

Strategic use of reinsurance

SAS Superweek, GI Conference
25 November 2020
Valerie Gilles-Coeur

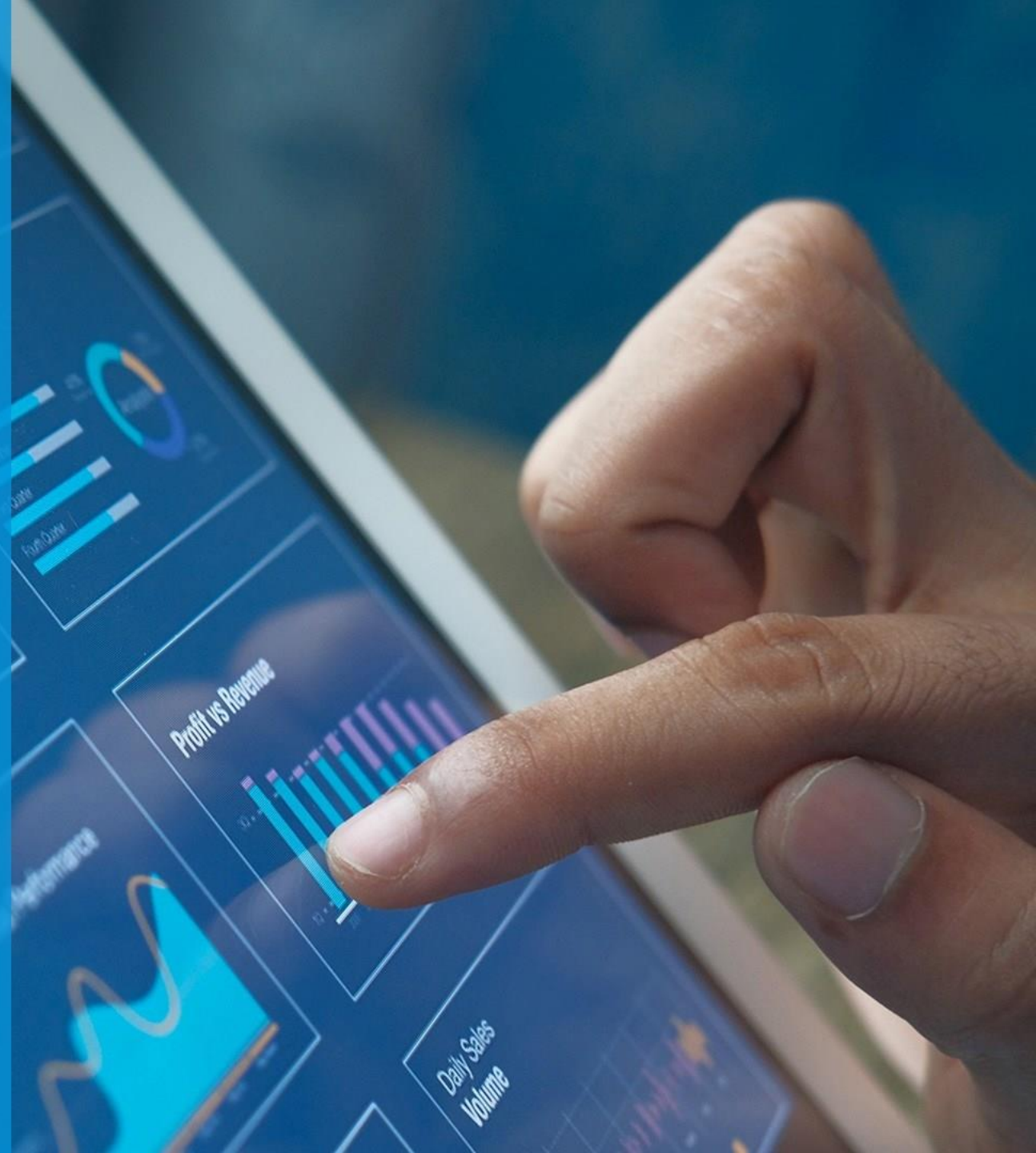


