



Cass Business School
CITY UNIVERSITY LONDON

Global Reinsurance Masterclass Series

Strategic Thinking for the
Reinsurance Industry

Masterclass 7

Imagining the future

How to stay ahead in the reinsurance game
through scenario planning

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The Global Reinsurance Masterclass Series is sponsored by ESRC, WCI and IICI



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Executive Summary

Developments in the global reinsurance industry mean that firms are facing ever-increasing levels of uncertainty.

This Masterclass:

- Analyses the reinsurance landscape to identify some of the key uncertainties confronting the reinsurance industry;
- Uses scenario planning techniques to cluster these uncertainties and generate three alternative future scenarios;
- Assesses the impact of these alternative futures on reinsurance industry incumbents;
- Explores how firms in the reinsurance industry can stay ahead by integrating scenario planning into the development of their business strategies.

It is the final Masterclass in our series of seven.

“You see... I can live with doubt, and uncertainty, and not knowing. I think it’s much more interesting to live not knowing than to have answers which might be wrong. I have approximate answers and possible beliefs and different degrees of certainty about different things. But I’m not absolutely sure of anything, and there are many things I don’t know anything about” (Richard Feynman, Nobel Prize, Physics, 1965)¹

John, the Chief Executive of GlobalRe arrives at the board meeting with Martin, GlobalRe’s Underwriting Director. As they sit down they start to discuss Super Typhoon Haiyan in the Philippines and their exposure. John says, “It was one of the strongest cyclones ever to make landfall.” Martin nods, adding, “I know, these severe weather events seem to be getting worse – and harder to predict. The tornadoes in the Midwest last November were unexpectedly late in season. It’s happening everywhere. Even the UK has had some of its worst flooding on record in the past two years!” Alan, GlobalRe’s Finance Director says, “The whole world is just more uncertain. Look at the problems in the Eurozone with the sovereign debt and continuing recession. Heaven only knows when that will get resolved.” As the discussion continues, the executives point out yet more uncertainties in the reinsurance environment. Martin is especially preoccupied with the rapid growth in emerging markets and what this will mean for the industry

and, especially GlobalRe. He is convinced this will generate unprecedented opportunities for them, which they should target aggressively. But others are more circumspect: “We don’t know. Yes, these markets are growing, but where is the premium going to go and what role will the governments play?” This leads to a general discussion about regulation. The executives are somewhat relieved that Solvency II finally seems to be coming to a resolution, but there is also growing concern that regulation is now a ‘continuously shifting set of goalposts’. Martin talks about how nine of the largest insurers have been designated ‘too big to fail’ and so face more stringent capital requirements. Julia, GlobalRe’s Operations Director, then takes the conversation in a new direction when she reports on a recent conference she attended, which highlighted how cyber-risk and systemic risks may increase in the next five or so years.

These conversations paint a swirling mess of uncertainty. The executives start to talk about the robustness of the strategy in light of these unknowns. John says, “We need to get our heads out of the short-term and start thinking how these things may be shaping the industry of tomorrow. It is no good looking at one thing in isolation: we need more systematic thinking, and we need to start preparing for an unknown future today.” Alan summarises the feeling in the room: “I wish we had the newspaper for 2025 in front of us today.”

¹Excerpt from an interview given to BBC Horizon programme, 1981

1. Introduction

1.1 Into the unknown

The risk business is becoming more uncertain. Without a crystal ball, we cannot predict with any certainty how emerging markets, political instabilities, the financial crisis, climate change and new technological developments will all conspire to affect the reinsurance industry over the coming years. This uncertainty is uncomfortable, precarious but, of course, inescapable. As Donald Rumsfeld famously remarked, we are confronted with both ‘known unknowns’ (things we know we don’t know) and ‘unknown unknowns’ (things we do not know we don’t know)². This does not mean, however, we are powerless to prepare for what lies ahead.

This Masterclass shows how reinsurers can take charge of their destinies and keep winning in the reinsurance game. Although sophisticated techniques for forecasting and risk modelling are continuously being developed, perceived uncertainties that cannot be addressed with probabilities have to be examined with a different approach. We offer reinsurers a way to address the problem of uncertainty through scenario planning; a foresight technique that can significantly enhance strategic decision-making.

1.2 Introduction to scenario planning

Scenario planning is a practical managerial tool that enables companies to assess external uncertainties

and develop more attuned strategies. While the origins of this approach can be attributed to the work of Herman Kahn in the RAND institute, its use by Royal Dutch/Shell in the 1970s popularised the method.³

Scenario planning encourages managers to scan their environments, pinpoint areas of concern and construct plausible images of the future. Scenario planning is not about trying to predict the future; rather, it is about preparing and readying the business for what may or may not unfold. By ruminating on alternative futures, in a very systematic and disciplined way, scenario planning significantly enhances levels of anticipation and provides management with a varicoloured backcloth against which they can stress-test strategies and plan for the future.

As Figure 1⁴ shows, the scenario planning process involves four main steps: (i) identifying key external trends and uncertainties, (ii) assigning potential ranges of values to the uncertainties, (iii) developing alternative scenarios and (iv) evaluating the strategic implications of scenarios. In the following subsections we discuss each of these steps and show how they can be applied to the reinsurance industry to inform strategy planning. We also suggest how firms can customise this model to suit their own particular needs and use the central ideas discussed in previous Masterclasses to respond to different reinsurance scenarios.

