

10
YEAR
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2020 ASIA-PACIFIC VIRTUAL SYMPOSIUM

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VALERIE GILLES-COEUR

Session 13, Strategic Use of Reinsurance

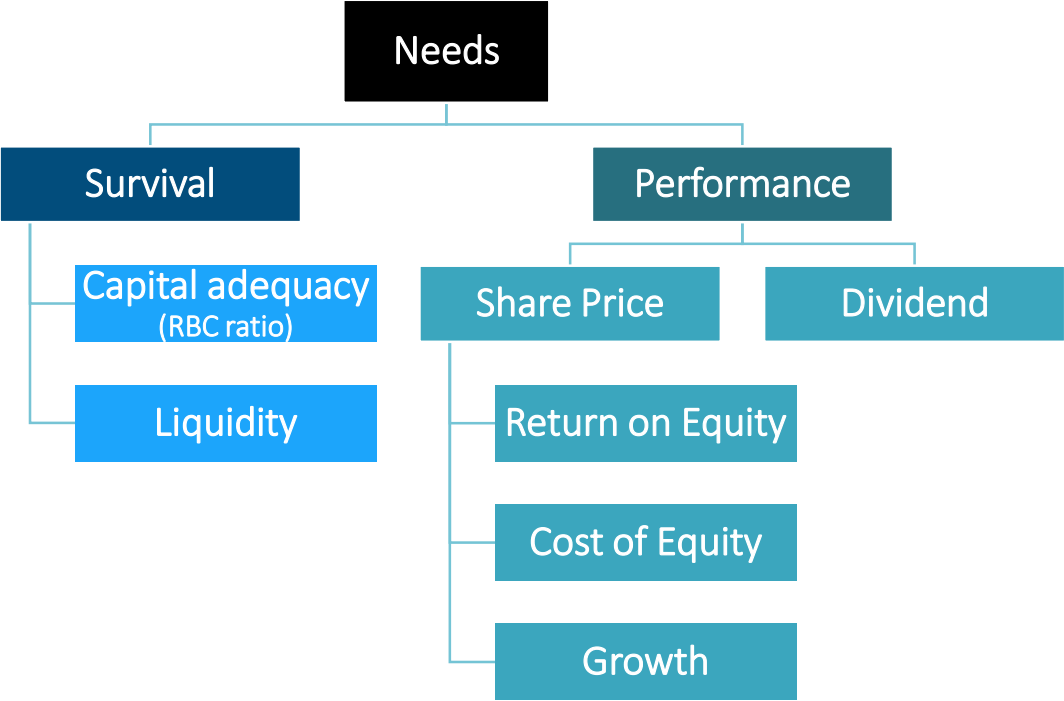
29/09/2020



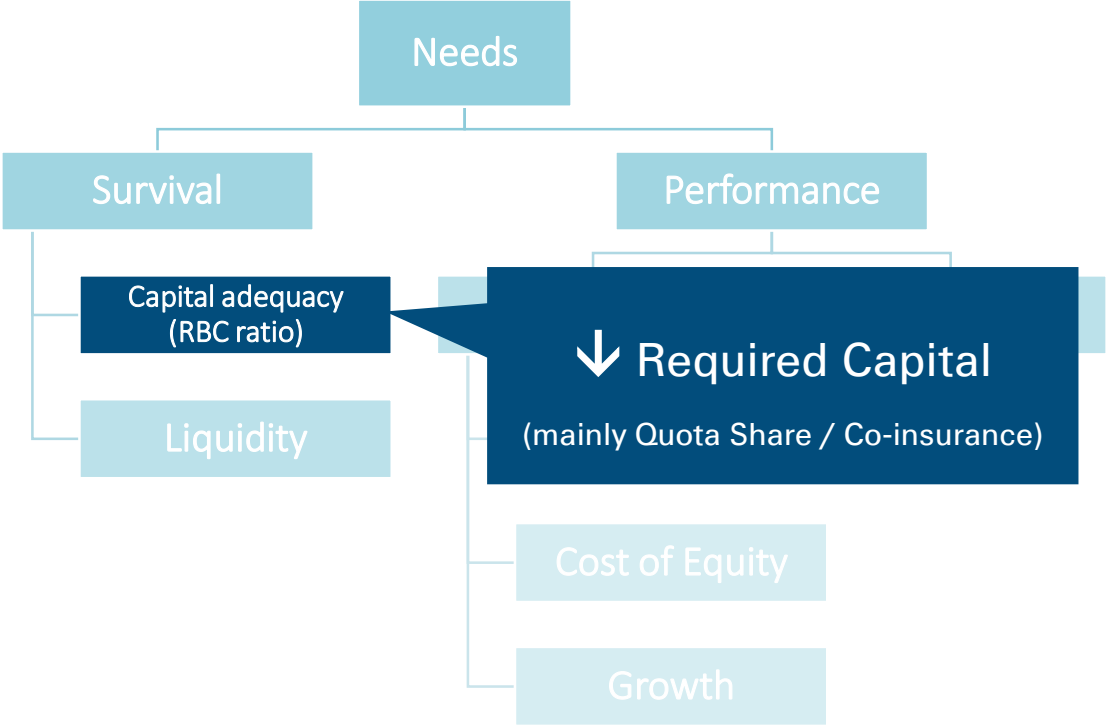
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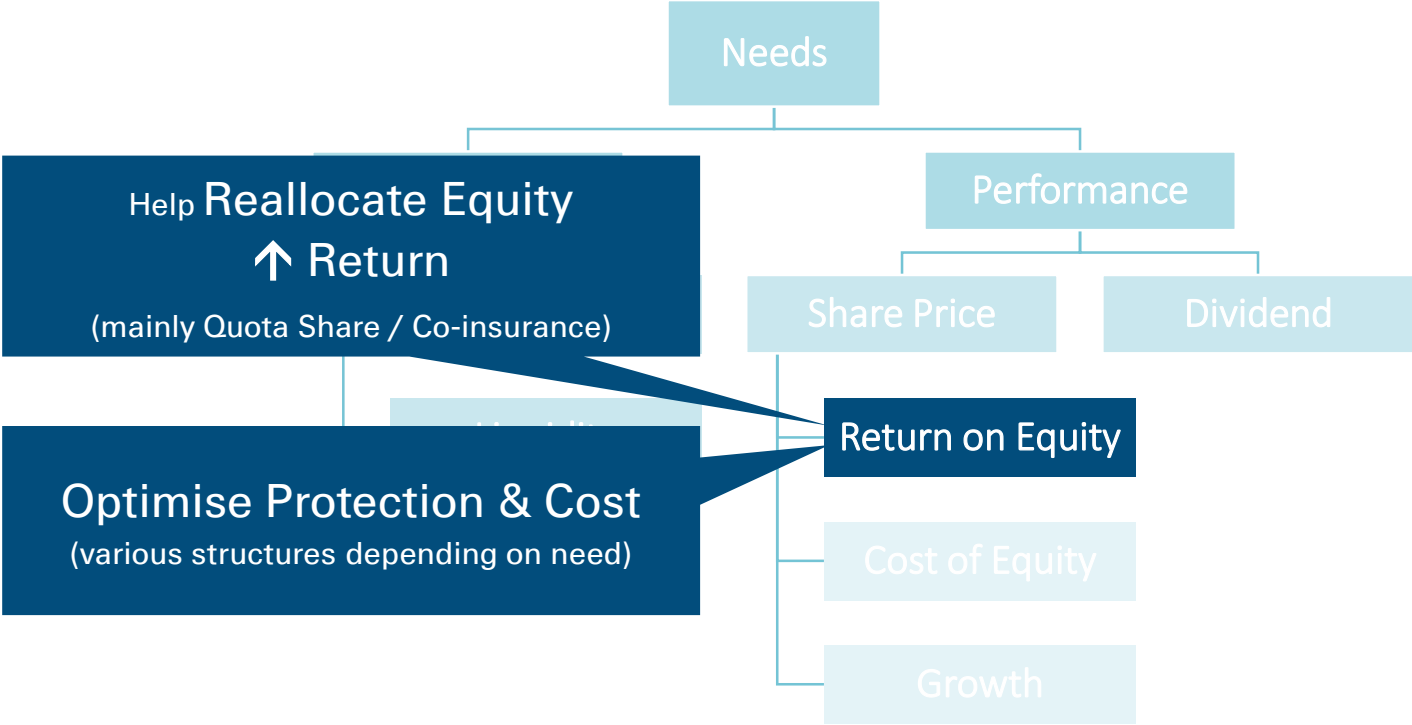
In a context of capital scarcity, insurers in the world usually have the following needs and KPI