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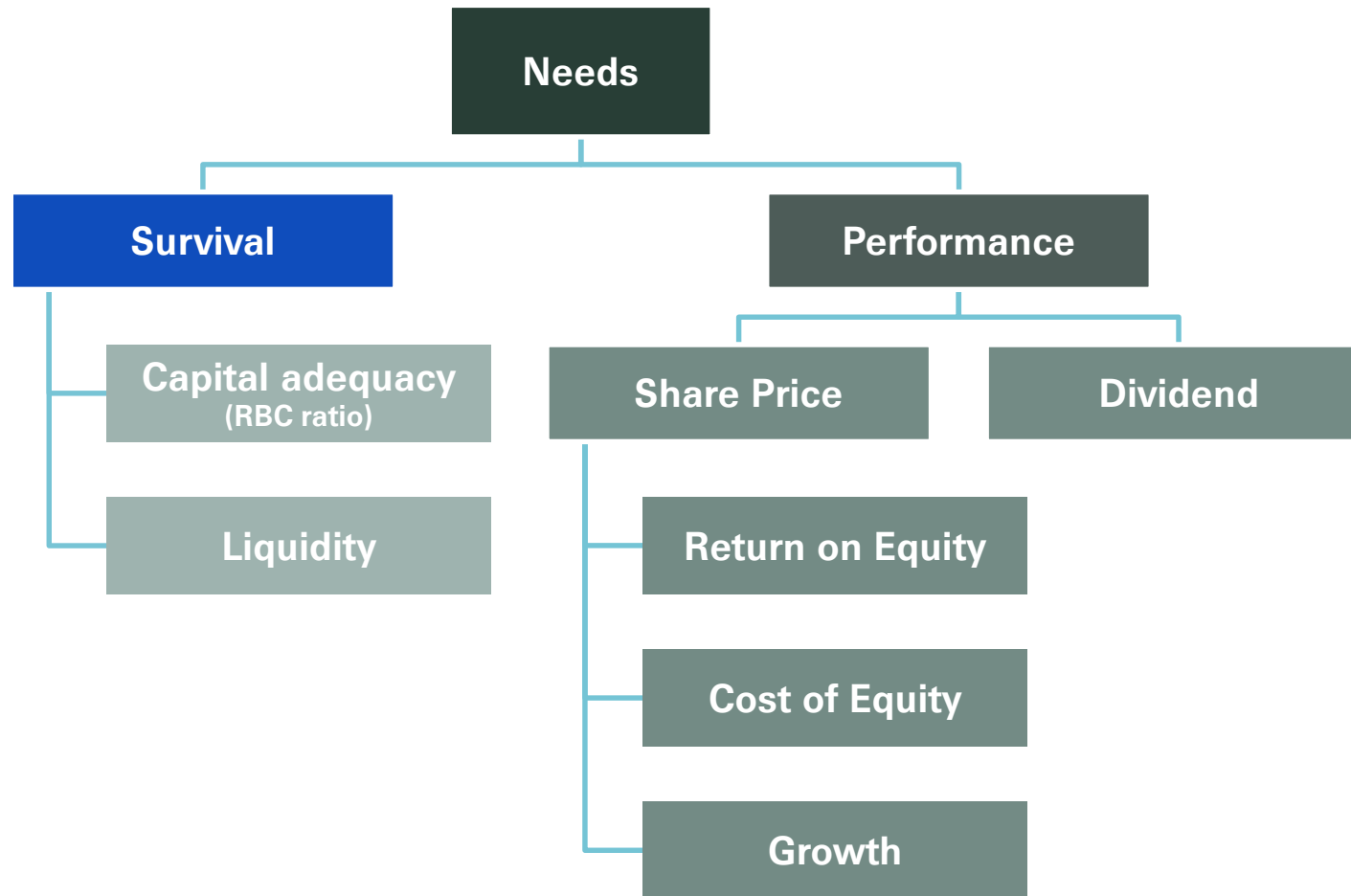
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Overview

