Howden Re

A secondary market for reinsurance

1.0

Introduction

Reinsurance is a critical form of contingent risk capital. Yet, it remains structurally illiquid, with risk predominantly held to maturity for one year terms. Other capital markets have the well-established capacity to trade primary and secondary assets, liabilities, equities and commodities in contractual form.

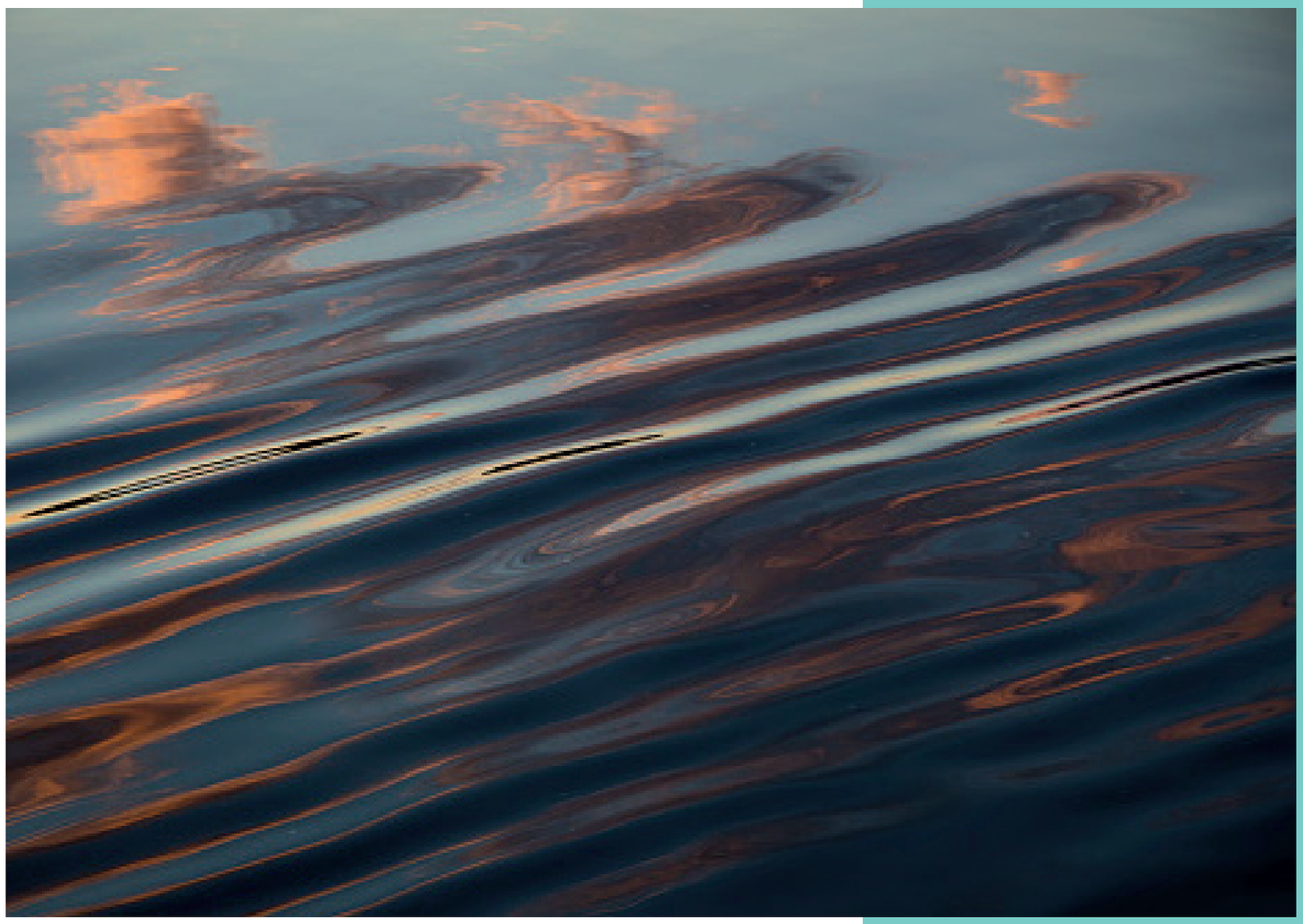
These instruments can be sold, transferred or restructured following their initial placement, freeing liquidity for those trading off risk and offering the potential for higher marginal returns for those trading on risk at different points in the market cycle. The ability to separate origination from ongoing ownership is a defining feature of mature capital markets, underpinning their depth, efficiency and resilience.

1.0
Introduction

The reinsurance market, by contrast, does not generally possess this full facility. Primary risk is traditionally underwritten by insurance companies and distributed through reinsurance placements, while the secondary market consists largely of specialised, bilateral transactions between reinsurers, typically intermediated by brokers.

These transactions are illiquid and specific to the underlying risk. Reinsurance contracts involve the assumption of contingent liabilities and the potential payment of claims, such that the financial strength and counterparty profile of any buyer of risk is of material relevance to the ceding insurance company. This feature complicates the transfer of insurance liabilities relative to more traditional financial assets, where secondary trading is more common.

A more open, liquid market for primary and secondary risk trading would bring important advantages to the reinsurance market by introducing optionality to the value chain, benefitting cedents, reinsurers, brokers and capital providers. This could, in turn, lower the cost of reinsurance while making reinsurance more economically profitable for underwriters. This brief considers how this might be realised and outlines the necessary operational mechanisms.