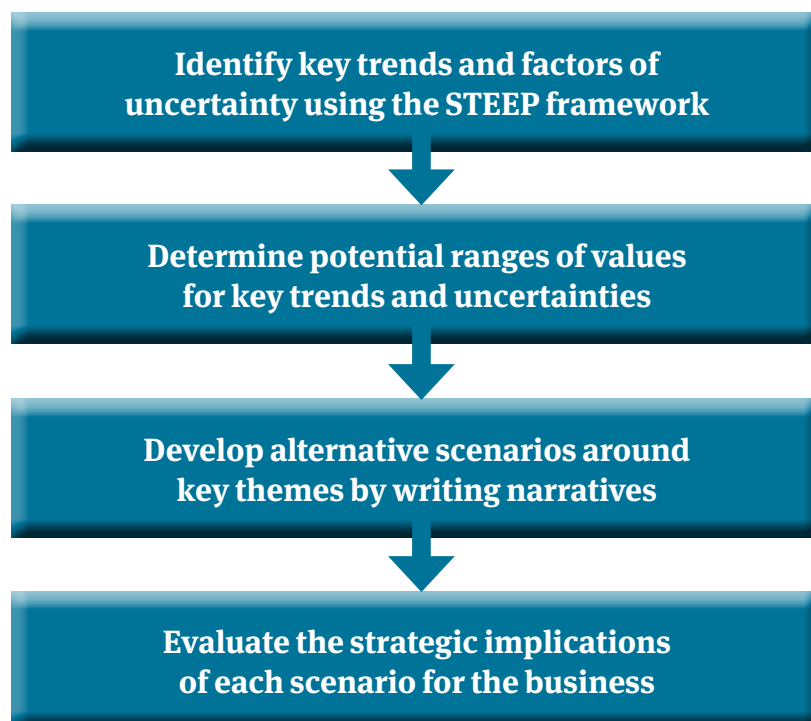


Figure 1. Scenario planning process

²Donald Rumsfeld, United States Secretary of Defence, February 12, 2002. <http://www.defense.gov/transcripts/transcript.aspx?transcriptid=2636>

³See van der Heijden, K. 2005. Scenarios, the art of strategic conversation. 2nd edition, Chichester, UK: Wiley.

⁴The scenario planning process in the Masterclass follows Shell's approach, as outlined in van der Heijden, K. 2005. Scenarios, the art of strategic conversation. 2nd edition, Chichester, UK: Wiley. We also draw on Tapinos, E. 2012. Perceived Environmental Uncertainty and Scenario Planning. *Futures*, 44(4): 338-345.

2. Scenario planning step 1 : Identify external uncertainties in the reinsurance industry

In this step managers use research, brainstorming and discussion to tease out key areas of uncertainty in the reinsurance landscape. Before beginning, however, it is important to agree the planning horizon and define the scope of the exercise. The planning horizon we work to here is 12 years, looking towards 2025. In terms of scope, we are concerned with external macro-level forces, trends and uncertainties that might be of critical concern for the reinsurance industry in the future. The STEEP (Social, Technological, Environmental, Economic and Political) framework provides a useful system for classifying these macro-environmental factors.

Our analysis of the reinsurance industry reveals at least nine STEEP factors (see Table 3, p6) that need to be considered in a reinsurance industry scenario planning exercise. These are explored in ‘brainstorming’ fashion in sections 2.1–2.5. The aim is to be aware of the various ways in which these factors could alter by 2025. Later, when we come to write scenarios, we will choose and weave together some of these possible future developments.

2.1 Social trends and uncertainties

2.1.1 Changing population

The world population of 7.2 billion is projected to increase by almost 1 billion people within the next 12 years, reaching 8.1 billion in 2025.⁵ At the same time the world’s population is expected to get much older. Latest figures suggest that the number of people aged 60 or over will increase by a factor of 2.4, passing from 841 million in 2013 to more than 2 billion in 2050.⁵ While reinsurance firms have sophisticated models for anticipating population demographics, what is less well known is how these demographic trends will conspire to affect the reinsurance industry. For example, growing pressure on the world’s natural resources may create new types of insurable risks, and therefore new products to be sold on the reinsurance markets (see Table 3, p6).

2.2 Technological trends and uncertainties

2.2.1 Big data

Big data is not yet a major priority for many reinsurance firms, which rely on traditional data analytics and vendor models to support underwriting decisions. However, the growing volume of real-time data, coupled with rapid technological advancements, will enable businesses to capture, store and analyse ever-larger volumes and varieties of sophisticated data in the future. Indeed, some estimates suggest that data production will be 44 times greater in 2020 than it was in 2009.⁶ According to the Google Chairman, Eric Schmidt, “(Re)insurance is the most obvious industry about to explode with uses for big data”⁷ and new technologies have the power to transform the industry. What impact will these trends have on competitive dynamics and operations in the industry?

2.2.2 Cyber risk

There is growing concern about cyber risk and the vulnerability of technological infrastructure to hackers, viruses, cyber terrorists and data thieves. As cyber-crime becomes more sophisticated, making it harder to combat, detect and mitigate, the threat of destabilisation, disruption and data misappropriation grows. A report by Rohini Tendulkar (International Organisation of Securities Commissions Research Department)⁸, for example, showed that more than half the world’s securities exchanges experienced a cyber attack in the last year (53%). Earlier this year the Federal Reserve and major Wall Street banks simulated a large-scale cyber attack (called Quantum Dawn 2) that would have resulted in the closure of the US stock market.⁹ If cyber risk grows, we could see major disruption to the reinsurance industry over the coming years (see Table 3, p6).

⁵World Population Prospects: The 2012 Revision. http://esa.un.org/unpd/wpp/Documentation/pdf/WPP2012_highlights.pdf

⁶http://www.csc.com/insights/flxwd/78931-big_data_universe_beginning_to_explode. Accessed 12-Dec-13.

⁷<http://www.insurancejournal.com/news/national/2013/11/25/312031.htm>. Accessed 12-Dec-13.

⁸Tendulkar, R. 2013. Cyber-crime, securities markets and systemic risk. IOSCO Staff Working Paper [SWP1/2013]

⁹Alloway, T. & Massoudi, A. Simulation highlights risk to Wall St from cyber attack. Financial Times 21 October 2013

2. Scenario planning step 1 : Identify external uncertainties in the reinsurance industry (cont.)

2.3 Environmental trends and uncertainties

2.3.1 Changing climate

Global environmental trends are creating new risks and opportunities for the reinsurance industry. Rising losses related to extreme weather and catastrophic events, both natural and man-made, have already had a big impact. Ten of the 12 most costly hurricanes in insurance history (adjusted for inflation) have occurred in the past eight years.¹⁰ Likewise, inland flooding in Europe, Asia and Australia has caused huge losses for reinsurance firms. The 2010-2011 floods in Australia, for example, resulted in more than \$350 million in claims to Munich Re.¹¹ More extreme weather patterns could have significant implications for the industry (see Table 3).

2.4 Economic trends and uncertainties

2.4.1 Growth of emerging markets

Advanced economies still account for nearly 85% of the global insurance market, but average growth in these economies was only 1.5% in 2012 compared to 8% for emerging markets.¹² Reinsurers are fighting each other tooth and nail to get into emerging markets like Brazil and China, as growth in mature markets slows and emerging markets become increasingly important in long term growth plans.

