costs as well as add new product offerings. The latest merger follows other large mergers in the space including the merger between [RenaissanceRe](#) and Platinum Underwriters.

Many commentators believe that [more consolidation](#) will occur in the space if the leading players in the space (which includes Warren Buffett’s Berkshire Hathaway) do not differentiate themselves from the additional competition.