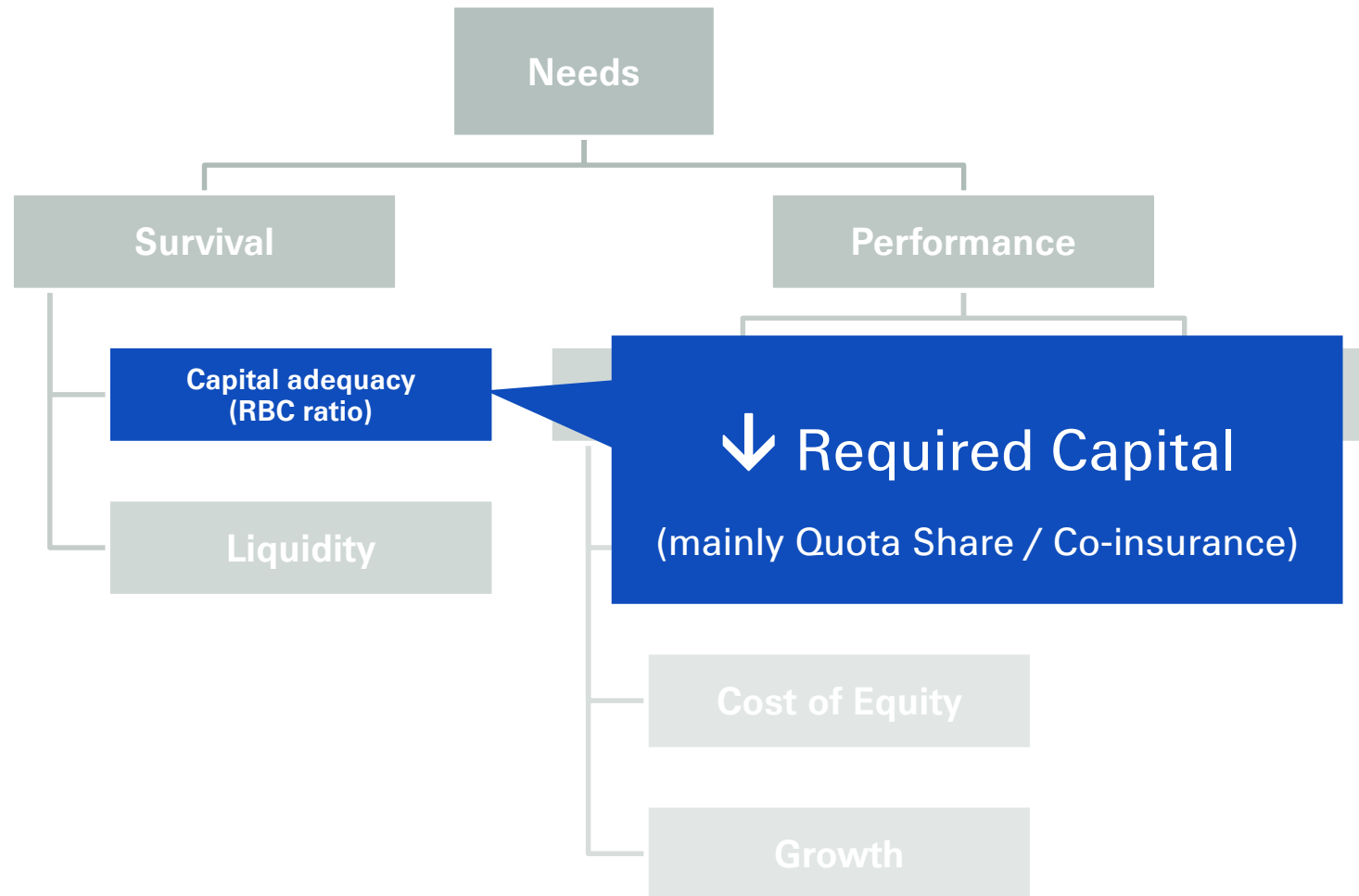
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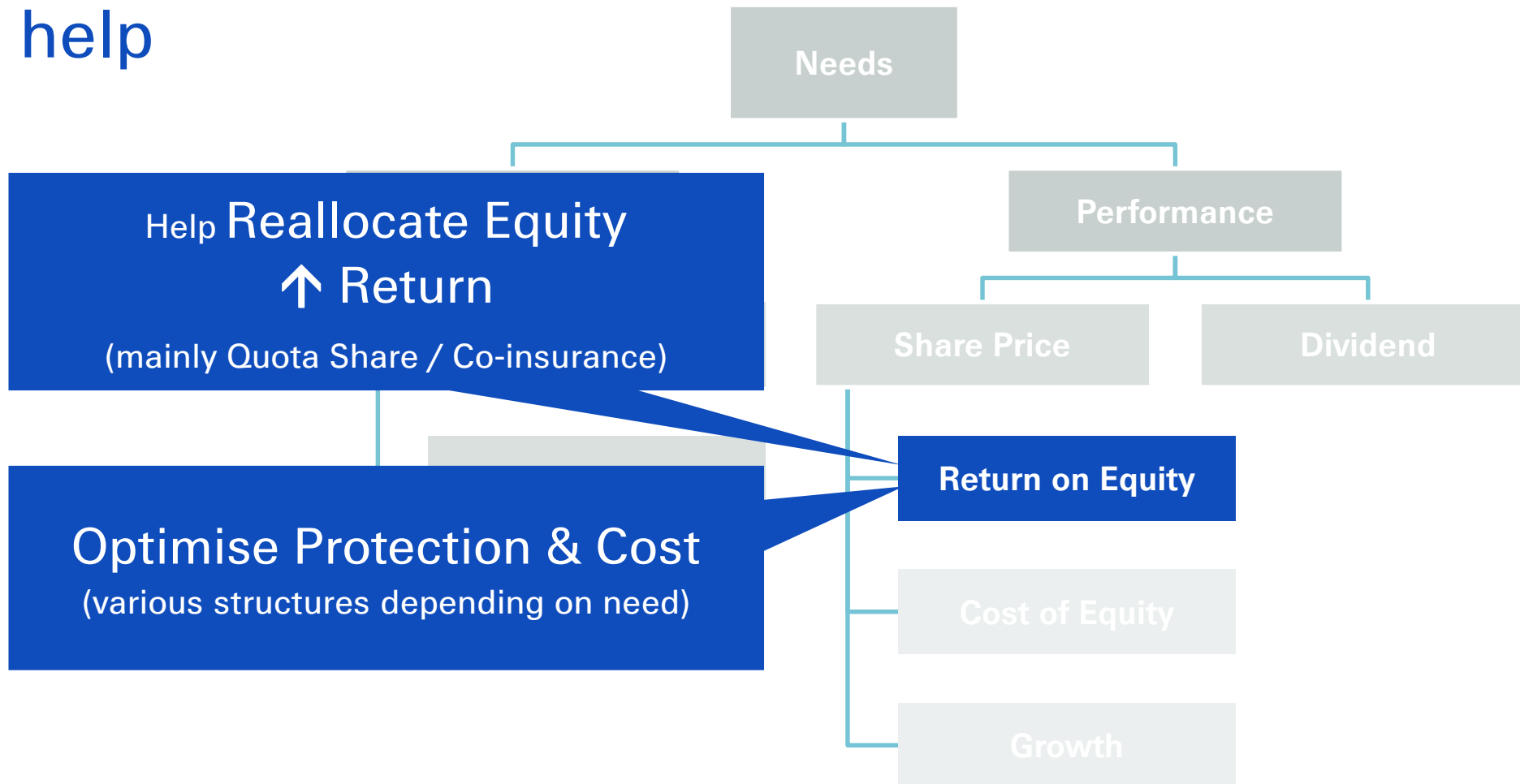
In a context of capital scarcity, insurers in the world usually have the following needs and KPI