How will the reinsurance industry respond to this trend? Will existing industry players increase their revenues through penetration in emerging markets, or will competition increase as new well-capitalised firms in emerging markets move in and compete in developed markets?

2.4.2 Interest rates and capital supply

In recent years, the relationship between capital markets and the insurance industry has evolved. Low interest rates in other financial sectors have resulted in an increasing influx of new capital and capital providers into the reinsurance space. Capital accumulated by reinsurers stood at \$510 billion on June 2013 of which \$44 billion (8.6%) is coming from alternative capital.¹³ The reinsurance industry attracted \$10 billion of new alternative capital the past year and it is estimated that more than \$100 billion will enter the market over the next five years.¹⁴

While the short-term growth of alternative capital is more certain, we do not know what will happen if this trend continues. What will be the strategic position that traditional reinsurers and alternative capital providers will employ in the new era? Will there be coexistence in the market or not? What will their respective roles be?

2.4.3 Global reinsurance market convergence

Globalisation has generated widespread consolidation in the reinsurance industry as players have come together to expand their competitive offerings, broaden their geographic reach and strengthen their bargaining power. The degree to which this trend continues is likely to have far reaching implications for (re)insurance industry structure, profitability and risk trading. For example, if reinsurance cedents (buyers) continue to consolidate, their power will grow as they have the option of retaining more risk, instead of ceding it on the reinsurance market. Additionally, larger cedents are likely to want to use bundled, global or multi-territory products such as super-Cats, rather than use local programmes.

¹⁰Frank Nutter, President, Reinsurance Association of America. Speaking December 14, 2012 at a Environmental and Energy Study Institute (EESI) organised briefing on insurance industry perspectives on recent extreme weather events

¹¹Gardiner, D. & Associates, LLC. 2012. Physical Risks From Climate Change: A guide for companies and investors on disclosure and management of climate impacts.

¹²Swiss Re sigma study, 2013. World insurance in 2012: Progressing on the long and winding road to recovery. http://media.swissre.com/documents/sigma3_2013_en.pdf

¹³"New capital reinsurance industry could reach \$100B in 5 years." Insurance Journal, September 2013.

¹⁴Aon Benfield Report, 2013. Reinsurance Market Outlook. http://thoughtleadership.aonbenfield.com/Documents/20130103_reinsurance_market_outlook_external.pdf

2. Scenario planning step 1 : Identify external uncertainties in the reinsurance industry (cont.)

2.5 Political trends and uncertainties

2.5.1 Financial regulation, state intervention and global governance

With the recent financial crisis, some voices are calling for increased financial regulation. General trends towards tighter solvency regulations have already imposed higher capital requirements on firms, and the need for a more structured and transparent approach to risk management. If such types of regulation become more stringent, the structure and growth of financial markets can be significantly affected.

However, consistent global financial regulation is difficult to achieve, as it requires tight cooperation between states. Disjunctures between different local financial regulations may prevail over global regulation. With respect to non-financial markets, the voice of ‘anti-globalists’ – who call for reforms in governance of institutions that govern globalisation – also is gaining power. There is some doubt as to whether some countries will increasingly rely on non-tariff barriers (such as licensing rules, limits on foreign ownership, mandatory joint ventures) in order to hamper market penetration.

State regulation and intervention could evolve in a number of ways. For example, we may see a growing role of the state as financial power shifts. That is, Brazil, Russia, India and China could overtake the G7 countries as early as 2017 in GDP growth terms.¹⁵ Many of these countries and other emerging markets can be challenging regulatory spaces for business activity because they have economic policies in place that blur distinctions between public and private.

Between the growing empowerment of the state in western economies due to the financial crisis and the historic preference of some of these rising economic powers for state control and investment regulation, we may see more disjointed regulation and greater state restrictions on foreign investment. Alternatively, global markets might become more connected, with regulatory harmonisation and decreasing national-specific restrictions, which would further enable free trade.

2.5.2 New global players and the changing geopolitical landscape

For many commentators of international relations, the 21st century will be the century of Asia, with the economic and political rise of the two most populous countries in the world: China and India. There is little uncertainty that both countries’ population will reach 1.3-1.4 billion (each) by 2020 and that their GNP will continue to grow, to approach (or even exceed in the case of China) the GNP of most western economic countries. But, how these two countries will exercise their growing economic power to play in the political field is more uncertain. Will these two countries cooperate with western countries during international crises? Will China continue to strengthen its military, and overtake Russia; or will it embrace a more democratic society?

The rise of other countries, such as Brazil, also threatens many of the fundamental categories that structure current political thinking, such as the north/south and the developed/developing categories. The USA is likely to see its power position eroded, but the extent to which the world in 2020 will have a more non-western face, with new countries playing in the international political field is unclear. Will Washington remain the central pivot for international politics and if so, for how long?

Study Question 2

In section 2 we have given examples of some broad trends that will be of obvious interest to most companies in the reinsurance industry. Nonetheless, there may be others that are also very important for your business.

Think about other broad trends over the next 12 years. Can you identify three other areas of uncertainty that might be important for your business?

¹⁵PWC Report, 2013. The World in 2050. The BRICs and beyond: Prospects, challenges and opportunities. http://www.pwc.com/en_GX/gx/world-2050/assets/pwc-world-in-2050-report-january-2013.pdf

3. Scenario planning step 2 : Determine potential ranges of values for uncertainties and trends

The next step for those involved in the scenario analysis process is to consider potential ranges of values for each external factor.

As Table 3 (below) illustrates, this is a largely subjective process, but it encourages participants to engage in dialogue about the uncertainties, imagine potential upsides and downsides and think through possible implications.

