



SEMINAR ON REINSURANCE

JUNE 8–9, 2021 • VIRTUAL EVENT



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Reserve Risk Solutions

LPT/ADC's and Legacy Transfers (CS21)

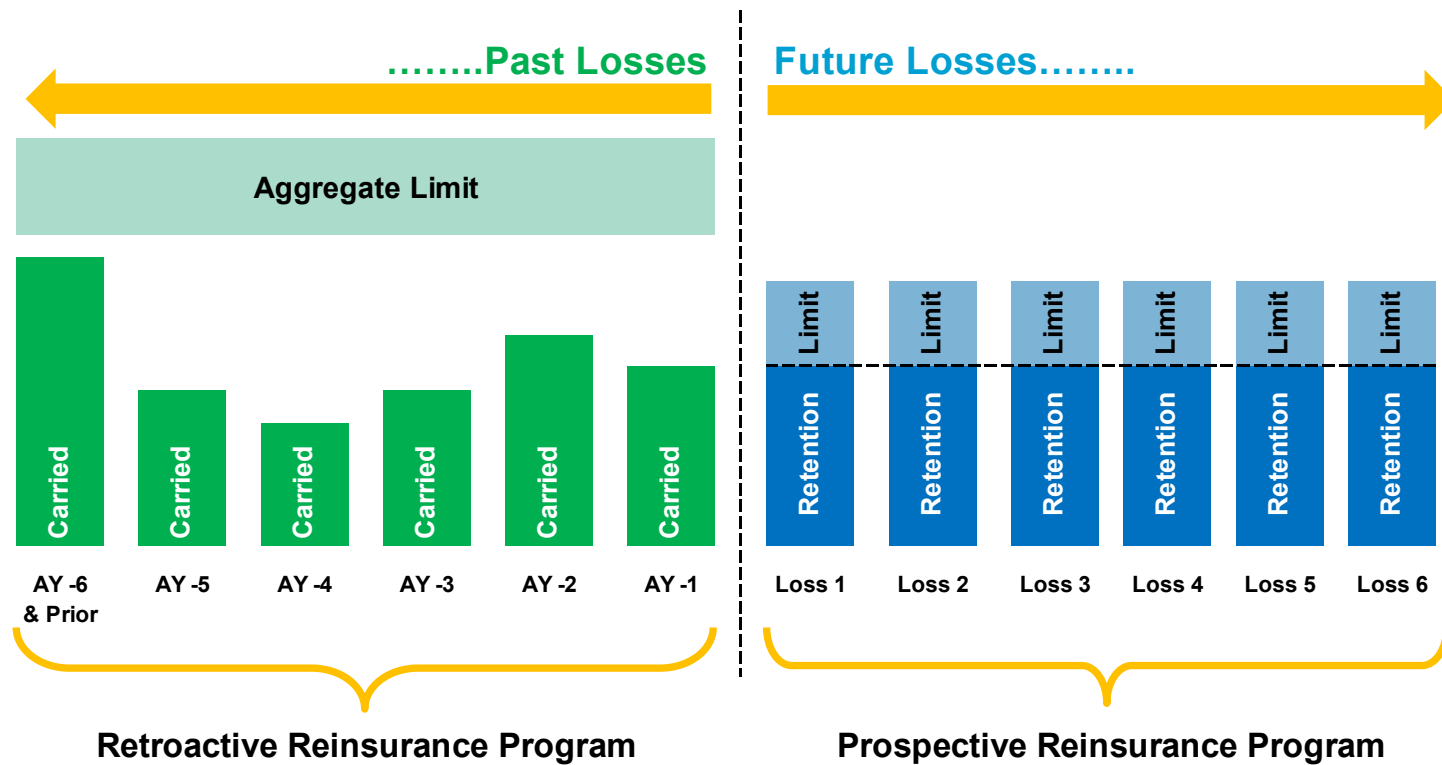
CARe Seminar on Reinsurance (June 9, 2021)

Speakers: Kenneth Kruger, Head of Structured Reinsurance, Munich Re
Gabriel Ware, Transaction Actuary, Enstar Group