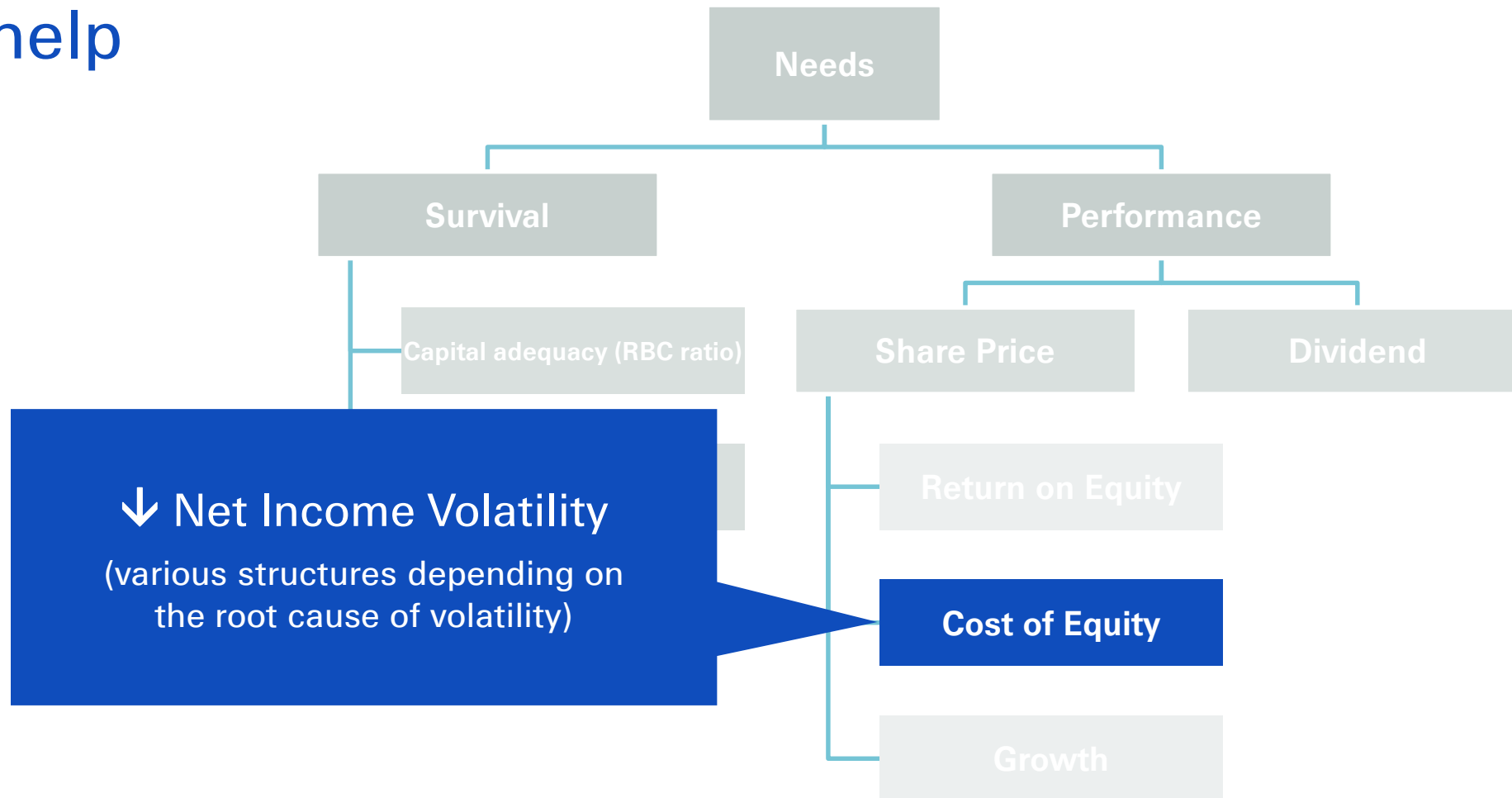
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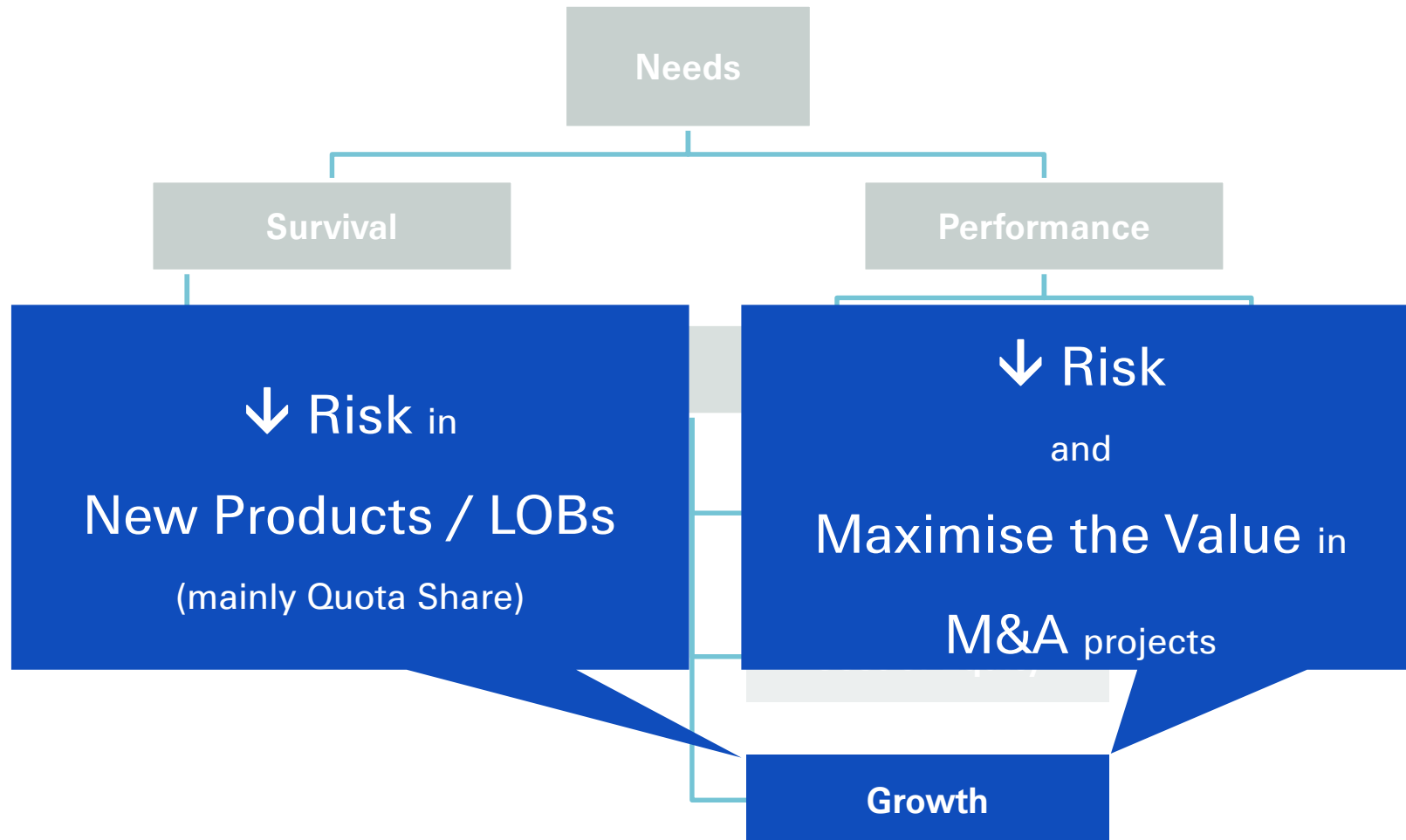