Trends and uncertainties	Low value by 2025	High value by 2025	Possible implications
Changing population	World population growth slows and reaches less than 8 billion. The proportion of people aged 60+ rises, but only in developed economies; life expectancy remains lower in the rest of the world.	World population grows faster and exceeds 8.1 billion. Proportion of people aged 60+ exceeds 1.2 billion and is expected to grow rapidly.	Labour market, pension systems, social security reforms, tax increases, pressures on economic growth. Demand for healthcare, life insurance and retirement funding. Pressures on natural resources and the creation of new environmental risks and new reinsurance products.
Big data	The volume of information generated overwhelms firms. Most fail to turn big data into meaningful patterns, concentrating its use into the hands of a few key players.	Analytic technologies become increasingly sophisticated, and thus powerful computing systems are available for people to access and use big data within firms.	Opportunities for innovations in data analytics, risk appraisal and pricing. Enormous technological and competitive challenges. Investment in big data infrastructure to ensure firms have the technological capacity to competitively leverage big data.
Cyber risk	Technology develops in ways that make online transactions secure.	Cyber attacks become more sophisticated and increasingly infiltrate online networks and technological infrastructure.	Security threats lead to less willingness to trade online. Demand for insurance to cover cyber risk increases. New regulations to mitigate cyber risks, possibly raising compliance costs.
Climate change	No substantive change in the frequency of extreme weather and catastrophic events.	Dramatic increase in the frequency of extreme weather and catastrophic events.	Market growth due to increased event frequency. Risk of big losses increases. Some firms struggle to survive loss events. Pressing need to develop new risk models and underwriting capabilities.
Emerging markets	Existing firms penetrate in emerging markets to boost their growth and profits.	New well-capitalised firms move from emerging markets to compete fiercely with existing firms in developed markets.	Emerging markets become increasingly important, but it is unclear where new markets will yield their reinsurance premiums. Implications for business models and global competition.
Interest rates and capital supply	Alternative capital suppliers face losses in the industry and so exit the market to allocate capital on investments/ markets with higher returns.	Returns remain low in financial markets and so new alternative capital keeps entering the market, marginalising traditional players.	Declining demand for reinsurance. Increased supply of capital, squeezes reinsurance prices and profits. More intense rivalry between reinsurers. Increase in mergers and acquisitions activity.
Global reinsurance market convergence	The trend towards industry consolidation slows.	The trend towards industry consolidation continues or increases.	Buyer consolidation deprives reinsurers of premium and squeezes profits. Greater use of bundled 'super-risks' is beyond the capacity and capability of a lot of smaller reinsurers. The pool of possible reinsurers is limited to a few select heavyweights with sufficient analytic capability.
Financial regulation, state intervention and global governance	A more favourable regulatory environment with greater regulatory harmonisation and decreased national restrictions.	A challenging regulatory environment with more disjointed regulation and increased national restrictions.	Potential for higher capital requirements. More disjointed regulation and increased nationally-specific restrictions would affect the standardisation of products and processes.
New global players and the changing geopolitical landscape	BRIC countries increase their political and economic power to become equal 'partners' with Europe and the US in global governance.	BRIC countries gain enough political and economic power to lead in global governance and re-arrange the global system to their advantage.	The rise of emerging global players hurts traditionally powerful national players. New global competitive dynamics lead many companies in the industry to adjust their business models.

Table 3. External trends, associated uncertainties and possible implications

3. Scenario planning step 2 : Determine potential ranges of values for uncertainties and trends (cont.)

Study Question 3

In Study Question 2 you looked forward towards 2025 and identified three areas of uncertainty that might be important for your business.

Now define the range of potential minimum and maximum values for the uncertainties you identified.

4. Scenario planning step 3 : Develop alternative scenarios

Armed with the knowledge, ‘best guesses’ and projections which have been researched and discussed in the first two steps, managers start to compose compelling and integrative scenarios of alternative future environments.

The process begins with participants engaging in extensive discussion to select the main scenario themes; usually by identifying the most critical forces. The scenario theme is like the eye-catching newspaper headline written in 2025. When writing the scenario narrative, other trends and uncertainties among those identified in the earlier steps are then woven into the storyline in ways that feel plausible. By doing this, managers avoid composing one-dimensional scenarios that are too simplistic. Rather, the factors are woven together to form a much more complex tapestry. To illustrate this process, we have constructed three scenarios for the reinsurance industry in 2025.

4.1 Scenario 1: An increasingly polarised world in 2025

Staggering economic growth in China, India, South Korea, Brazil and elsewhere mean the world is collectively richer than it ever has been, but the flow of economic wealth to lower-growth Western countries is drying up. More international trade is now being conducted within geographical clusters. Economic giants in Asia and Latin America not only generate more wealth, they are also retaining more wealth. Estimates in 2025 suggest that the new Asia pact, for example, will trap 16% more wealth in Asia using regional trade agreements and protectionist measures. Similar developments are occurring in Latin American around Brazil. These are worrying times for many western companies who are increasingly finding themselves locked out of the world’s most lucrative markets. While the World Trade Organisation, western politicians and industry lobbyists continue to rail against these protectionist policies, it seems they are powerless to fight against the strong current that is carrying us towards a more polarised economic world.

Reinsurer Times

(English Edition)
26 November 2025

This week China overtook Japan to become the second-largest primary insurance market in the world in terms of premium income (€850bn).

The last decade has seen the meteoric rise of China, huge premium growth in India, South Korea and Brazil, and strong growth in emerging markets of Africa and the Middle East. These developments have been accompanied by a dramatic shift in power in the reinsurance world, as the long-established giants of the industry, based in its traditional heartlands of Europe and the US, have failed to penetrate the new markets, as they must have hoped.

Regulation – on a scale which European reinsurers in particular have often denounced as ‘protectionism’ – and the increasing dominance of state-owned reinsurers have seen these

geographically-defined markets yield more and more premium to themselves. Western companies, used to working with high-quality information, were slow to gamble on risks in Asia, Africa and the Middle East, which did not come with equally-detailed, historic information needed to run big data analytics. But especially from 2014–2019, when these markets were exploding, local reinsurers such as China Re and India Re showed a much greater willingness to underwrite these less-modellable risks. As a result these two companies have become globally-powerful giants, based on major strength in their ‘home’ markets.

Perhaps too late, European reinsurers have started to underwrite some of these risks in their efforts to grab more Asian premium, but many have been burnt by loss events.

4. Scenario planning step 3 : Develop alternative scenarios (cont.)

4.2 Scenario 2: Extreme weather, extreme prices

Scientists claim that significant rises in greenhouse gas emissions, especially in Asia, along with warming oceans and rising sea levels are causing the dramatic increases and intensity of weather around the world. Withering heat waves, floods in coastal cities and

island nations, disruptions to agriculture and drinking water, storms and droughts in tropical areas, tornados and hurricanes in residential areas are now far more common than they were 10 years ago. This is causing untold damage as people migrate from affected areas, rainfall patterns jeopardise crops and food supplies and most major global cities suffer constant disruption.