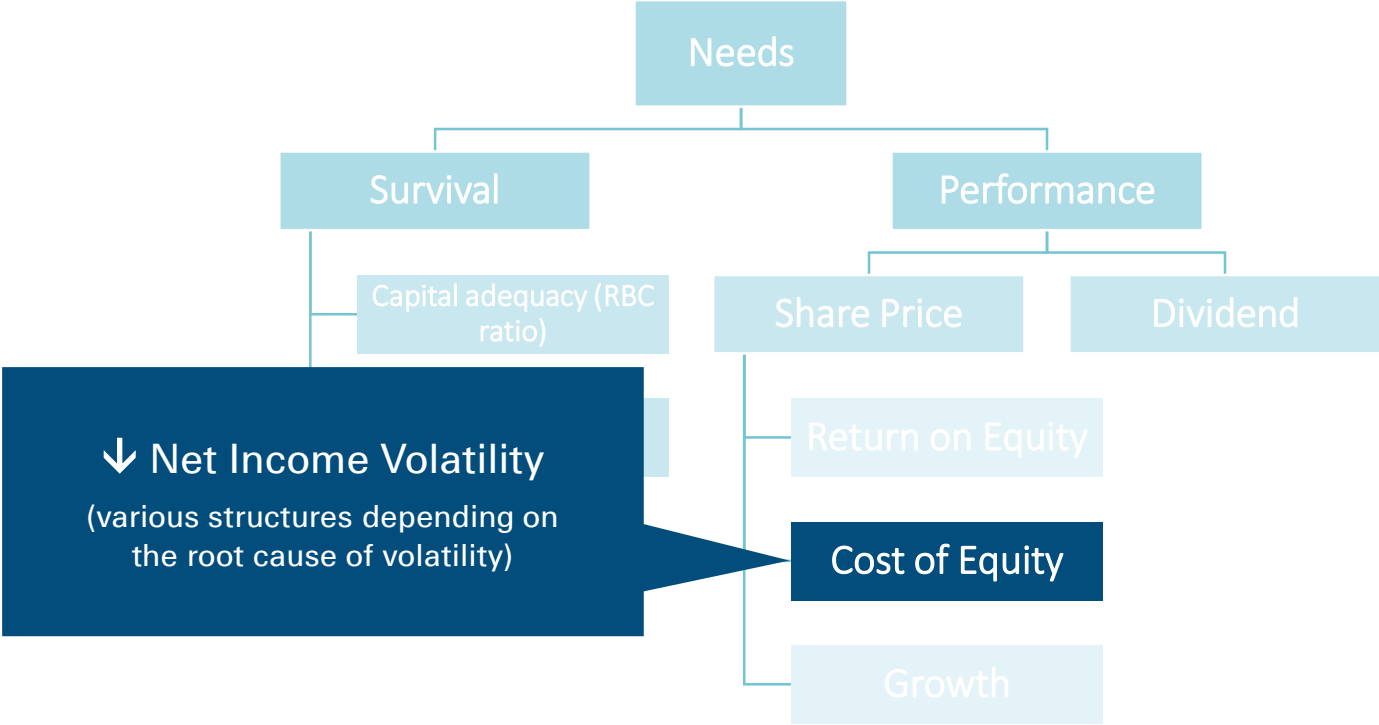
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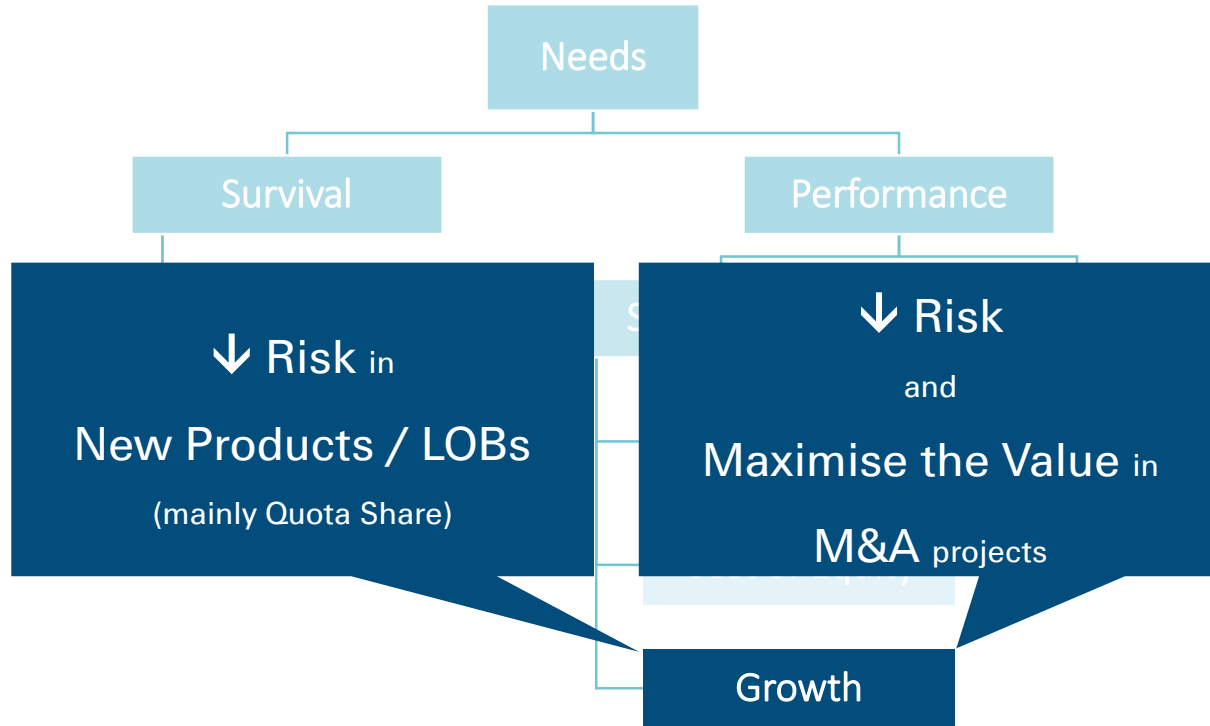
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