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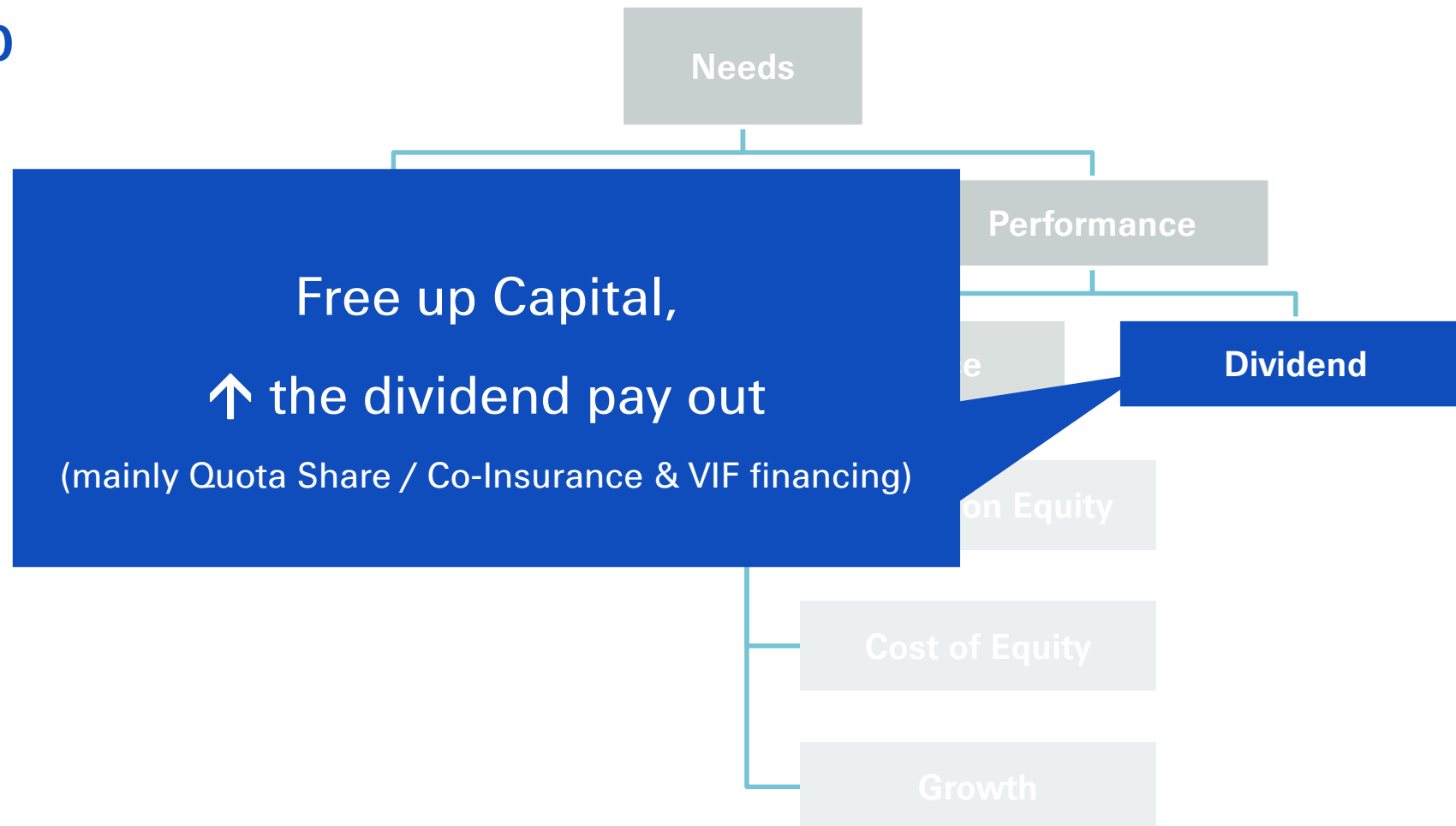
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Case studies