Reinsurer Times

(English Edition)
26 November 2025

In 2023 there were nearly 300 individual events generating insured losses in excess of CNY 533 billion (USD138 billion) – a new record.

Insured losses increased by very close to 3% in real terms for each of the previous seven years, in line with damage to human life, urban infrastructure and ecosystems, but the rise recorded in 2023 has been much steeper at 4.3%. While demand to cover natural catastrophes has been especially high in high-growth markets over the past decade, extreme weather patterns are now generating noticeably increased demand in mature markets.

Fears are growing about the potential for market failure, as global insurance and reinsurance markets increasingly struggle with growing demand, higher capital requirements

and greater exposure to catastrophe claims. In the last year, the collapse into insolvency of nine of the top 100 reinsurers, led of course by the shock failure of top-twenty company OmegaRe, has only underlined the general decline in reinsurers' stock prices.

Governments are under increasing political pressure to step in to protect country interests. Industry experts, such as leading academic Paula Jarzabkowski (in her keynote speech at last month's Singapore Meeting), and Virat Bhattarjee of the Federal Indian Reserve, predict we may be moving towards a new partnership model between state regulation and private providers to prop up infrastructure.

4. Scenario planning step 3 : Develop alternative scenarios (cont.)

4.3 Scenario 3: Towards a finance society

In 2025, the post-industrial society is definitely behind us, and no-one remembers the golden age of the post war period when large organisations were the pillars of western societies. Large corporations still exist, but they are organised around the model of network organisations, with long chains of suppliers located all over the world and with their headquarters predominantly located in Asia.

The dominant measure of performance for these organisations is the shareholder value model, but because corporate ownership is increasingly concentrated in the hands of a few large mutual funds, only a very small fraction of the world population actually benefits from the financialisation of societies.

Moreover, major players in these financial markets remain very passive in corporate governance. While the nation-state remains the dominant category to think about international politics, globalisation puts it under severe threat.

Power is actually in the hands of the 20 top hedge fund managers, whose earnings are 20 times the earnings of all 500 CEOs of the biggest worldwide corporations, and far above the GDP of many small countries. Indices of wealth inequalities are at their highest levels in all OECD countries and the population is increasingly ageing. The dollar has been replaced by the Chinese currency and China is leading the world, not only from an economic perspective – it is by far the largest economy of the world – but also from a political viewpoint.

Reinsurer Times

(English Edition)
26 November 2025

The face of the reinsurance industry has changed profoundly within the last ten years.

In 2015 the major players were essentially conglomerates based on long-established European and American companies; now all the major reinsurers are located in Asia and most of them are state-owned. In addition, the financial markets have become very strongly connected, so that 'non-traditional' reinsurance capital providers have injected massive amounts of capital into the reinsurance market. While in 2015 the insurance industry was really only beginning to exploit 'non-traditional' sources of

capital, which supplied less than 20% of global reinsurance needs, by 2025 such capital is so well-established that it is itself considered to be 'traditional' reinsurance, supplying just over 50% of risk transfer capital in the industry.

As a consequence, those long-established, traditional western reinsurers have struggled to find their way in a market dominated by new players. Last month GlobalRe was subject to a hostile take-over and we have seen a string of companies – previously highly-profitable industry leaders – go bankrupt.

Study Question 4

Develop two additional scenarios, using the factors particular to your own position in the reinsurance industry which you identified in Study Question 2.

5. Scenario planning step 4 : Consider strategic implications

Each scenario has painted an alternative picture of the future. The next critical step is to consider the strategic implications of these scenarios and to use the insights generated to examine the appropriateness of existing strategies and plans. This exercise needs to be carried out on a *firm-by-firm* basis. Strategic implications will, of course, vary according to the following characteristics of any particular firm:

- Position in the supply chain as cedent, broker or reinsurer;
- Business area;
- Strategic type (see Masterclass III);
- Geographical dependencies;
- Strategic plans.

Changes in emerging markets, for example, will have very different implications for insurers and reinsurers. Different types of insurers (emerging market, local, regional, global) and reinsurers (price-taking profiteers, deal-making partners, patchwork partners, portfolio partners, blanket partners¹⁶) will be affected in different ways.

In the following sub-sections 5.1–5.6, therefore, we develop a general template that any type of business can use. The subsections consider how any future scenario might affect: competitive forces (5.1); product portfolios (5.2); the business model and strategic positioning (5.3); organisational capabilities (5.4); client relationships (5.5); and broker intermediation (5.6).

In developing our template, we draw on lessons from previous Masterclasses to help firms respond and position themselves for alternative futures.

5.1 Analyse impact on competitive forces

In Masterclass I we stressed the importance of understanding five key industry forces, in particular:

- Bargaining power of buyers;
- Bargaining power of suppliers;
- Threat of new entrants;
- Threat of substitute products;
- Intensity of industry rivalry.

The interaction of these competitive forces determines the intensity of competition and associated profit margins of an industry. As a first step, industry incumbents should analyse these five forces under each scenario to consider future impacts on competition and profitability in key markets.

For example, in scenario 1, increased polarisation is likely to intensify competition and squeeze reinsurance profits. Global reinsurance players will face higher barriers to entry in Asia, which may stifle growth and profitability in these key markets. Reinsurers may furthermore face new competition in existing markets, as new entrants such as China Re, India Re and Latina Re leverage their scale and capital to woo large western clients. At the same time, those reinsurers who have predominantly pursued a strategy based on US property Cat (see Masterclass III) could be impacted by increased capacity and competition from alternative risk transfer products and providers.

Of course, this future would equally affect cedents and brokers. Insurers, for example, with a global presence in Asia and Latin America will face more intense rivalry in their primary markets, but also potentially reduced reinsurance bargaining power. Western brokers, by contrast, are likely to face more intense competition from new brokers in China and elsewhere as these markets become more dominant and localised.