In a secondary market, 'many-to-many' interactions, following initial settlement, could allow reinsurers to express their views simultaneously, as buyers and sellers of risk, at their preferred pricing level.

Transactions could be structured either as 'specific retrocession' arrangements, analogous to traditional capital market 'swaps', or as assignments of the original contracts between reinsurers, subject to cedent approval, where appropriate.

Reinsurers can find value in a secondary market through being, in effect, released from full-year exposures, where an acceptable price exists for trading part of their position. In doing so, reinsurers may rebalance their portfolios following unexpected original placement allocations, release collateral ahead of the timeframe permitted under the original treaty terms, or express a pricing view that differs from prevailing market levels. Ideally, transactions would occur on existing contractual terms so that reinsurers would be able to adjust their exposure with minimal basis risk.

1.1 Value for all

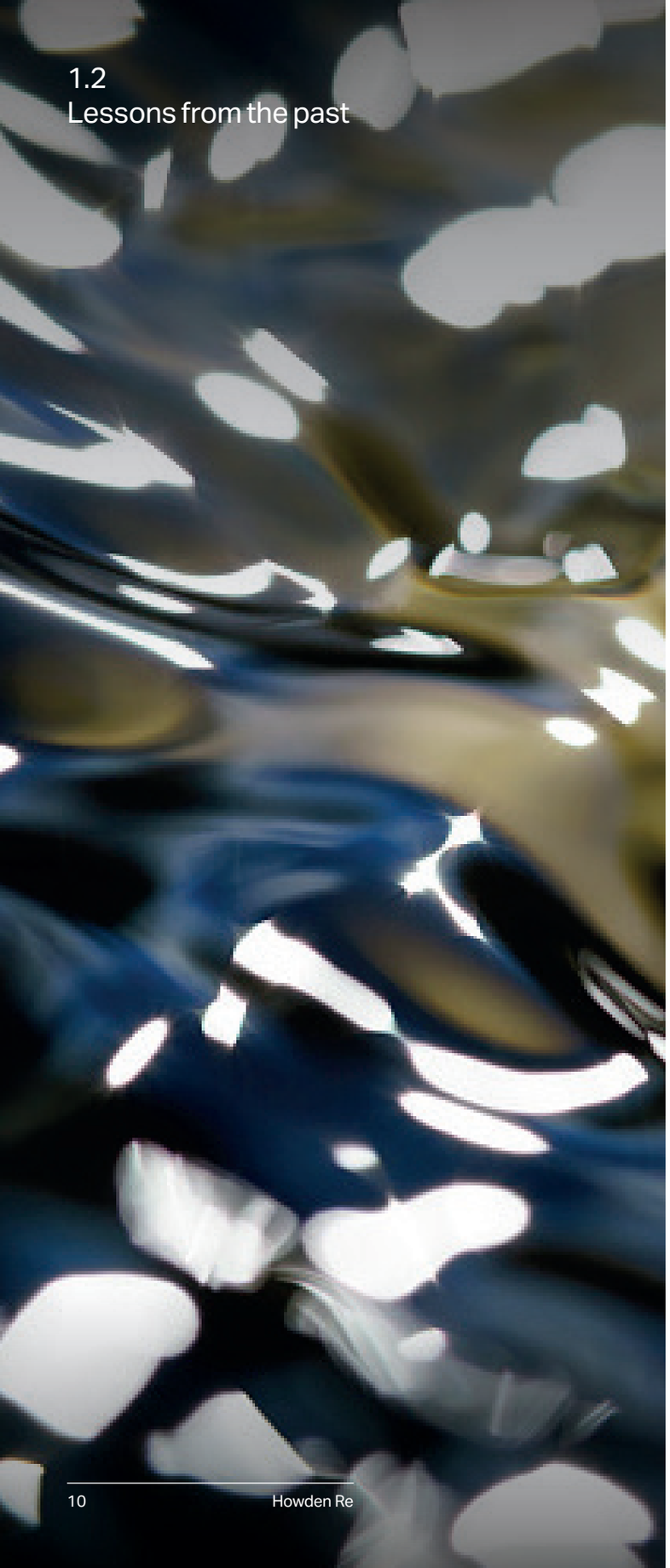
1.1
Value for all

Cedents may benefit from in-cycle price discovery, gaining additional insight into the market's evolving view of their risk between renewal periods.

Where pricing is attractive, cedents could also repurchase risk, which may be advantageous from a cost of risk or broader risk management perspective. A credible secondary market would also increase reinsurers' willingness to provide multiyear covers, thereby offering cedents greater optionality.

Brokers would gain an additional tool to create value through additional placement volume outside of renewal business volumes. More frequent risk trading should eventually create better, more continuous data, underpinning stronger reinsurance structures for clients.

From a capital efficiency perspective, optimising exposure through continuous trading is more efficient than purchasing additional reinsurance or retrocession at a discrete points in time. This could also potentially reduce residual counterparty credit exposure obtained in tighter market conditions.



1.2

Lessons from the past

The ambition to establish a sophisticated secondary market for reinsurance finds parallel with successful efforts in the unfunded loan markets and revolving credit facilities.