Moderator: Raju Bohra, Analytics and Structured, Willis Re



Retroactive Reinsurance



Coverage Forms



Loss Portfolio Transfers

("LPTs") attach at first dollar of the covered reserves and act like a QS with respect to losses

Adverse Development Covers

("ADCs") attach at or above the covered reserves and act like a Stop Loss

In-the Money ADCs

Split the difference and attach within covered reserves but above first dollar



Coverage Forms



Loss Portfolio Transfers

Best suited for companies that have exited a line of business or region and wants finality

Adverse Development Covers

Efficient way to reduce reserve risk and/or obtain rating agency relief

In-the Money ADCs

Used on long-tail business to help finance the risk layer through the discount on transferred reserves



Get Rid Of It!



Optimize your Company



Provide certainty and closure



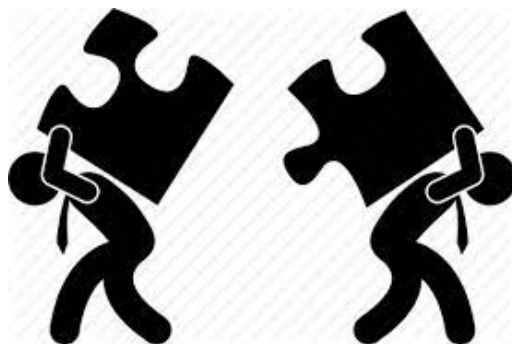
Release capital



Fewer Distractions



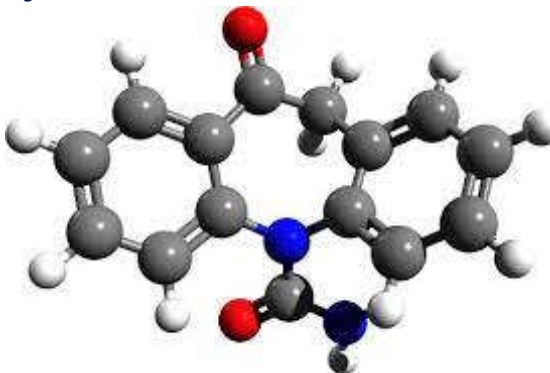
Bringing a Transaction to Market



Separate the Subject Business



Transparent Reserves



Know (basics of) your structure



Legacy carrier priorities



Reduce Pricing Risk



Control of Claims



Control of Funds





The Ultimate Finality - US

- Oklahoma/Rhode Island Insurance Business Transfer
 - Similar to UK Part VII regulations
 - Allows policies to be legally transferred from one insurance company to another
- Connecticut Business Division Statue
 - Allows an insurance company to be divided into two insurance companies





Reserving vs Transaction Actuary

Focus Questions

- What keeps you awake at night?
- What does your leadership want most?
- What is your approach?

Reserving

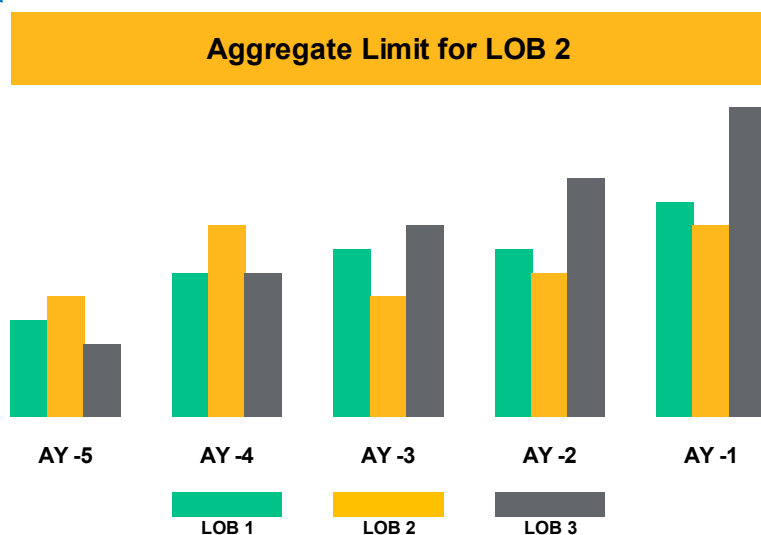
- Secure the balance sheet
- Stabilize the P&L
- Controlled and transparent process