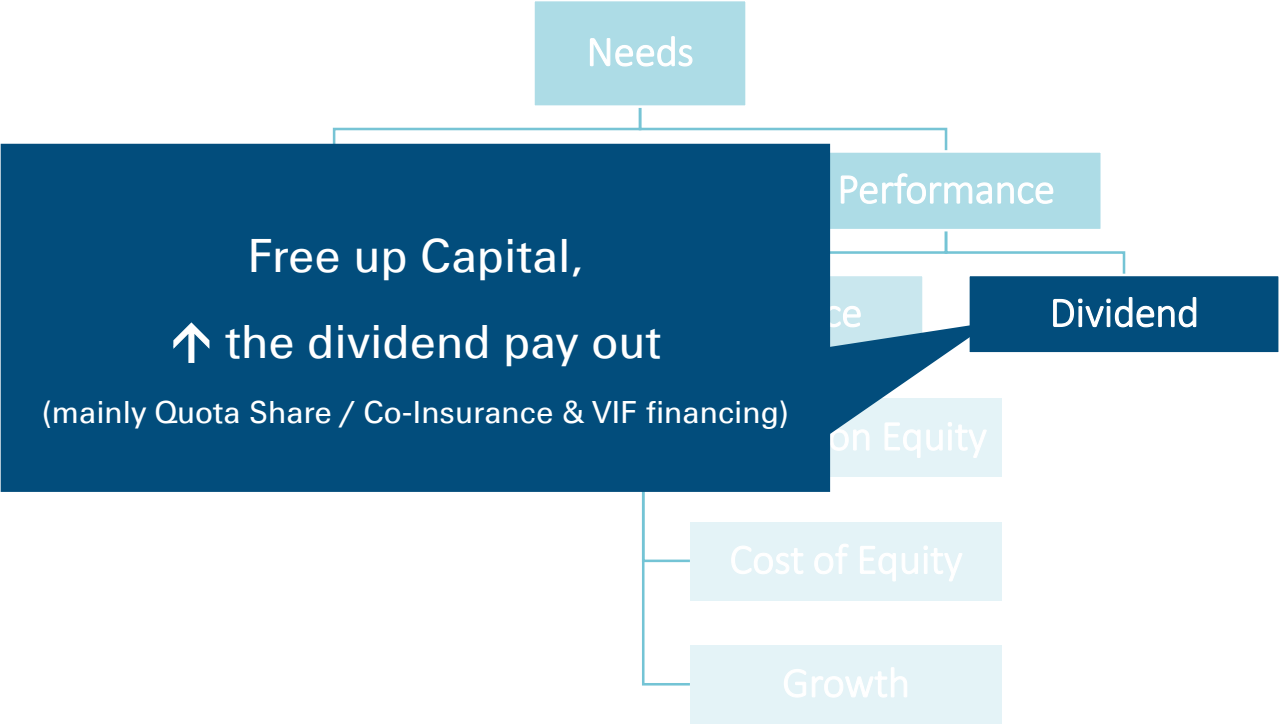
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Let's go through 4 case studies to
illustrate this