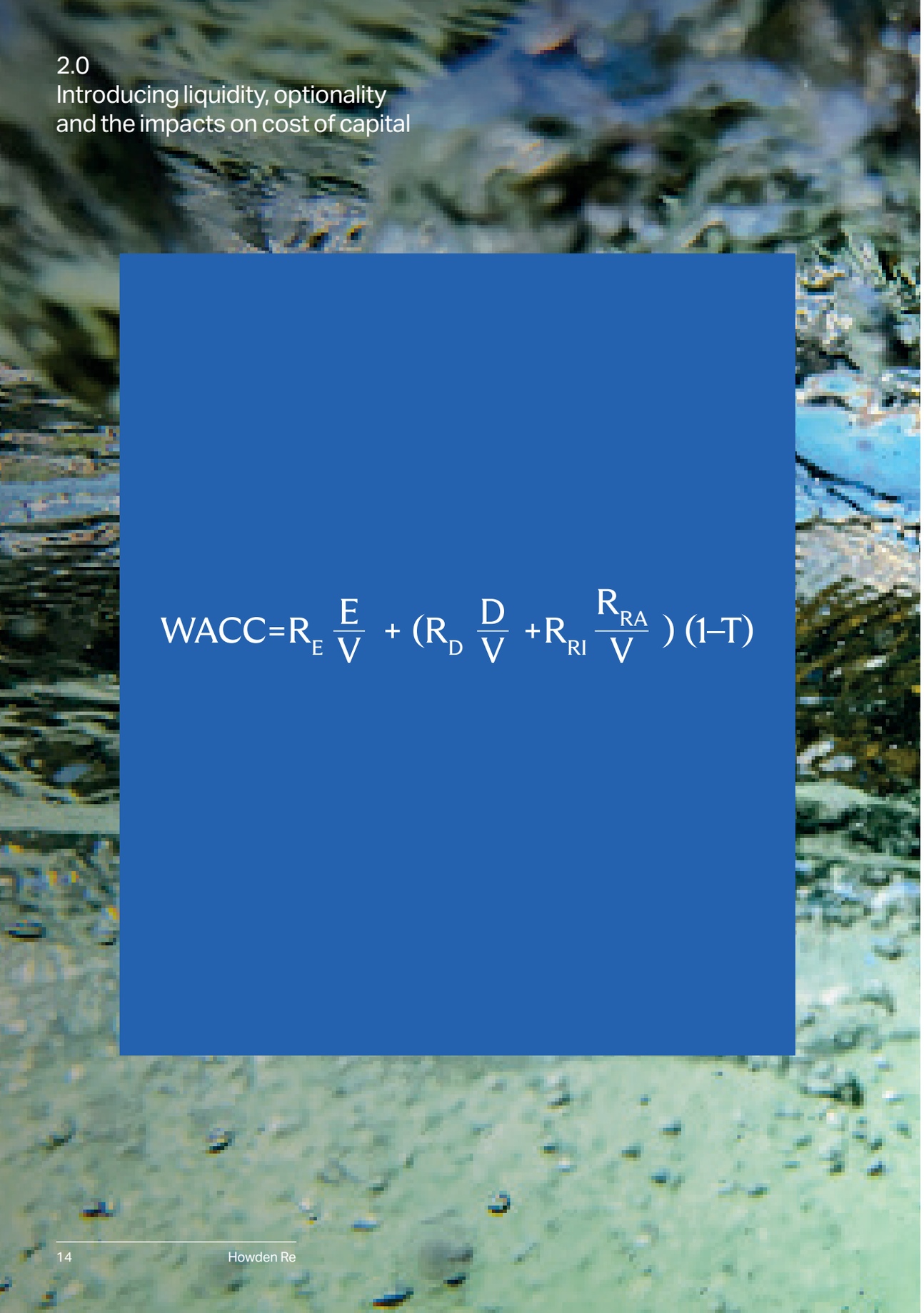
During the 1980s and 1990s, banks moved from simple loan-issuance to underwriting and syndicating portions of those exposures to other lenders, thereby mitigating their own capital exposure.

Co-lenders would share in commitment fees, interest income and credit risk. Borrowers would typically approve pre-agreed lists of counterparties in order to maintain transparency and control over their lender base.

This evolution emerged as the market adopted innovative information systems, such as Bloomberg then, or NOVA for (re)insurance today, which drastically improved visibility and aided price discovery by collating information, making it more accessible and actionable. In many respects, reinsurance now resembles this earlier stage with its syndication, pre-approved counterparties and broker intermediation. Yet, it lacks the infrastructure needed to support efficient secondary trading. The history of the unfunded loan market shows that the introduction of a mechanism for secondary trading introduces liquidity and optionality into the market, ultimately lowering the cost of capital.[1]

[1] Cebenoyan, A. S., & Strahan, P. E. (2002). Liquidity in the pricing of syndicated loans. Journal of Financial Intermediation.

2.0 Liquidity, optionality and the impacts on cost of capital



2.0
Introducing liquidity, optionality and the impacts on cost of capital

$$WACC = R_E \frac{E}{V} + (R_D \frac{D}{V} + R_{RI} \frac{R_{RA}}{V}) (1-T)$$

Reinsurance behaves as contingent capital: it absorbs volatility losses and therefore reduces the volatility borne by equity holders, even when balance-sheet leverage is unchanged. Reinsurance enters the firm's capital structure alongside debt and equity, and the cedent's weighted average cost of capital (WACC):

See equation on the left

Where E, D and V denote equity, debt and firm value; R_E and R_D are the required returns on equity and debt; R_{RA} is the reinsurance recoverable asset and R_{RI} the cost of reinsurance and T is the tax rate[2]. In this formulation, reinsurance operates as a third capital channel, distinct from but economically comparable to debt, lowering WACC by reducing the required return on equity through loss absorption and volatility reduction.