Transaction

- Secure the rate of return
- Decisive and profit driven
- Broad tool box tailored to specific portfolio

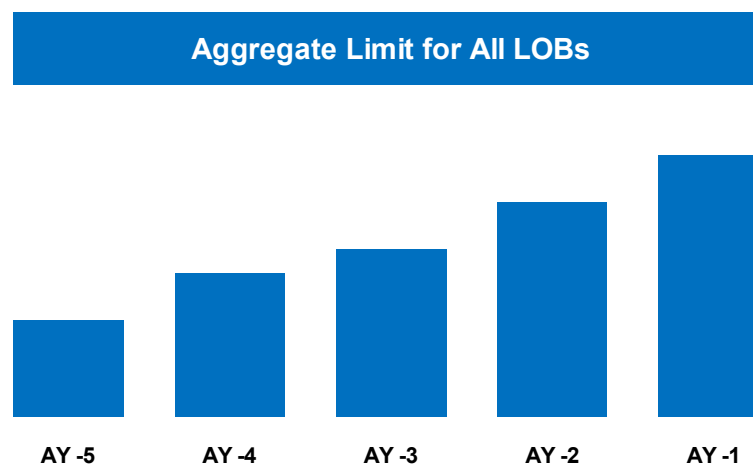


Scope of Coverage



Best at addressing specific concerns:

- A line that has experienced excessive volatility
- A decision to exit a specific line

