



# Capital Markets Alternatives: Evolving Role of Reinsurers

Casualty Actuaries of Reinsurance  
Hamilton, BDA

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# What does the Evolving Role of Reinsurers Mean to Actuaries?

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- ▶ What is new?
- ▶ Low interest Rates
- ▶ Speed of some of the transactions
- ▶ Actuary may be involved
  - ▶ Placement of reinsurance intermediaries
  - ▶ Assumption of reinsurance
  - ▶ Purchase of reinsurance / retrocessions

# Reinsurance Options

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- ▶ Catastrophe Bonds
  - ▶ Traditional reinsurers may participate
- ▶ Side Cars
  - ▶ Traditional reinsurers may front or cede to side cars
- ▶ ILW industry loss warranties
  - ▶ May assume or cede exposures based on industry loss
- ▶ New reinsurers securitization options
  - ▶ New reinsurers may not be rated and require securitization
  - ▶ May need to commute or settle claims more quickly
  - ▶ Need to release capital for investors in shorter timeframe

# Example

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- ▶ New reinsurer A assumes catastrophe business from your company B
- ▶ Super-Storm Sandy happens
- ▶ Have Sandy ceded loss
- ▶ Renewal is January 1<sup>st</sup> for company B
- ▶ Reinsurer A wants to renew
- ▶ Company B needs collateral
- ▶ Company B wants to settle / commute to release capital

# Some Companies Today Know More About Writings Than Cessions

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- ▶ Systems in many instances may be more built out more robustly for direct / assumed writings
- ▶ May need to allocate results to a reinsurer
- ▶ May require individual analysis
- ▶ May be difficult or time consuming

# Example

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- ▶ Reinsurer A Has a Side Car Relationship With Reinsurer B
- ▶ Reinsurer A assumes business and cedes on a quota share side car basis to Reinsurer B
- ▶ Other Reinsurers Participate on Reinsurer's A program
- ▶ Management wants to unwind the relationship with Reinsurer B

# Hedge Funds Have an Interest in the Reinsurance Space

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- ▶ Handful have entered
- ▶ Others are interested
- ▶ Increasing capacity
- ▶ Driving down prices
- ▶ Creating jobs
- ▶ Not often rated
  - ▶ Need for fronting
  - ▶ Securitization
  - ▶ Commutation / Settlement

# The Fair Value of an Insurance Portfolio

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- ▶ Need to develop a share price value of an insurance portfolio
- ▶ Insurance portfolio is not a liquid asset
- ▶ Composed of two elements
- ▶ Cost or gain from ceding loss reserves
- ▶ Cost or gain from ceding written but not earned premiums



# Fair Value Considerations

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- ▶ Loss Portfolio Transfer Price
  - ▶ Discount losses
  - ▶ Adverse deviation / risk factor (loss distributions?)
  - ▶ Margin required
  - ▶ Cost of capital
  - ▶ Policies at limits
  - ▶ No universal way
- ▶ In force quota share
  - ▶ What is it worth?

# Unique Items to the Hedge Fund Reinsurer

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- ▶ Share price
- ▶ Reinsurance is not liquid asset
- ▶ Quick settlement
- ▶ Release capital to investors
- ▶ Time is money

# Insurance Swaps

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- ▶ Trade an equal value of aggregate in one cat area
- ▶ For an equal value of aggregate in another cat area
- ▶ Investment or reinsurance
- ▶ Revenue neutral
- ▶ Less costly

# Industry Loss Warranty

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- ▶ Modeling recoveries
- ▶ Often double trigger
- ▶ Company has to have loss and
- ▶ Industry threshold has to be breached
  - ▶ Usually specified source such as PCS or other published source
  - ▶ Booking a loss if threshold is not yet breached
  - ▶ Source to be utilized if one is not mentioned
  - ▶ Error in reported values to industry estimates of total loss