In its traditional form, however, reinsurance is structurally illiquid. Once placed, risk is largely held to maturity, forcing capital to be committed ex ante and priced conservatively to compensate for irreversibility. This illiquidity represents an implicit financing friction that raises the effective cost of contingent capital.

E	Equity
D	Debt
V	Firm value
R_E	Return on equity
R_D	Return on debt / interest rate
R_{RA}	Reinsurance recoverable asset
R_{RI}	Cost of reinsurance
T	Tax rate

[2] Cohen, R. D., & Flandro, D. (2026). Application of the Modigliani Miller principles of capital structure to insurance and reinsurance firms. (forthcoming March 2026).

2.0

Introducing liquidity and optionality and the impacts on cost of capital

Introducing secondary trading fundamentally alters this dynamic by embedding real optionality into reinsurance contracts. Following a real options framework, the ability to defer, expand, contract or exit a position as uncertainty resolves has standalone economic value. That option value can be expressed as:

See equation on the right

Where V_t is the future value of holding the reinsurance position at time t, K is the effective cost of trading (including transaction, legal and credit frictions), and r is the discount rate[3]. In an illiquid, hold-to-maturity market, this option value is negligible; with secondary trading, it becomes material.

For cedents, this real option lowers the effective cost of reinsurance capital by reducing the irreversibility of reinsurance purchases and, in turn, the required return on equity embedded in WACC. For reinsurers, it creates symmetric flexibility to release capital when marginal expected returns fall or to add exposure opportunistically once risk has partially resolved, improving capital efficiency and expected profitability. Brokers benefit from increased transaction frequency and improved price discovery.

In aggregate, secondary trading increases liquidity and embeds real options into reinsurance contracts, lowering cedents' cost of capital while improving capital allocation and profitability across the reinsurance value chain.

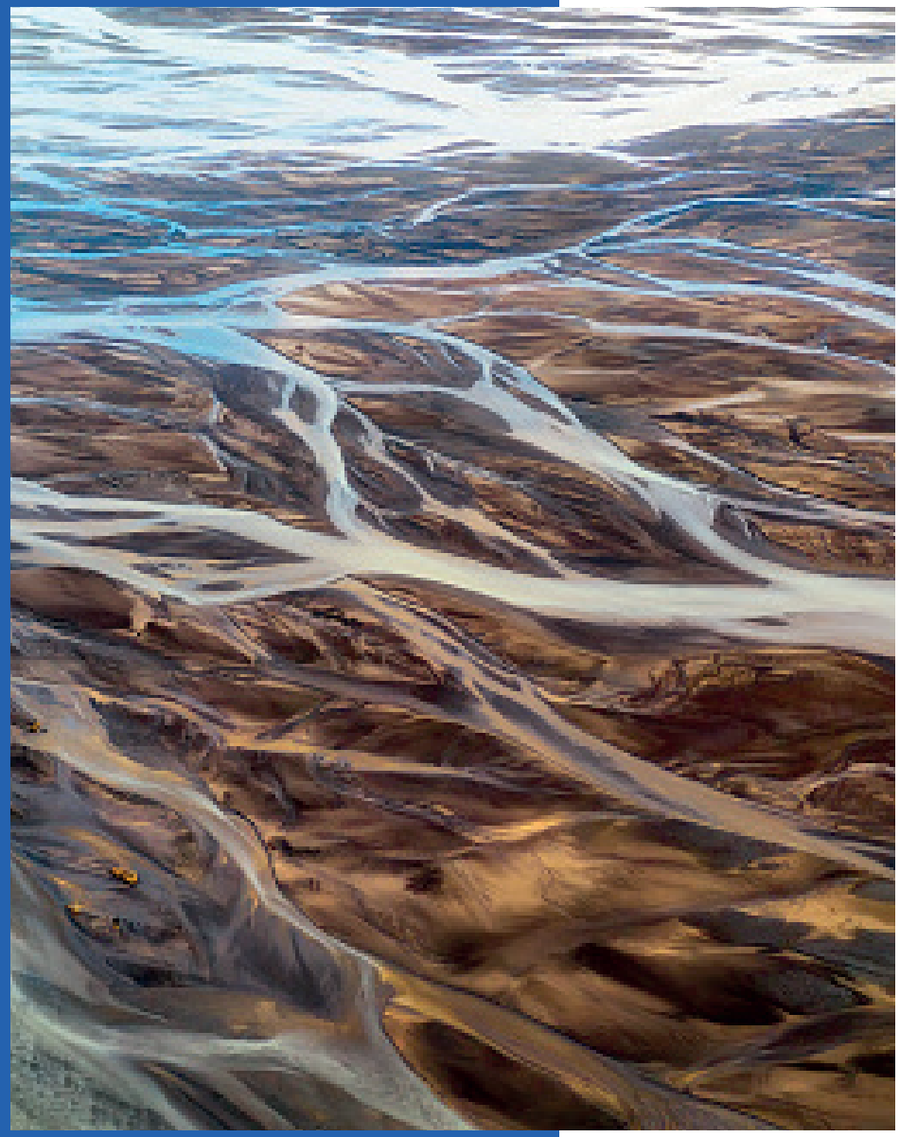
$$O = E_0(e^{-r\,t} \max(V_t - K, 0))$$

- V_t Future value at time
- K Effective cost of trading
- r Discount rate

[3] Myers, S. C. (1977). Determinants of corporate borrowing. Journal of Financial Economics.