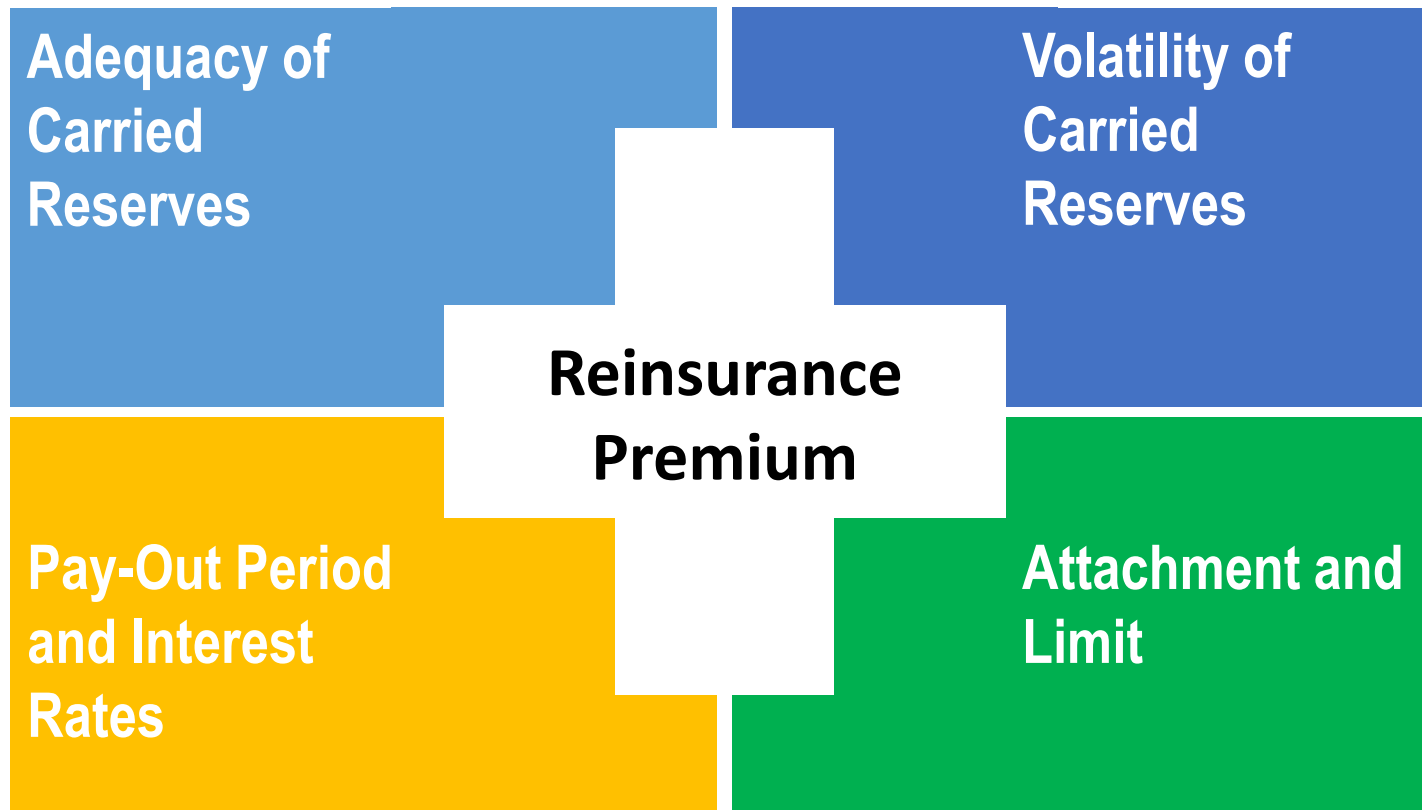


Better at addressing general concerns:

- Surplus protection
- Rating Agency Capital support



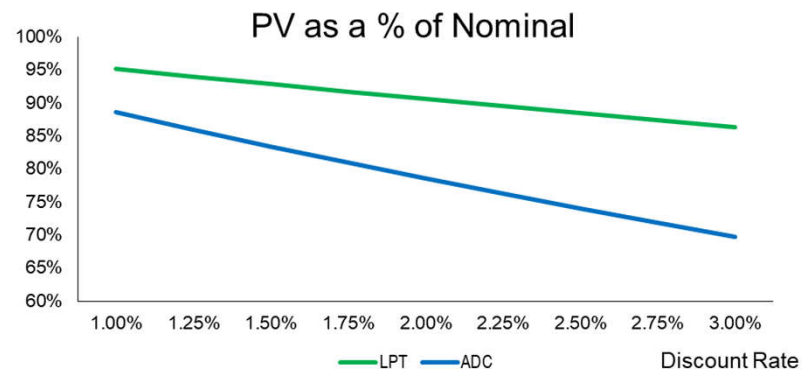
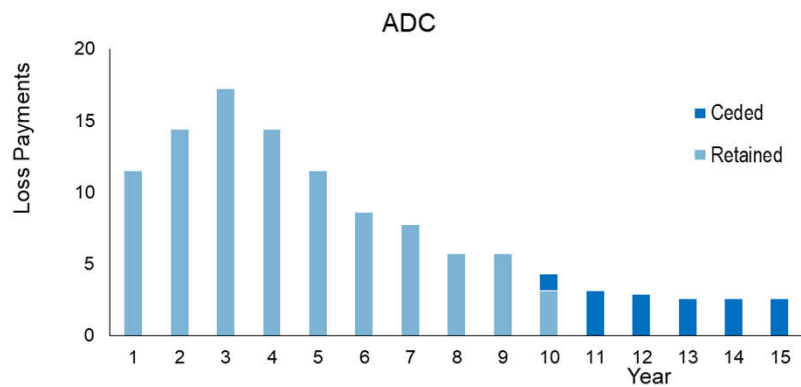
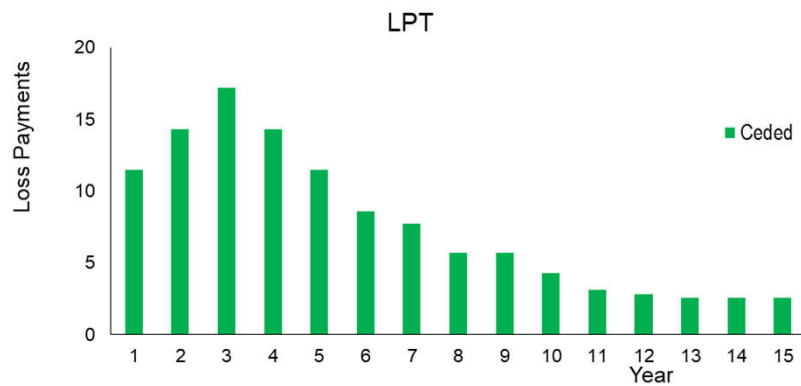
Pricing Factors