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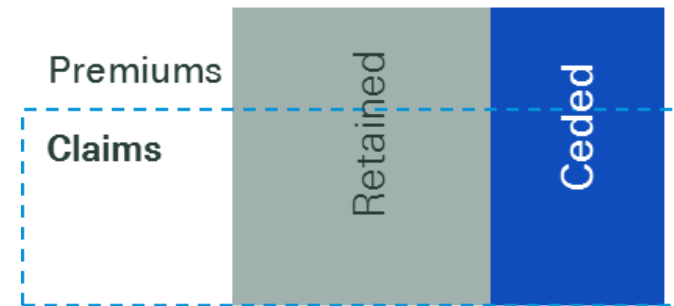
Capital Relief

New Business (P&C): reducing the Net Premium

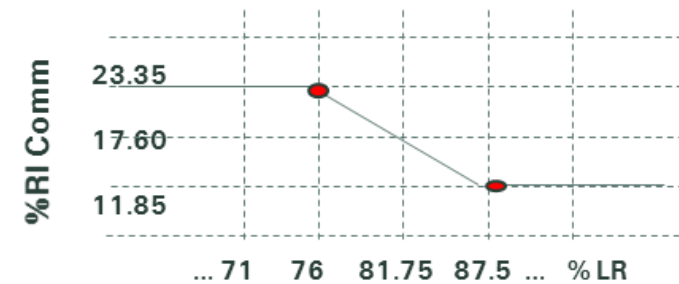
Quota Share with Sliding Scale Commission (P&C)

Pros	<ul style="list-style-type: none"> Efficient to improve RBC ratio thanks to smaller Net Premium and also decreased Net Reserves (some time later) Regulators are used to this structure, thus easy to get approval Can be structured as a multi-year treaty, with additional benefits
Cons	<ul style="list-style-type: none"> No adjustable cession rate Sliding scale may increase the underwriting volatility (a good year with low Loss Ratio (LR) is even better with high RI comm, and bad one is worse)