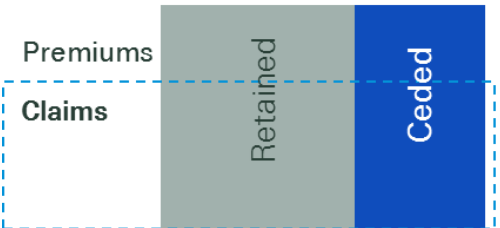


1. Capital relief – P&C case study

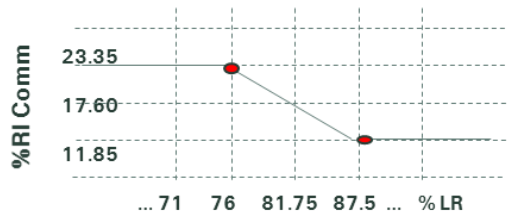
New Business (P&C): reducing the Net Premium

Quota Share with Sliding Scale Commission (P&C)

Cede a fixed % of Premiums & Claims



Sliding scale commission



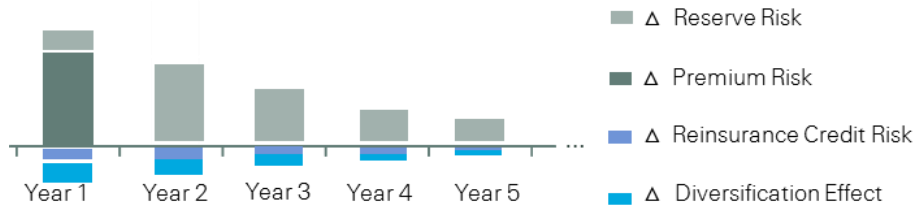
Helps pass risk transfer while keeping the cost low

Pros

Cons

- 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
-
- 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)