3.0 Earlier attempts and existing solutions

3.0
Earlier attempts and existing solutions



The reinsurance trading gap has inspired several attempts to realise a platform-based solution to improve transparency and efficiency. Yet these efforts, generally focussed on broadening capital access or facilitating primary placements, often sought to impose a top-down approach.

They aimed to supersede the long-standing relationships between brokers, cedents, reinsurers and capital providers, undermining trust and interest, all while failing to address the secondary market liquidity issue. These initiatives, while innovative, have failed to register a substantial impact, in part, because the market functions on asymmetrical data, with opacity sometimes a strength for entities reticent to share information.

Detailed exposure data, pricing assumptions and portfolio considerations are often commercially sensitive, and market participants have been reluctant to share information beyond what is strictly necessary to transact. As a result, these platforms that rely on broad data disclosure have struggled to realise sufficient depth or participation.

A second limitation has been the tendency of some to attempt to dislodge and replace long standing relationships, or 'disintermediate' brokers, cedents, reinsurers and capital providers. Adoption has therefore been constrained where platforms were perceived as substitutive rather than complementary to existing market roles.

These design elements have ultimately limited the transformational effect of platform-based solutions thus far. At the same time, these initiatives have focussed on primary placements or new capital formation, rather than facilitating secondary trading of existing risk, leaving room for disruption and innovation.

4.0 The proposed product

4.0
The proposed product

At its core, a successful secondary liquidity pool will emerge from an 'all-market' solution that benefits cedents and reinsurers alike, recognising and resolving the optionality pinch points prevalent in the current system.

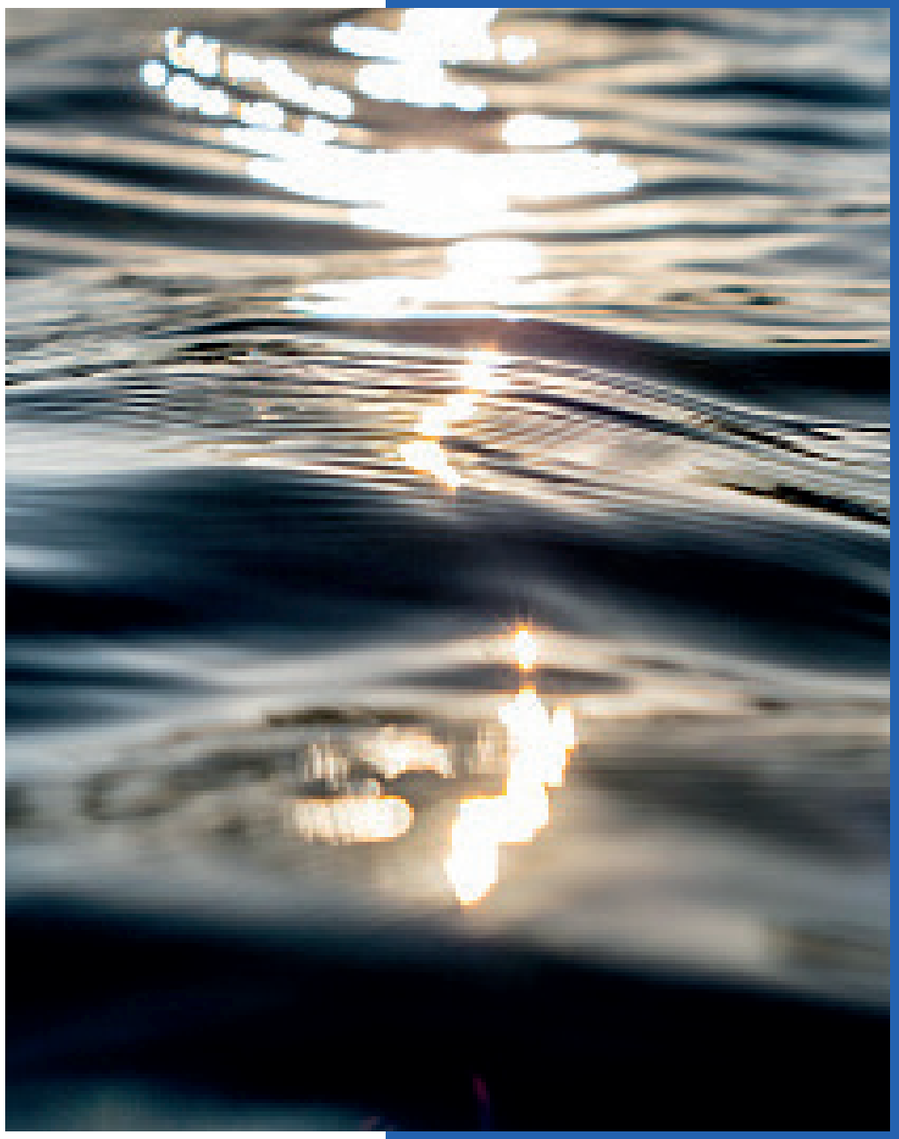
Because reinsurers rarely achieve their optimal portfolio composition at renewals, a secondary market would enable them to rebalance portfolios post transaction in line with internal capital models, underwriting ambitions and their own view of risk.

Cedents could likewise 'trade risk off' existing treaties rather than purchasing additional retrocession or direct and facultative (D&F) cover following renewal. During the coverage period, cedents and reinsurers, or reinsurers and retrocessionaires, would be able to trade risk on and off in-cycle to better meet their respective objectives.