Cede a fixed % of Premiums & Claims

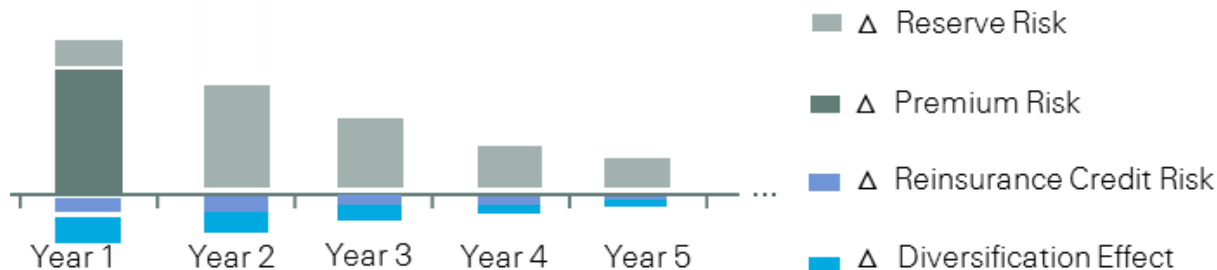


Sliding scale commission



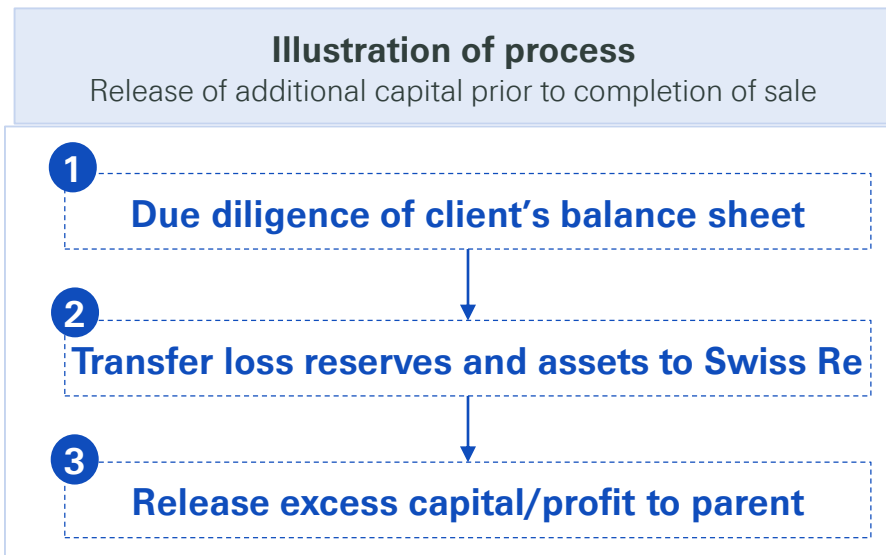
Helps pass risk transfer while keeping the cost low

Decrease in Required Capital for a 1-year Quota Share



Strategic refocus

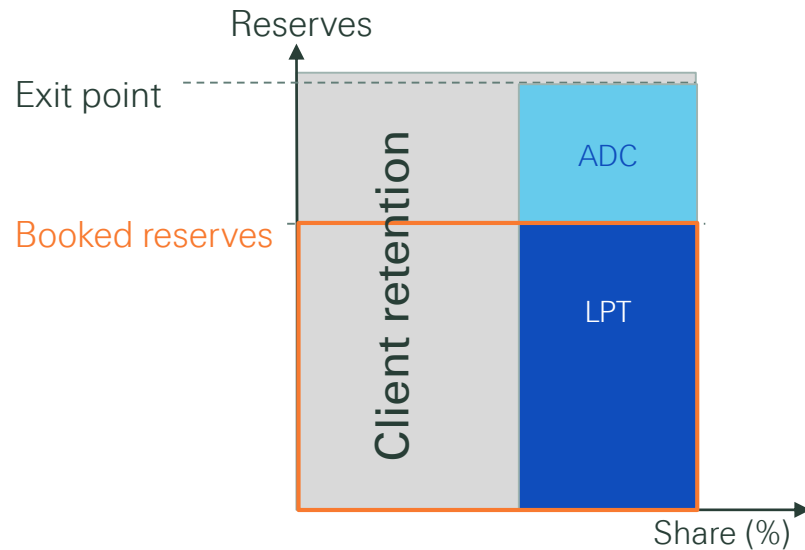
Concept solution



Strategic Refocus

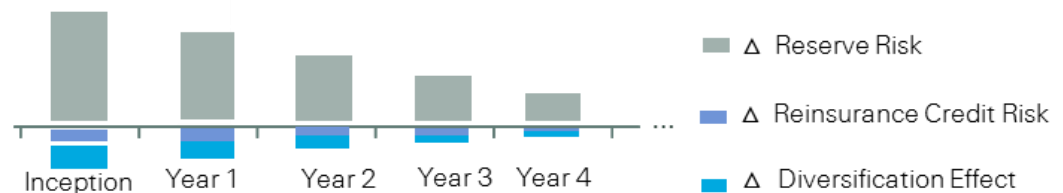
The structure of the treaty enabling it: LPT/ADC

The structure we use for strategic refocus is: Loss Portfolio Transfer and Adverse Development Cover (LPT / ADC)



Pros	<ul style="list-style-type: none"> • Risk Transfer & Capital relief: LPT/ADC transfers the reserve portfolio to the reinsurer, providing full protection against deviations from the expected claims development (timing and ultimate amount), and thus as well capital relief • Benefits of the cover fully effective at inception • The capital relief will extend as long as the covered portfolio is running off
Cons	<ul style="list-style-type: none"> • Cedent remains liable; counterparty risk – These are eliminated in case of a cession with Legal Finality • Allocation of capital & management resources reduced but still required