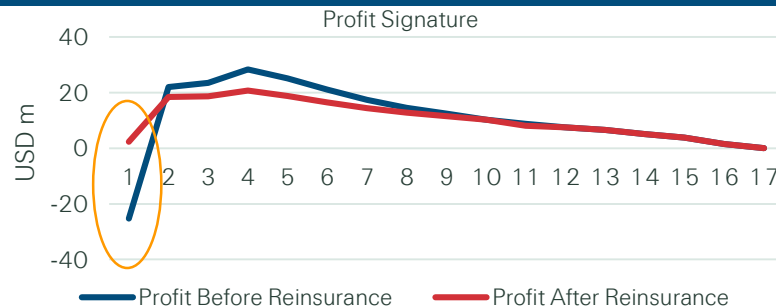
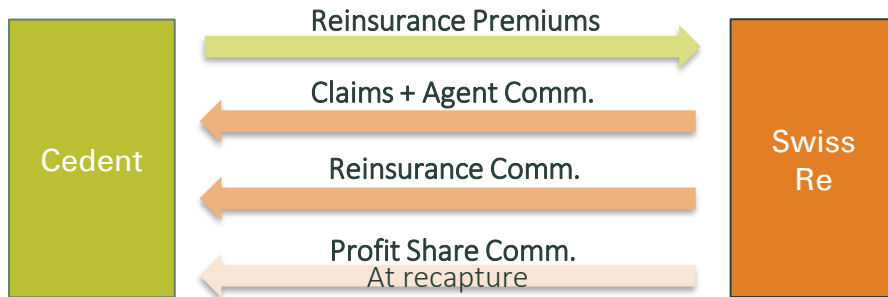
Decrease in Required Capital for a 1-year Quota Share



2. Capital Relief – L&H case study

New Business (L&H): reducing new business strains

Quota share with shaped reinsurance commissions (L&H)



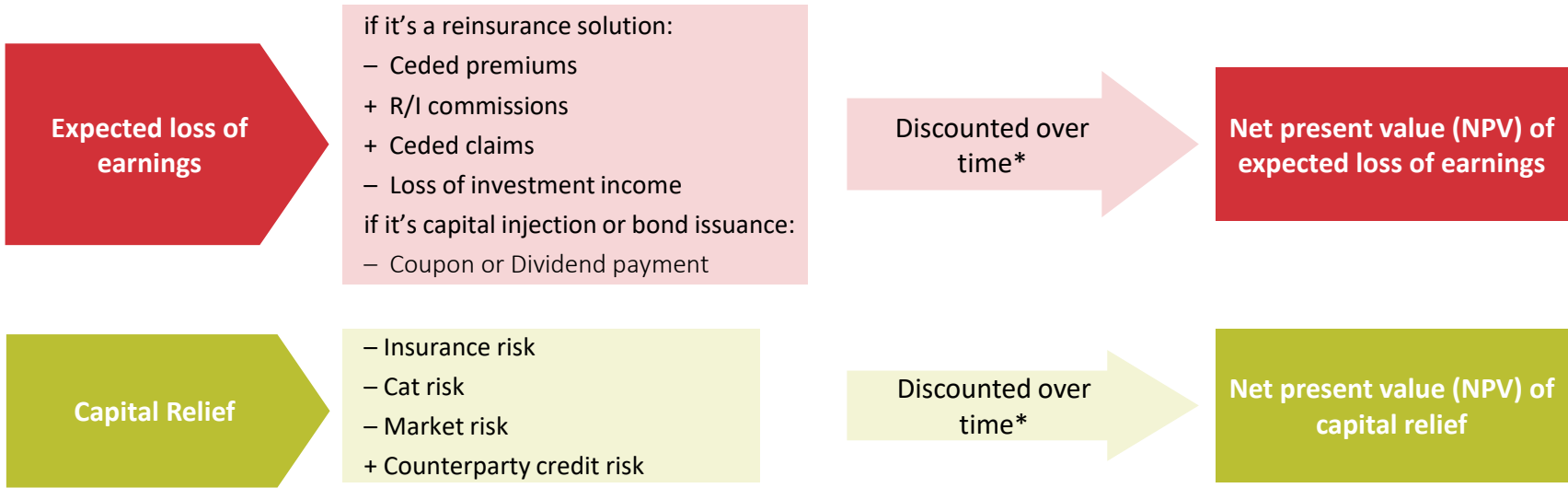
- Feature**
- Original Terms coinsurance with full/remote risk transfer
 - Swiss Re to pay a QS of future claims and agents commission (if any) in exchange for reinsurance premiums
 - Swiss Re to pay Reinsurance Commission on an ongoing basis to compensate for profits and expenses
 - Profit share commissions will be transferred to the cedent at recapture

- Benefits**
- Flexible and improve profit signature profile
 - Enhance solvency ratio by increasing in available capital through
 - ➔ eliminating day 1 negative cash flow with upfront reinsurance commissions.
 - ➔ improving cashflow profile with ongoing reinsurance commissions