For example, following a 1 June renewal, the following situation could arise:
A retrocessionaire (Retro A) fails to obtain all of the business it seeks and, instead, looks to obtain that exposure from another retrocessionaire (Retro B) after renewals, taking advantage of the in-cycle 'entry and exit' opportunities of a secondary market. Similarly, participants can obtain additional cover, if needed, post renewal.

Likewise, after hurricane season, collateralised retrocessionaires could 'trade off risk', releasing collateral and, in doing so, increasing optionality and potentially improving returns depending on market conditions and loss experience. At the same time, more traditional reinsurers could 'trade on risk', increasing marginal profit with relatively low expected loss volatility, i.e. if it has a lower loss experience after the season ends in the North Atlantic Basin.

Over time, this should increase market liquidity and, consistent with classical corporate finance theory, lead to more efficient and ultimately lower pricing, while allowing reinsurance and retrocession to function more like other forms of capital.



4.1

Brokerassist as enabling market infrastructure

Developing a secondary market for reinsurance risk requires more than conceptual acceptance; it demands an operational infrastructure capable of supporting it. Howden is working with technology company Brokerassist to support reinsurance transactions best suited to this approach.

On the primary side, Brokerassist allows brokers to identify the optimal outcome for an initial placement using a market map of reinsurer-provided ranges of bindable capacity. On the secondary side, the same technology is applied on a periodic basis to enable reinsurers to indicate the prices at which they wish to increase or reduce their allocations, as well as the corresponding capacity levels.

The topic of this discussion, Brokerassist secondary (herein Brokerassist) is designed to support 'many-to-many' interactions between cedents, reinsurers and retrocessionaires, while preserving the broker-led process. Rather than replacing established placements, the platform supports them by providing a structured environment in which participants can submit their appetite for risk on a consistent and comparable basis, through a recognisable supply and demand curve. The platform's matching engine then allocates capacity, matching supply with demand at an equilibrium price, subject to constraints.

4.1

Brokerassist as enabling market infrastructure

This allows secondary trading to occur within familiar market constructs, using existing contractual terms and approved counterparties but with the added benefits of algorithmic efficiency and data transparency. All the while, brokers retain control of allocation as Brokerassist does not provide a single prescriptive outcome. Instead, it generates a set of feasible allocations that brokers can evaluate and refine in line with client objectives, strategic relationships and qualitative considerations.

The platform allows brokers to compare the mathematical optimal with alternative scenarios that prioritise specific counterparties, reward markets that have supported prior losses or reflect broader strategic considerations. In doing so, it makes explicit the economic cost or benefit of particular decisions, enhancing transparency without removing broker interaction from the process. This capability fits equally to primary placements and to secondary risk trading, with the key distinction that participants enter secondary transactions with existing, non-zero positions.

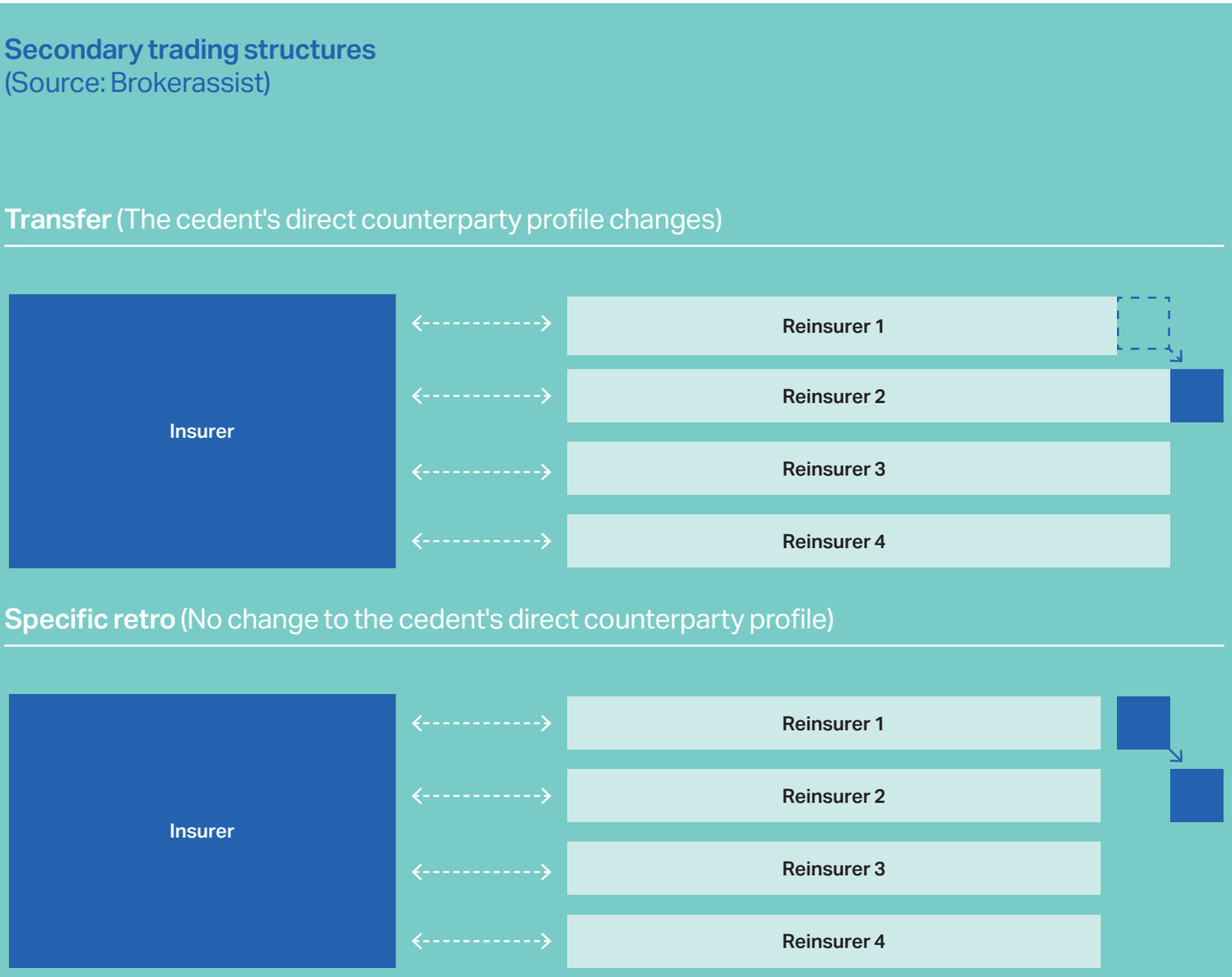
Brokerassist also allows users to simultaneously consider multiple treaties within a single analytical framework, opened in the same secondary window. This enables relative value assessments, such as reducing exposure to one peril or region while increasing exposure to another, i.e. rebalancing from Japanese typhoon to more North Atlantic hurricane. At the same time, it offers cross treaty optimisation where participants can impose conditional constraints. For example, a (re)insurer could specify that reductions in one treaty (Treaty A) are acceptable only if growth can be achieved elsewhere (Treaty B).

