

CONVERGENCE OF INSURANCE AND FINANCIAL MARKETS: HYBRID AND SECURITIZED RISK-TRANSFER SOLUTIONS

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ABSTRACT

One of the most significant economic developments of the past decade has been the convergence of the financial services industry, particularly the capital markets and (re)insurance sectors. Convergence has been driven by the increase in the frequency and severity of catastrophic risk, market inefficiencies created by (re)insurance underwriting cycles, advances in computing and communications technologies, the emergence of enterprise risk management, and other factors. These developments have led to the development of hybrid insurance/financial instruments that blend elements of financial contracts with traditional reinsurance as well as new financial instruments patterned on asset-backed securities, futures, and options that provide direct access to capital markets. This article provides a survey and overview of the hybrid and pure financial markets instruments and provides new information on the pricing and returns on contracts such as industry loss warranties and Cat bonds.

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