Assessing the cost/return of such solutions

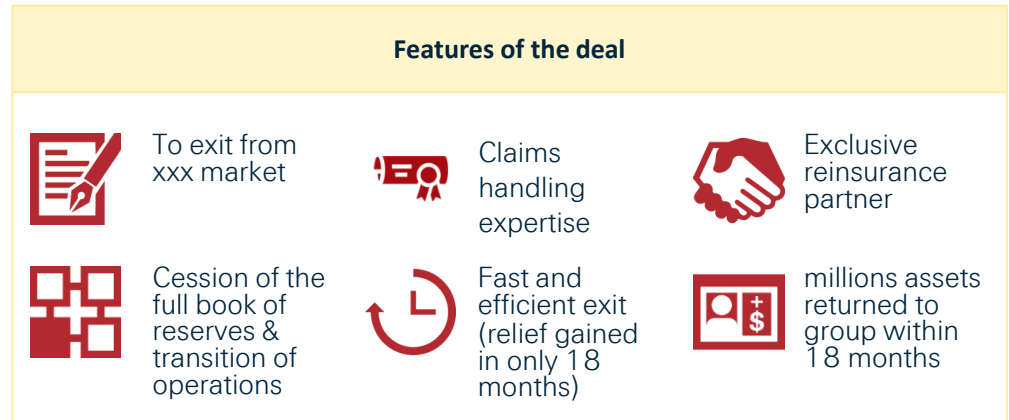
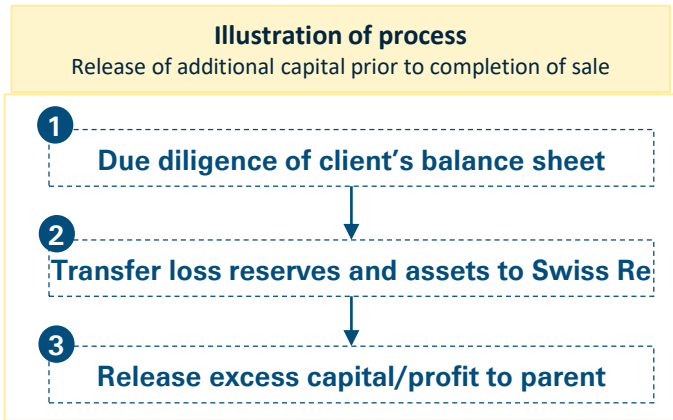
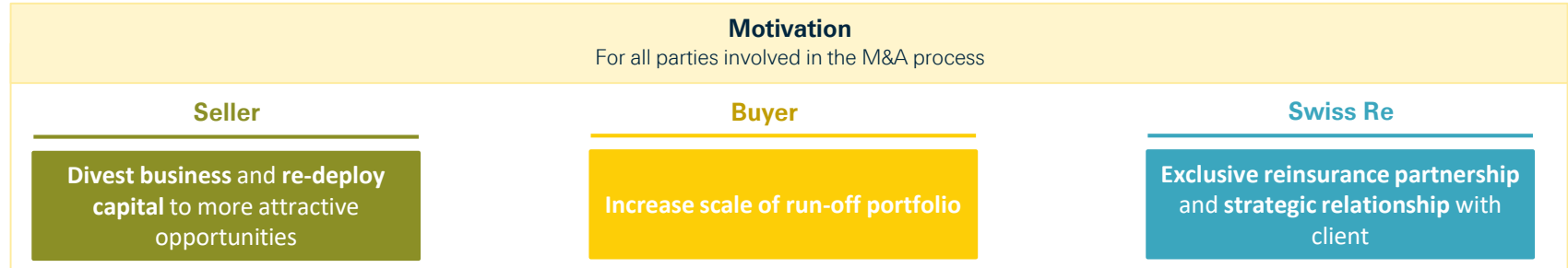
Reinsurance is often competitive with the cost of equity and WACC. While the cost of debt tends to be lower or similar, reinsurance provides risk transfer.

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



Further strategic use:

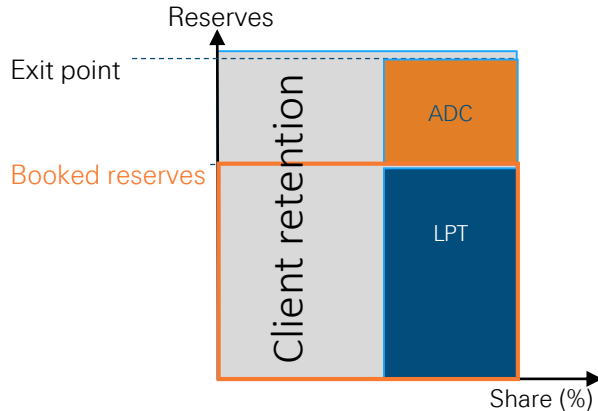
3. Strategic business refocus [P&C case study] (1/2)



Further strategic use:

3. strategic business refocus [P&C case study] (2/2)

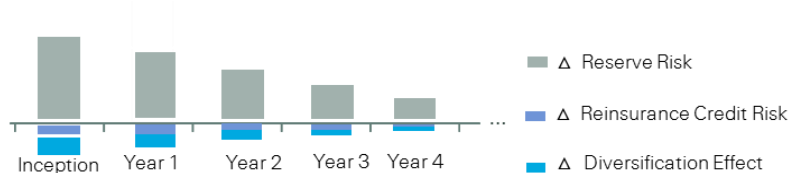
The structure we use for such solutions is: Loss Portfolio Transfer and Adverse Development Cover - LPT / ADC (P&C)