Secondary trading within Brokerassist can be implemented through two distinct transaction structures, reflecting different legal and operational considerations. These structures differ primarily in whether the cedent's original counterparty position changes and, consequently, whether explicit cedent approval is required.

> Brokerassist does not provide a single prescriptive outcome; instead, it generates a set of feasible allocations that brokers can evaluate and refine in line with client objectives, strategic relationships and qualitative considerations.

4.1
Brokerassist as enabling market infrastructure

Secondary trading structures
(Source: Brokerassist)



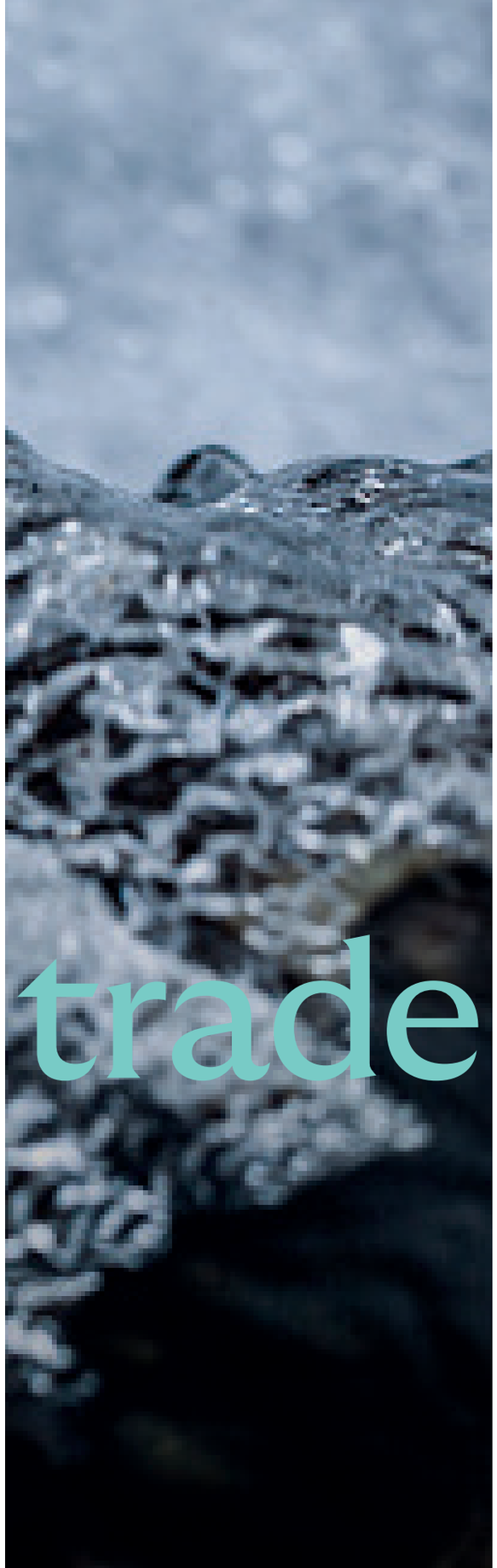
Transfers involve a change in the reinsurer holding the primary obligation to the insurer and therefore require cedent approval. Specific retro preserves original insurer-reinsurer relationships and operates as transactional retrocession between market participants with credit and compliance considerations borne by the transacting parties.

By embedding secondary trading functionality within a broker-led optimisation platform, Brokerassist addresses several of the limitations encountered by earlier market-based initiatives.

It requires little more data disclosure than what is necessary to transact, it reinforces rather than disintermediates broker relationships and it focusses explicitly on post-placement risk transfer. In this way, Brokerassist provides a practical pathway for introducing liquidity and optionality into the reinsurance market while remaining aligned with existing governance, credit and relationship structures.

