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# Efficiency:
## The New Thing In Reinsurance

Scott Carpinteri, CAS Spring Meeting, May 2013
Swiss Re Structured Reinsurance Solutions

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# Session Target Audience & Goal

| | |
|---|---|
| ■ Actuaries who participate in ceded reinsurance decisions. | ✔ |
| ■ Actuaries with limited reinsurance experience. | ✔ |
| ■ Individuals with extensive reinsurance experience. | **not required** (but welcome) |
| ■ The generally curious. | ✔ |

Our goal is to introduce some basic ideas for alternative reinsurance structures.

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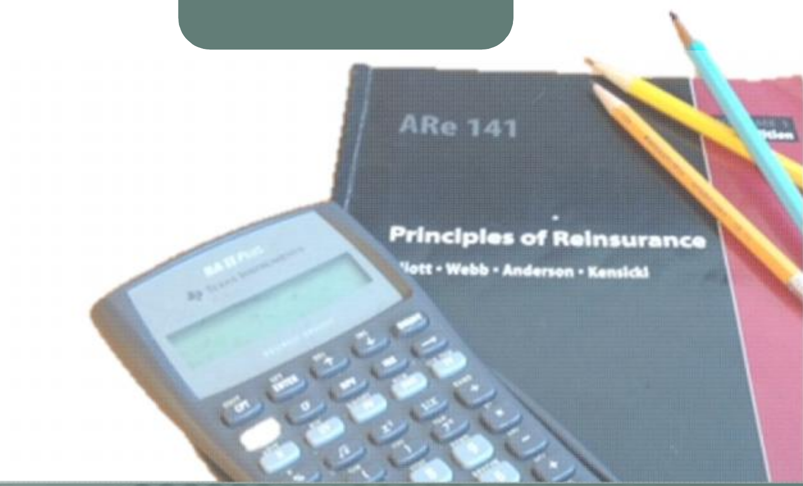
# Reinsurance Basics Recap

- Treay
- Facultative

- Quota Share
- Excess Of Loss
- Surplus Share, etc.



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# Reinsurance Basics Recap

## Quota Share

Reinsurance

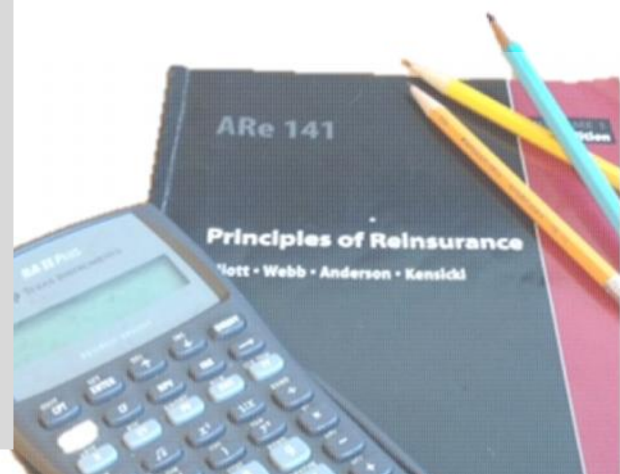
Retention

## Excess Of Loss

Excess Of loss (Layer 2)

Excess Of loss (Layer 1)

Retention



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# Ever-Evolving Reinsurance Space

Traditional Products


Custom Solutions

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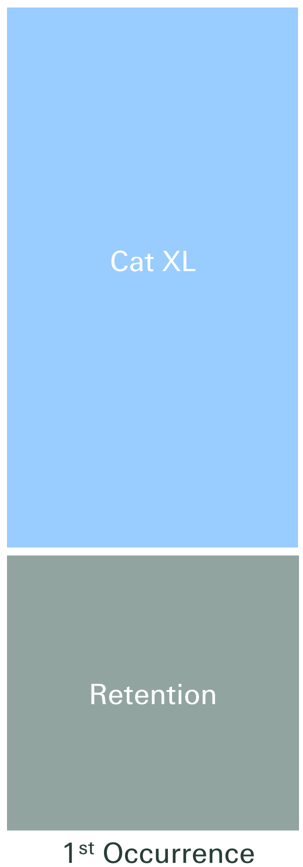
# Top 'n Drop