- **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

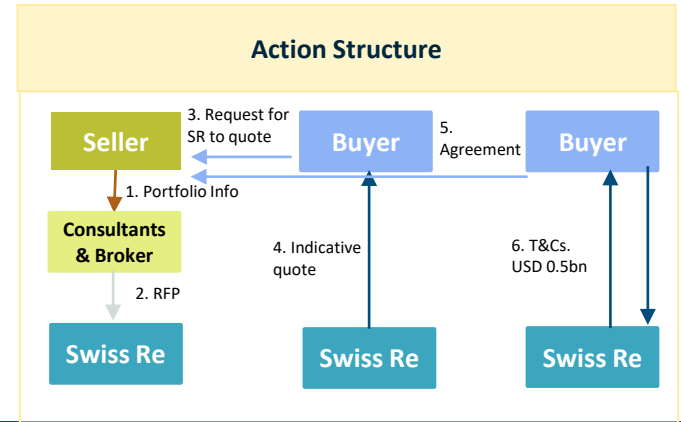
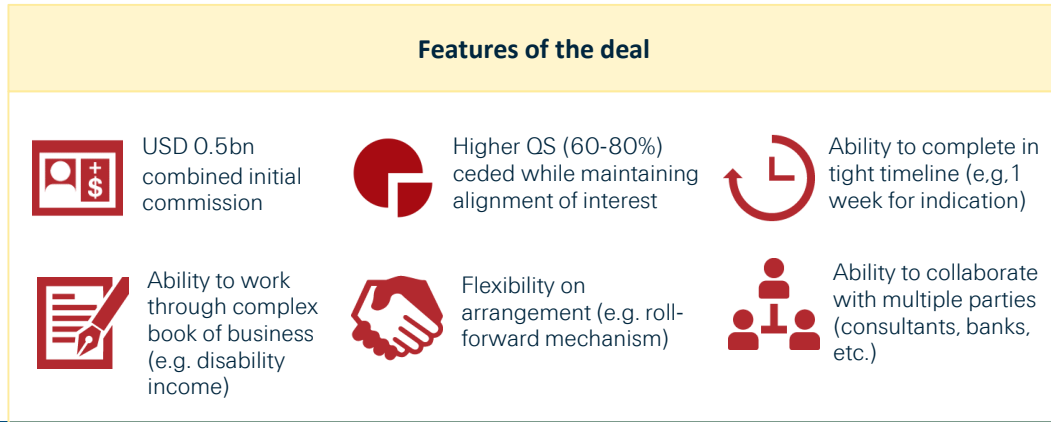
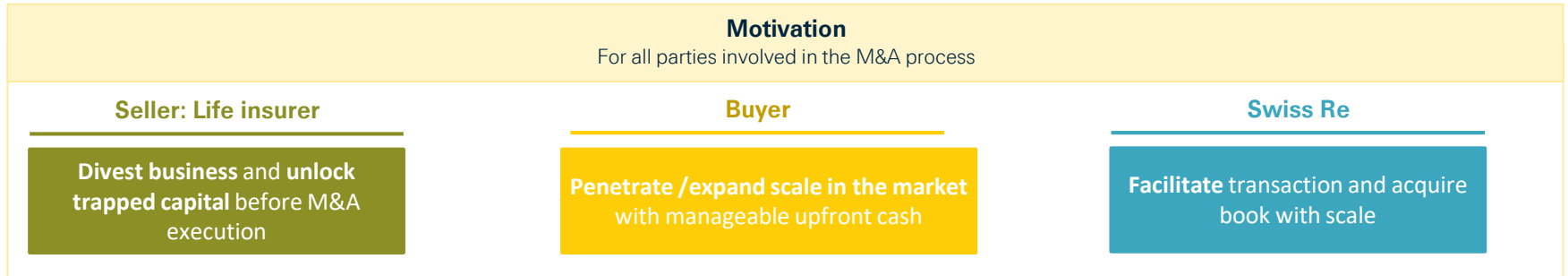
Pros	<ul style="list-style-type: none"> • Risk Transfer & Capital relief: LPT/ADC transfers the reserve portfolio to the reinsurer, providing full protection against deviations from the expected claims development (timing and ultimate amount), and thus as well capital relief • Benefits of the cover fully 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 • Allocation of capital & management resources reduced but still required