The key task for managers is to understand how the five competitive forces will affect *their* business under each scenario. Armed with this knowledge managers can then consider what kinds of business they should pursue and what kinds of competences might need to be developed for the future. Masterclass I offers several useful suggestions for how firms might analyse and respond to changing competitive forces by, for example, carefully positioning the firm so it can defend itself, investing in markets where the forces work in their favour, or combining competitive and co-operative strategies to mitigate competitive threats (see Masterclass I, page 10).

Study Question 5.1

- (a) How might the five competitive forces change in your area of the market under one of our scenarios, and one of the scenarios you generated in Study Question 4?
- (b) What opportunities and threats do these changes present for your business?

¹⁶See Masterclass III for an explanation of these strategic types.

5. Scenario planning step 4 : Consider strategic implications (cont.)

5.2 Is your business fit for purpose?

In Masterclass II we showed how consolidation in the primary insurance industry is changing insurer demand for reinsurance products. Emerging and local market insurers, for example, use reinsurance to access capital and alleviate volatility, whereas the dominant regional and global insurers are increasingly retaining more risks and using more bundled 'super-risk' products. These changes have had, and continue to have, a profound impact on reinsurer and broking businesses and their products. How could our future scenarios further reshape insurer demands, and with what consequences for product portfolios?

Subsections 5.2.1–5.2.2 present just two partially worked examples. In practice, companies will need to go much deeper in thinking through each scenario to derive implications for their business. These insights can then be used to consider the fitness of existing product offerings, competencies and strategic plans.

5.2.1 Scenario 2

In scenario 2 the demand for catastrophe cover increases exponentially as weather patterns become more extreme and more dispersed. All cedents in this line of business will be confronted with more exposure to claims and higher capital requirements. There may also be more demand for larger bundled multiple territory products as the number of transactions and scope of cover increases.

Managers should think through the implications for *their* business. These trends may mean that cedents align well with Portfolio Partners who have high capital efficiency and who are highly proficient in using strongly technical approaches to write multi-territory business. However, the same scenario could

represent a major threat for smaller reinsurers, particularly those who predominately write mono-line property Cat business (see Masterclass III).

Thinking through these implications will sensitise managers to future choices. For instance, to counteract higher capital requirements and greater exposure, firms in this space may need to consider taking steps to increase capital efficiency by holding more diverse risks to offset the demands from environmental catastrophes.

5.2.2 Scenario 3

Scenario 3 presents a very different challenge. Greater convergence between financial markets and capital from mega-corporates could well threaten demand for traditional reinsurance products. Growth in China and Brazil will see domestic insurers become larger, lessening their need to use reinsurance as a proxy for capital. Moreover, rapid growth may further move demand away from smaller bouquet products (single territories, multiple types of risk) towards larger bundled super-risks.

Again, managers should think through the implications for *their* business. While this future may suit some larger reinsurers, it will put great pressure on smaller players who may be ignored, or squeezed out of such deals. Brokers will also be affected as more bundled risks start to bypass the intermediary stage.

Masterclass II provides a useful framework for cedents, reinsurers and brokers to begin thinking through these issues. Reinsurers could, for instance, try to develop new types of products that align with changing cedent needs. They could try forming alliances with new types of capital providers or even diversifying into new markets, perhaps targeting market positions where scale is not necessarily a major advantage.

Study Question 5.2

- (a) How might your business's product portfolios need to change under one of our scenarios, and one of the scenarios you generated in Study Question 4?
- (b) What opportunities and threats do these changes present for your business?

5. Scenario planning step 4 : Consider strategic implications (cont.)

5.3 Critically assess strategic positions and business models

In Masterclass III we illustrated how reinsurance firms can position their business to exploit growth opportunities, hone strengths and minimise weaknesses. These same lessons apply here. Greater competitive rivalry and new strategic threats raise the stakes in all three of our scenarios. Reinsurers must consider the robustness of strategic plans and business models in the light of anticipated threats and opportunities in each scenario.

At the moment many firms are fighting each other tooth and nail to get into emerging markets like Brazil, China and elsewhere. Many of the major reinsurers, cedents and brokers have set up local offices in these markets or have established positions using joint ventures or mergers and acquisitions. But what are the strategic implications in an increasingly polarised world (Scenario 1)?

Those operating in such markets are likely to face stronger competition from domestic firms, more state interference and possibly inequitable trade agreements that could restrict growth. If this were the case how might your firm respond? Options might include forming closer ties with state-

owned companies, taking steps to reduce market dependencies by diversifying or perhaps developing exit plans.

For western companies that are not already established in Asian and Latin American markets the strategic implications are very different. Growing entry barriers will mean many of these companies will be effectively locked out. Such mobility barriers raise profoundly important strategic questions that need to be explored. Should entry into these markets be accelerated now, perhaps through more local alliances, to establish early positions before it is too late? Should reinsurers look elsewhere for long-term growth, perhaps moving more aggressively into Africa and the Middle East to gain early-mover advantages? How will they compete in existing markets that are becoming increasingly mature?

Masterclass III provides a useful framework to begin thinking through these positioning issues, in particular, considering mobility challenges and those strategic moves that may be the most feasible for different types of reinsurers. The key point – as ever – is that managers should work through each scenario systematically to consider strategic options for *their* business, and devise plans for each of those possible future worlds.

Study Question 5.3

- (a) What strategic moves would your business need to make to maximise success under one of our scenarios, and one of the scenarios you generated in Study Question 4?
- (b) How far do these moves depart from existing plans?

5. Scenario planning step 4 : Consider strategic implications (cont.)

5.4 How could we align structure, knowledge and roles for maximum operational effectiveness?

In Masterclass IV we showed how competitive success relies on a firm's ability to develop and coordinate diverse pockets of specialised knowledge to write different types of reinsurance deals. The preceding steps in this scenario planning exercise should have given you a greater appreciation of potential new competitive landscapes, the robustness of current strategies and possible strategic moves the business may need to take. Key questions for companies to consider are: what demands would each of the future scenarios make on the way the company configures internal knowledge; and what new knowledge might they need to acquire?

For example, in scenario 1 risks in Asia, Africa and the Middle East are less-modellable because of data volatility, lack of technological infrastructure and of historical loss information. Hence, writing these risks is reliant on local contextual knowledge, which gives local incumbents a significant advantage. This raises an important strategic question for western reinsurers. Should these companies maintain a strong focus on highly analysable business, which represents a significant proportion of the market's total current value, or should they develop the resources to write less analysable business now, to try and penetrate critical emerging markets for tomorrow?