## Strategic positioning of an efficient property catastrophe purchase

**Classic View:**

- Protect the firm in case THE bad event happens



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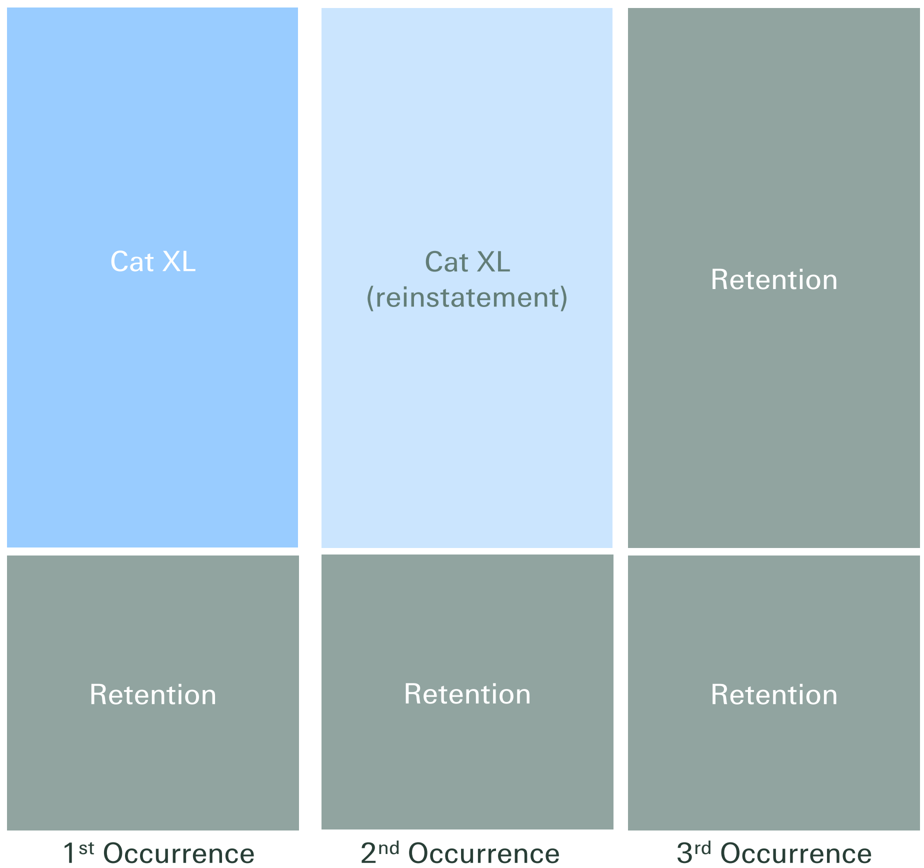
# Top 'n Drop

## Strategic positioning of an efficient property catastrophe purchase

**Today's View:**

- Firm exposed to:
  - One Large Event
  - Multiple Larges
  - Multiple Smalls
  - Multiple Mediums