Adequacy, Volatility, Attachment & Limit



Payout Period and Interest Rates





Summary of Key Price Drivers (in relation to held reserves)

- Portfolio Reserve Adequacy and Reserve Risk
- Limits, Collateral and Investment Income (incl Funds WithHeld and Guarantees)
- Claims control
- Insurer Capital requirement





Case Studies





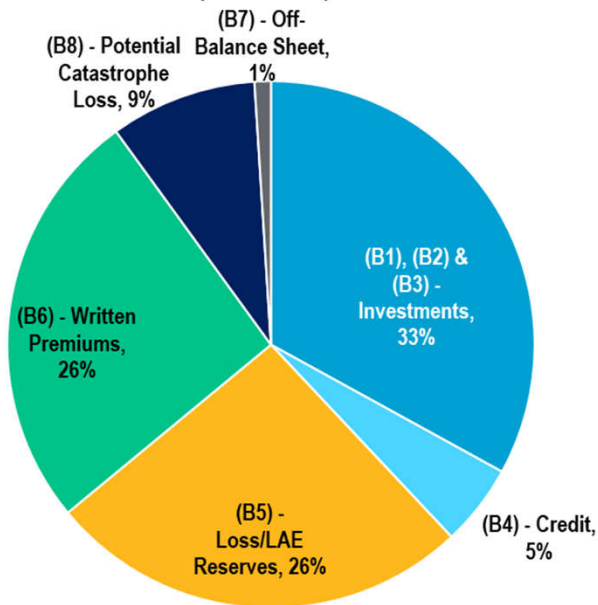
Case Study: Legacy Portfolio

- Insure Co - Workers Compensation: years 1990 to 2010
 - Reserves of \$100M, Capital support \$25M
 - Claims managed via six TPAs, requires two FTEs in Insure Co
 - Currently Non-core Business, few ongoing customers
 - Seeks finality, capital relief and optimisation
- Legacy Co – Retroactive Reinsurance LPT at \$95M premium
 - Price includes Legacy's view of reserves, capital requirements, potential for claims efficiencies and investment income potential
 - Legacy an A-Rated carrier: Insure Co gets reinsurance credit without collateral
 - In event collateral may be required, investment guidelines will be negotiated
 - TPA contract assigned to legacy carrier
- Insure Co and Legacy Co have ongoing claims collaboration and financial reporting obligations

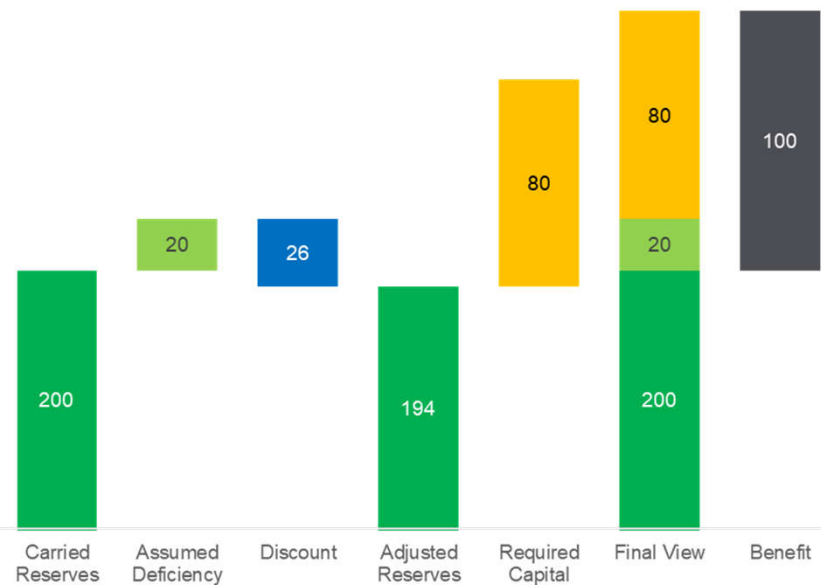


Case Study: Rating Agency Capital Support Managing Loss & LAE Reserve Risk Capital