This decision point has different implications for different types of firm. For example, Price-taking Profiteers and Deal-making Partners privilege very technical and highly analysable business. As such,

they have strong technical functions and a great deal of analytical expertise. To move towards less analysable business would be a major jump for these firms. They could possibly use a 'start-up' company structure and spare capacity to 'experiment' with less analysable business, but this would require the development of new contextual and client knowledge and new complex-coordination capabilities to inform reinsurance decisions. For other types of company such as Blanket Partners, less analysable business is already part of the portfolio, and so would be less of a stretch for knowledge and resources. The challenge for these companies would be to select the right clients and develop deep long-term relationships with them (see 5.5 overleaf).

Scenario 2 also suggests some important implications for the blend and configuration of internal knowledge. For example, dramatic increases in the frequency of extreme weather and catastrophic events may generate a pressing need to develop new risk models and underwriting capabilities. This raises several questions that firms need to think through. For instance, will significant investments in big data infrastructure be needed? How will firms manage and coordinate the information generated? If big data becomes more important to a firm it will generate a pull towards technicalisation, shifting more power and decision-making authority to technical staff.

Senior managers need to think about how they will design their organisations to accommodate these shifts and combine knowledge in ways that suit specific deals and clients. Masterclass IV offers several frameworks that can be used to start thinking through these issues.

Study Question 5.4

- (a) Look back at the strategic responses you planned in Study Question 5.3, for two scenarios (one of ours. and one which you generated for Study Question 4).
- (b) How will your planned responses to each scenario change the priorities given to different forms of knowledge in your company?

5. Scenario planning step 4 : Consider strategic implications (cont.)

5.5 Implications for client relationship management

Masterclass V stressed the importance of managing client relationships strategically, so that the valuable time and resources invested support the business strategy. Reinsurers should use the insights from this Masterclass to consider how each scenario might alter the nature of their client portfolios and think through the implications this has for both valuing and engaging with clients. For example, reinsurance firms may increase the number of ‘watching’ relationships (see Masterclass V) with clients in emerging markets in order to have a broader base of opportunities for shifting into these markets as their potential profitability becomes clearer.

Managers need to judge how each scenario raises (or decreases) the future value of clients and start to adjust their engagement strategies accordingly. For example, in scenarios 1 and 3 current emergent markets assume greater levels of

importance. At the same time, mature markets with (currently) high-value clients may yield less and less revenue, particularly for smaller reinsurers. This could significantly alter the ‘pay-off’ from client engagement in terms of both economic and information value. So, a Blanket Partner (see Masterclass III) wanting to write more business in Latin America, which still lags in analysability, could consider increasing the number of ‘investigating’ and ‘nurturing’ relationships in these key markets; this would allow them to target potentially valuable insurers, cultivate relationships and generate local information to enable them to be successful (a useful tool to help managers consider implications for relationship management is the client assessment diagnostic in Masterclass V). At the same time, the Blanket Partner could invest in greater knowledge of the Latin American market, thus developing its capabilities to become a leader in technical analysis as the region matures (see Masterclass IV).

Study Question 5.5

- (a) Using the client assessment diagnostic in Masterclass V, evaluate the economic and information value of existing client groups under one of our scenarios, and one of the scenarios you generated in Study Question 4.
- (b) How might your client engagement strategies need to change in the future?

5. Scenario planning step 4 : Consider strategic implications (cont.)

5.6 Implications for broker intermediation

Brokers play a vital role as intermediaries in the cedent-reinsurer value chain. Masterclass VI showed how recent changes in the reinsurance industry mean that brokers have had to devise new business models and reconsider the link between services and remuneration. A critical question for broking companies, and for users of these services, is how each scenario might alter the landscape of broker intermediation?

In scenario 3, for example, rapid growth in Asia and Latin America will present both opportunities and threats for broking companies. These markets are likely to become dominated by fewer, larger insurance companies who will use more bundled super-risk products. While these larger insurers will still need brokers to place across the reinsurance industry, an increasing proportion of this business may bypass the intermediary stage as large insurers place more of their business directly with key reinsurers arising from their own domestic markets, or with alternative capital providers. At the same time, Asia and Latin America are huge markets and even a small proportion of this business could provide very profitable opportunities for brokers to place reinsurance cover across a global market.

Broking firms need to think through how they will match and package their competencies and product offering to clients in these future worlds. In particular, there are two critical questions they should answer for each scenario.

First, what technical, distribution and knowledge resources and capabilities will they need to develop to add value to their clients in this new world? For example, in scenario 1 one of the underlying drivers of the polarised world is that information available in Asia, Africa and the Middle East is of relatively poor quality, not easily analysed with models. Broking firms may see this market imperfection as an opportunity and ask: could we develop the global networks, technical capabilities and knowledge resources to help western reinsurers write more of these risks; thereby offering an alternative to insurers in these countries?

Second, brokers should ask, how can we get industry players in this world to value, and pay for, this customised service offering? For example, brokers may consider moving towards a more consultancy-based model where they are remunerated on a fee-for-service basis. Masterclass VI offers more detail, explanation and guidance.

Study Question 5.6

- (a) What technical, distribution and knowledge resources and capabilities will we need to develop to be successful under one of our scenarios, and one of the scenarios you generated in Study Question 4?
- (b) How would we profitably package and sell the new service offering?

6. Conclusion: Looking to the future

Looking to 2025, it is clear that firms in the global reinsurance industry face many unpredictable trends. Rapid technological advancements, sweeping global economic changes, unprecedented weather patterns and other developments are conspiring to spin a web of uncertainty that make accurate prediction nearly impossible. Nonetheless, to stay ahead in the reinsurance game, companies must prepare themselves now for what lies ahead.

This Masterclass provides managers with a practical tool they can use to ready themselves for future challenges. Using scenario planning, managers can scan their environments, pinpoint areas of concern and construct plausible images of the future. By contemplating alternative futures in a systematic way, businesses can make themselves more sensitised to possible futures and strategic implications. This learning can then be used to stress test strategic plans, resources, and competencies.

When doing these exercises managers should construct the scenarios in groups. Once written, each scenario should be taken to be accurate; this really 'is' the future. With that mind-set, the scenarios are interrogated to draw out strategic implications i.e. the impact on competitive forces, the business model, product portfolios, client relationships, organisational design and knowledge management. Similarly, the results of this analysis should show the company which of their existing core competences need to be protected, developed and invested in.