Decrease in Required Capital for a LPT/ADC



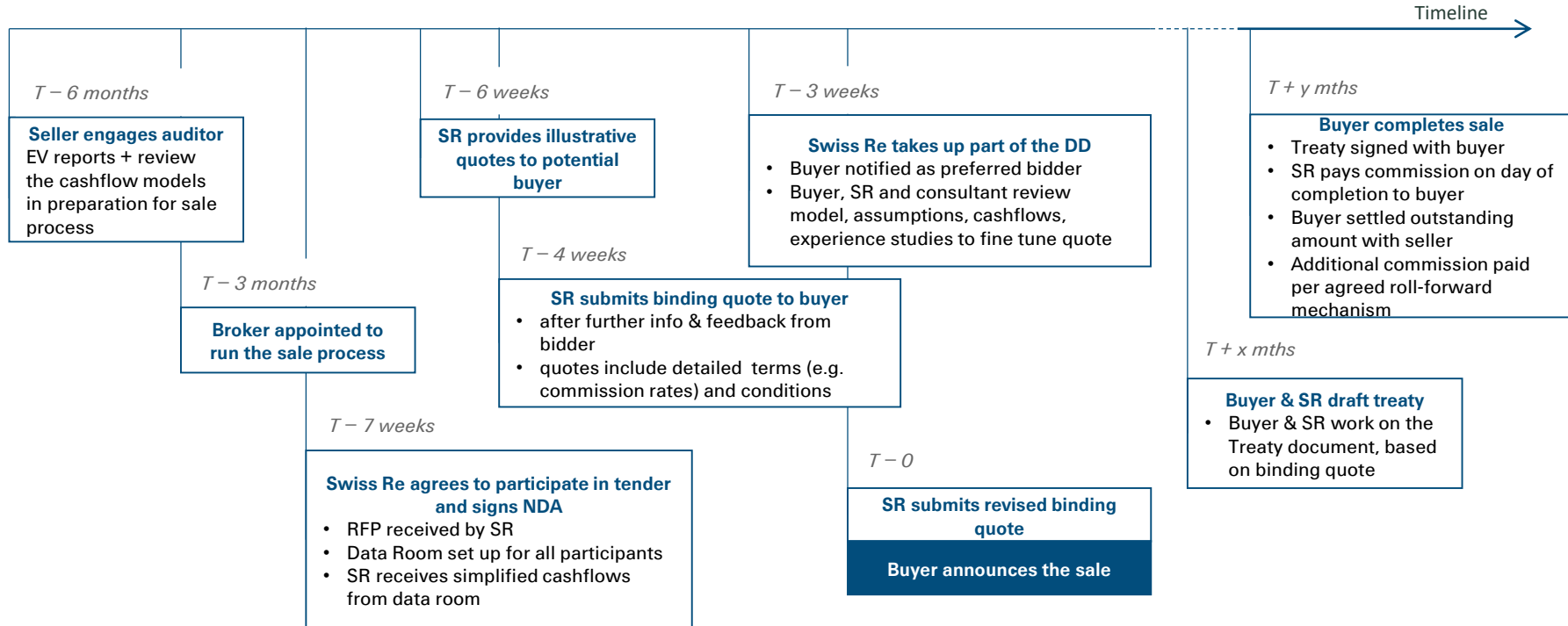
4. Value-of-inforce (VIF) monetizations (1/2)

Monetizing future profit to present day to support the M&A



4. Value-of-inforce (VIF) monetizations (2/2)

A practical timeline based on an executed transaction



Needs

Survival

Performance

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

Growth

SOCIETY OF ACTUARIES

Antitrust Compliance Guidelines

Active participation in the Society of Actuaries is an important aspect of membership. While the positive contributions of professional societies and associations are well-recognized and encouraged, association activities are vulnerable to close antitrust scrutiny. By their very nature, associations bring together industry competitors and other market participants.

The United States antitrust laws aim to protect consumers by preserving the free economy and prohibiting anti-competitive business practices; they promote competition. There are both state and federal antitrust laws, although state antitrust laws closely follow federal law. The Sherman Act, is the primary U.S. antitrust law pertaining to association activities. The Sherman Act prohibits every contract, combination or conspiracy that places an unreasonable restraint on trade. There are, however, some activities that are illegal under all circumstances, such as price fixing, market allocation and collusive bidding.

There is no safe harbor under the antitrust law for professional association activities. Therefore, association meeting participants should refrain from discussing any activity that could potentially be construed as having an anti-competitive effect. Discussions relating to product or service pricing, market allocations, membership restrictions, product standardization or other conditions on trade could arguably be perceived as a restraint on trade and may expose the SOA and its members to antitrust enforcement procedures.

While participating in all SOA in person meetings, webinars, teleconferences or side discussions, you should avoid discussing competitively sensitive information with competitors and follow these guidelines:

- **Do not** discuss prices for services or products or anything else that might affect prices
- **Do not** discuss what you or other entities plan to do in a particular geographic or product markets or with particular customers.
- **Do not** speak on behalf of the SOA or any of its committees unless specifically authorized to do so.
- **Do** leave a meeting where any anticompetitive pricing or market allocation discussion occurs.
- **Do** alert SOA staff and/or legal counsel to any concerning discussions
- **Do** consult with legal counsel before raising any matter or making a statement that may involve competitively sensitive information.

Adherence to these guidelines involves not only avoidance of antitrust violations, but avoidance of behavior which might be so construed. These guidelines only provide an overview of prohibited activities. SOA legal counsel reviews meeting agenda and materials as deemed appropriate and any discussion that departs from the formal agenda should be scrutinized carefully. Antitrust compliance is everyone's responsibility; however, please seek legal counsel if you have any questions or concerns.