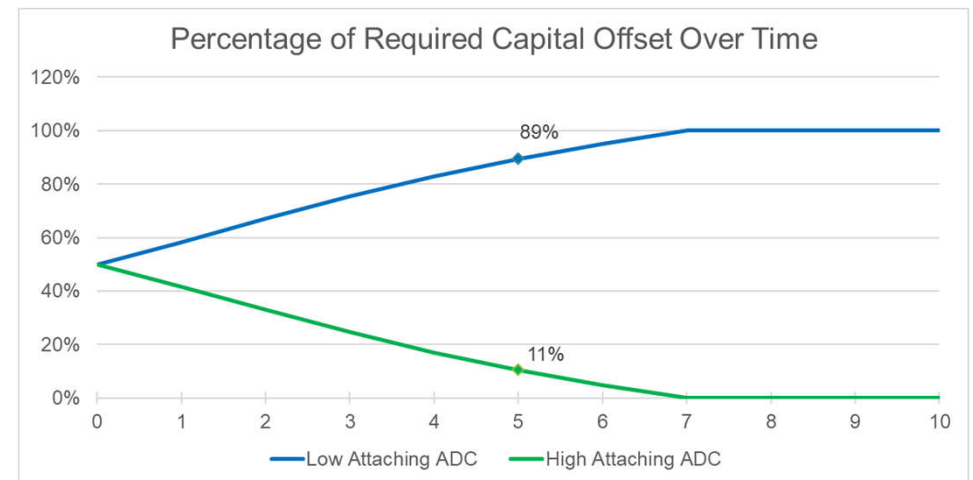
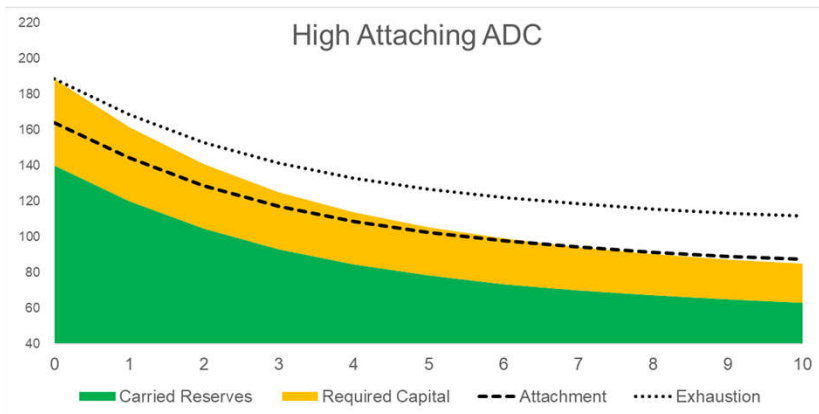
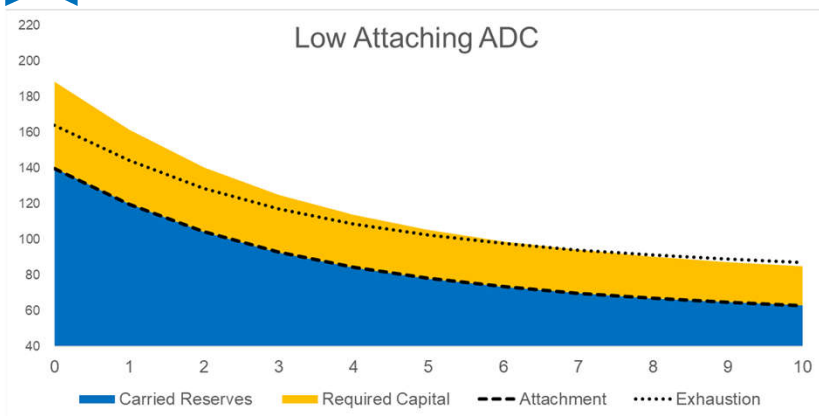
Industry Aggregate Composition of Gross
Required Capital



Required Loss Reserve Capital



Case Study: Rating Agency Capital Support Persistence of Capital Relief Benefit





Questions???





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