Armed with these insights, companies then have three main options:

- Wait and see. Recognising that scenarios are not predictions, organisations may consider that for certain strategic implications the best option is to 'wait and see'. The scenario planning exercise will have sensitised managers to environmental trends which can be formally monitored before deciding if a specific course of action is appropriate or warranted.
- Take preparatory steps. Other strategic implications may be firmer, perhaps because they are deemed important under more than one scenario. In this case managers may start to prepare the ground now by investing time and resources to build important capabilities for the future. This often involves incremental steps, for example, adapting recruitment policies, scoping new projects, building new partnerships etc.
- Implement immediately. Organisations may find that whichever scenario they consider, the strategic implications are similar and important. For example, regardless of which events unfold, the business may need to establish a stronger foothold in China; preferably sooner rather than later. This realisation may prompt managers to take more decisive action now to gain a favourable position, or to reinforce the appropriateness of existing short- and medium-term strategies.

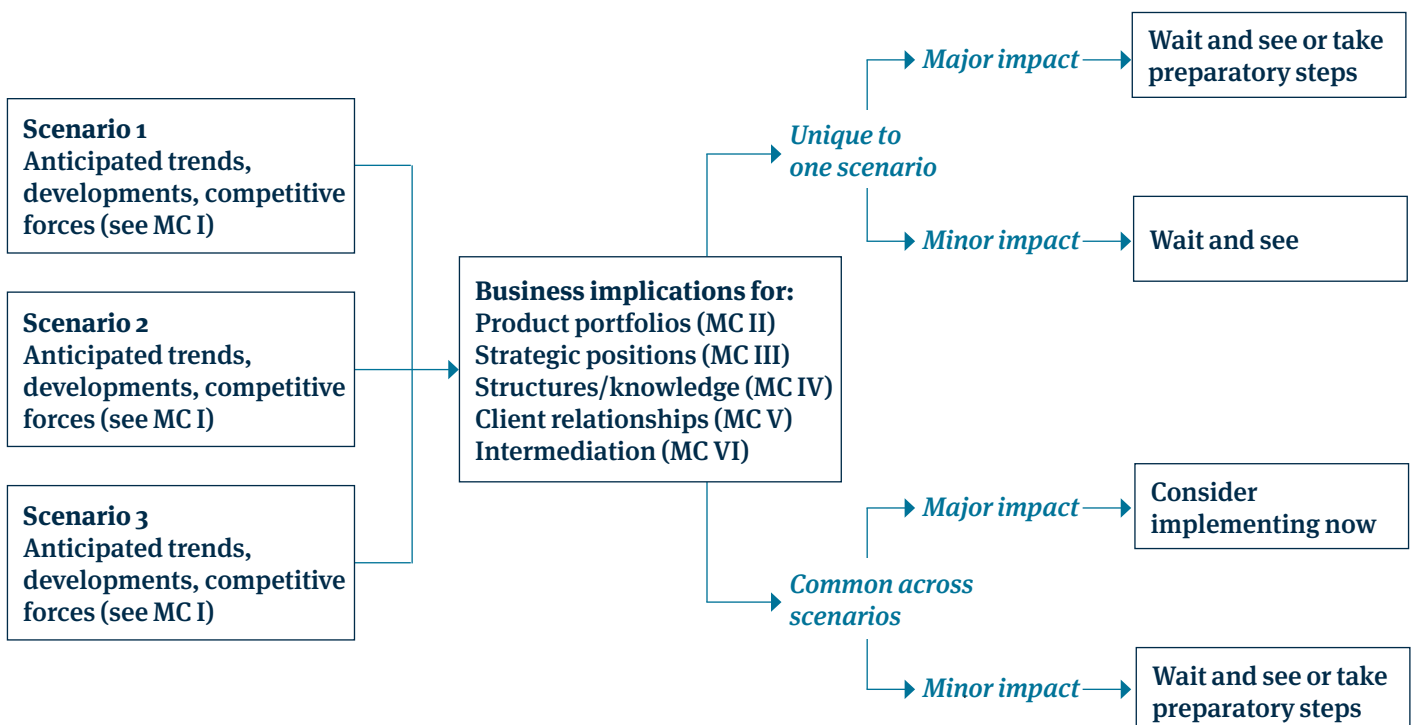


Figure 6. A basic decision model for strategic action

6. Conclusion: Looking to the future (cont.)

Figure 6 summarises these options and how they might be deployed as part of a scenario planning exercise. We suggest that managers consider two core questions:

- Are the implications unique to one scenario, or common across multiple scenarios?
- Are these implications likely to have a major or minor impact on our business?

Answering these two simple questions will help organisations to exploit opportunities to develop a sustainable competitive advantage.

Lastly, scenario planning is not a ‘one-off’ exercise. For organisations dealing with increased levels of uncertainty, we recommend an annual

scenario-planning workshop be undertaken. In this way, a ‘future-sensitive’ organisation can be nurtured.

- This workshop will sensitise managers to important developments and create a ‘strategic-radar’ for detecting the most important trends and uncertainties.
- These key uncertainties can then be cascaded and shared with divisions and other parts of the organisation to encourage greater sensitivity to external signals or developments.
- Knowledge gained in this way can then be fed back into future workshops, where scenarios and plans are regularly updated and reworked in light of environmental developments.

List of Global Reinsurance Masterclasses

- Re-Think reinsurance: How to shape your future through a strategic understanding of global market forces
- Fit for purpose? How to tailor reinsurance products to insurance industry lifecycles
- Winning the game: How to identify reinsurance rivals and spot growth opportunities
- Be a better reinsurer: How to align structure, knowledge and roles for operational excellence
- Strategic reinsurance relationships: How to evaluate information and build trust
- Intelligent matchmaking: How to maximise value from broking
- **Imagining the future:** How to stay ahead in the reinsurance game through scenario planning

The aim of the Global Reinsurance Masterclass Series is to support (re)insurance and broking companies in analysing their position and improving their competitiveness during a period of global change. They are based on in depth analysis of a global reinsurance data set, supplemented with analysis of secondary data and findings from complementary industries.

Each masterclass functions as a standalone module that can be used on its own or in conjunction with other masterclasses.

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