4.2

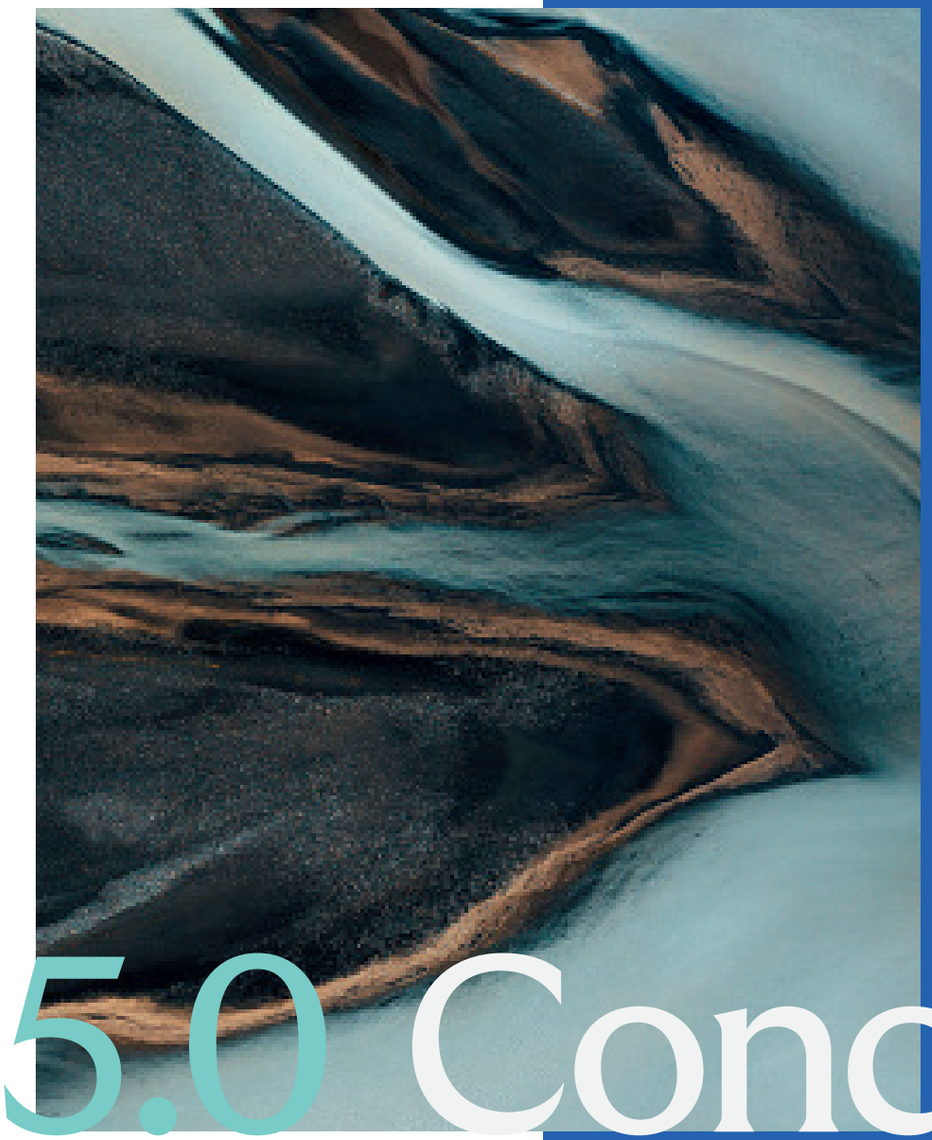
A technical framework for trade



While a platform, such as Brokerassist, provides a foundational structure for a prospective marketplace, a thriving secondary market requires additional considerations.

First, it is necessary to embed secondary trading language (treaty assignment language) within treaties so they can seamlessly integrate into a burgeoning liquidity pool for secondary transactions. This would echo general practice in secondary markets where trades occur on original, and often standard, terms, avoiding any need to transfer bespoke or idiosyncratic clauses. This offers the dual-benefits of reducing barriers of entry, while also minimising basis risk and legal complexity trade-to-trade.

In addition, to reassure and incentivise participants, counterparties should be pre-approved by the cedent to minimise credit risk. At the same time, participation should be 'many to many', enabling a simultaneous expression of supply and demand to realise the transparency and price discovery benefits of exchange-based trading.



5.0 Conclusion

Introducing a secondary market for reinsurance risk goes further than simply aligning it with other, more liquid forms of capital. It would allow carriers to more efficiently allocate risk and, in turn, improve overall capital utilisation. Increased liquidity should, in all likelihood, lower pricing and incentivise reinsurers to adopt and offer multi-year covers.

That would, in and of itself, reflect the expected flexibility and greater optionality a deep liquidity pool would offer participants in a market that facilitates trading risk on and off to their needs. Such a development would support a healthier ecosystem by accommodating a participant's financial backers through its potential for collateral release.

The barriers faced by an emergent secondary market are those of implementation rather than principle. Therefore, realising the market entails a deliberate and guided approach, mindful of prior challenges. It demands a broker-led process, safeguarded by comprehensive risk management that is ultimately cognisant of the industry it is attempting to reform.

Bringing reinsurance risk in line with more established secondary markets, necessitates learning the lessons of those antecedents. Standardising terms and proliferating secondary-friendly language in treaties are well-tested tools readymade to aid this transition.

Taken together, these measures would allow the market to evolve, consistent with its unique characteristics, and ultimately, expand its role as a supplier of contingent capital.

One Creechurch Place, London EC3A 5AF

+44 (0)20 7623 3806
info@howdenre.com

howdenre.com