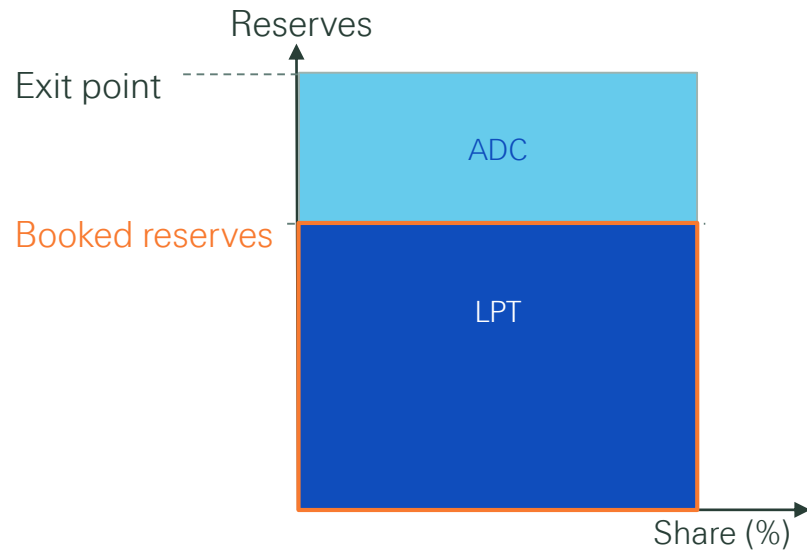
Decrease in Required Capital for a LPT/ADC



- **Loss Portfolio Transfer (LPT):** Transfer the non-life reserves to the reinsurer. It covers all deviations in the reserve payouts (timing risk)
- **Adverse Development Cover (ADC):** Covers potential deviations from the current ultimate claims estimate, thus provides protection against unfavorable claims development

Strategic Refocus

LPT/ADC for Strategic Refocus



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Cons	<ul style="list-style-type: none"> • Cedent remains liable; counterparty risk – These are eliminated in case of assignment with Legal Finality • Allocation of capital & management resources reduced but still required • Cost: more expensive than basic LPT/ADC because of the legal transfer leading to increased costs (claims management, regulatory approval, uncapped ADC cover) <p style="text-align: center; color: blue; font-weight: bold;">Not valid anymore</p>

Wrapping up

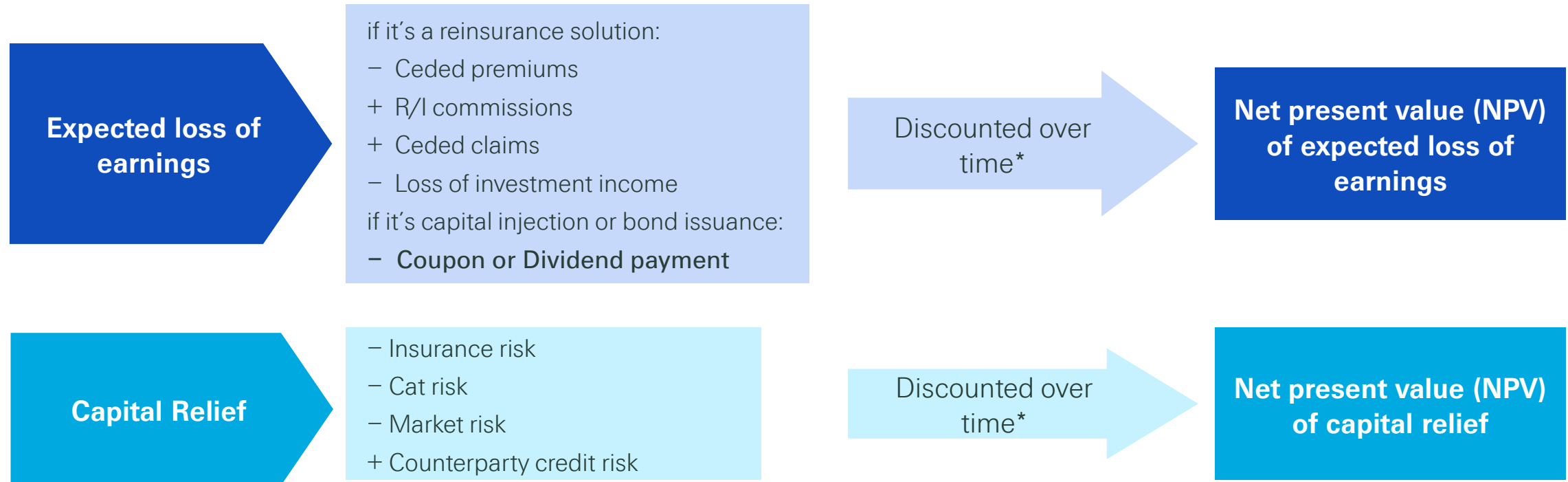
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Assessing the cost/return of such solutions

Reinsurance is often competitive with the cost of equity and WACC. While the cost of debt tends to be lower or similar, reinsurance provides risk transfer.

$$\text{Cost of capital solution} = \frac{\text{NPV(expected loss of earnings)}}{\text{NPV(capital relief) x targeted capital adequacy ratio} + \text{NPV (increase in available capital)}} \times (1 - \text{tax rate})$$



Needs

Reinsurers can help
insurers achieve their goals
in many ways, just reach out to
us when a new issue pops up

Thank you!

Contact us



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