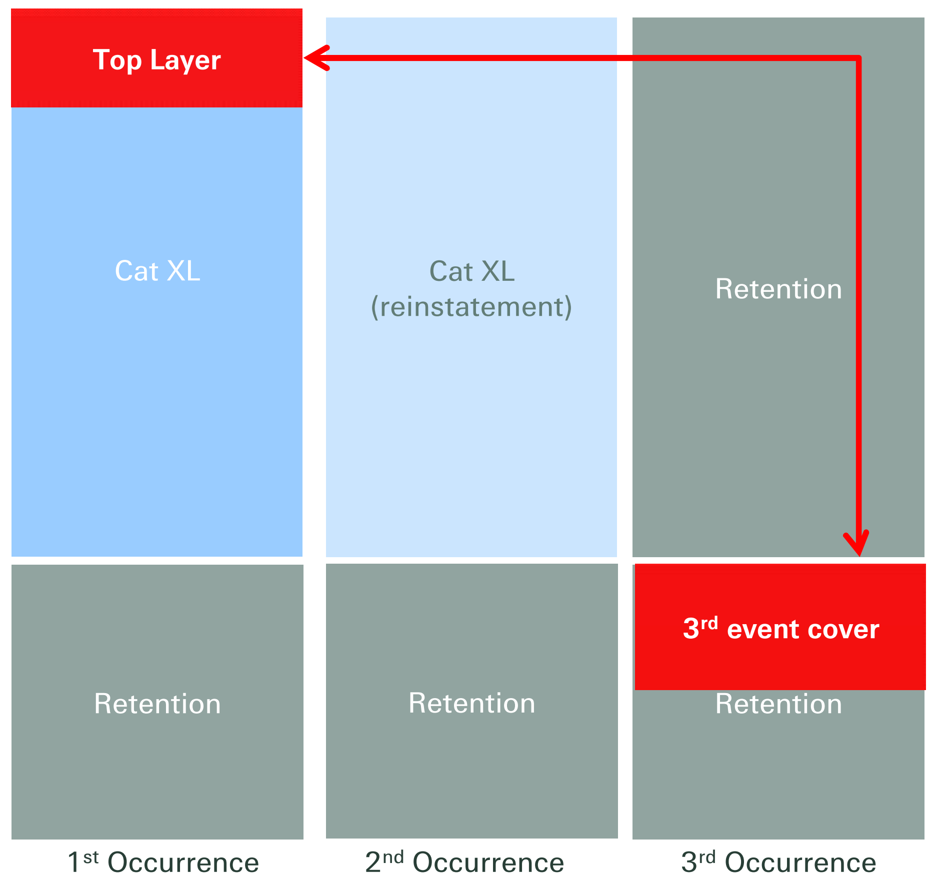


# Top 'n Drop

## Strategic positioning of an efficient property catastrophe purchase

**Top 'n Drop Features:**

- One Shared Limit
- Limit is available when needed for severity events or frequency events
- Address min. rate on lines charged by reinsurers for remote events
- Achieve lower costing due to sharing of limit and min. ROL requirements
- Horizontal protection when competitors are suffering from losses



# Multi Year Cat Cover: High Layer

## Immunize against further model changes


- Model Changes have driven up return periods requiring companies to purchase up to higher exit points

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# Multi Year Cat Cover: High Layer

## Immunize against further model changes

| Year 1 | Year 2 | Year 3 |
|---|---|---|
| Top Layer | Top Layer | Top Layer |
| Cat XL – Layer 4 | Cat XL – Layer 4 | Cat XL – Layer 4 |
| Cat XL – Layer 3 | Cat XL – Layer 3 | Cat XL – Layer 3 |
| Cat XL – Layer 2 | Cat XL – Layer 2 | Cat XL – Layer 2 |
| Cat XL – Layer 1 | Cat XL – Layer 1 | Cat XL – Layer 1 |
| Retention | Retention | Retention |

- Provide additional top layer, but structure it over 3 years
- Lock in multiyear capacity at known pricing
- Immunize from market price increases due to further model changes
- Provides only 2 limits over 3 years (cost savings)

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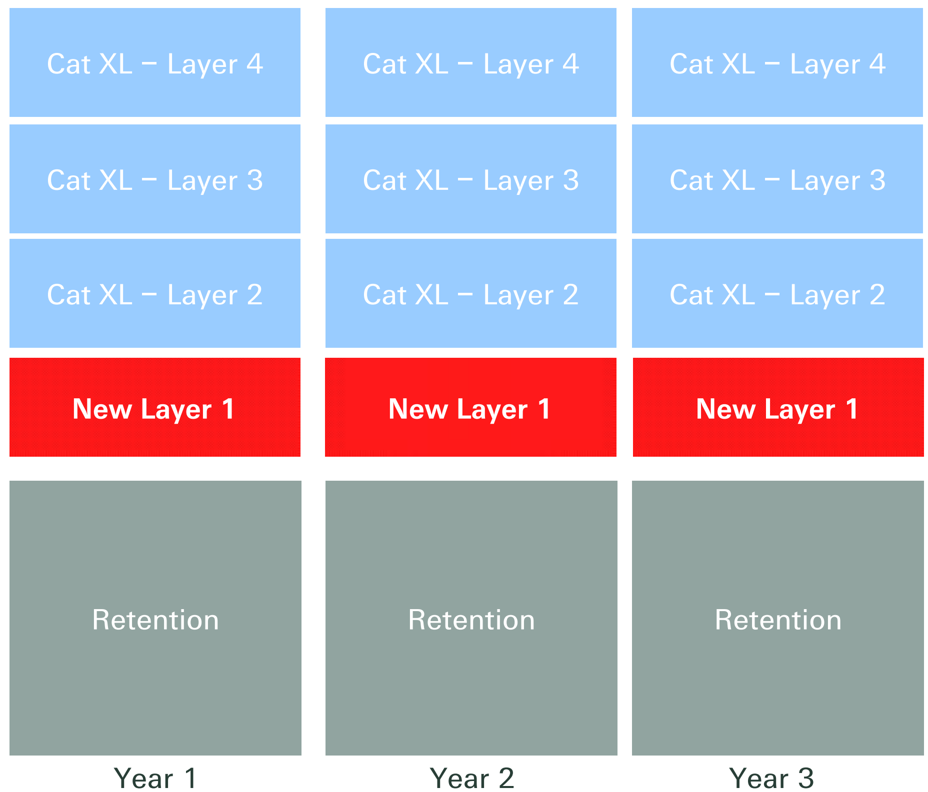
# Multi Year Cat Cover: Low Layer (example 1)

## More efficient purchase over multiple years

- Multi Year Lower Cat Layer
- Can be constructed with three limits and a three year profit commission
- Allows insurer to take some exposure to Layer 1 on a three year basis
- In clean-three year scenario cost is much lower than purchasing Layer 1 stand-alone each year



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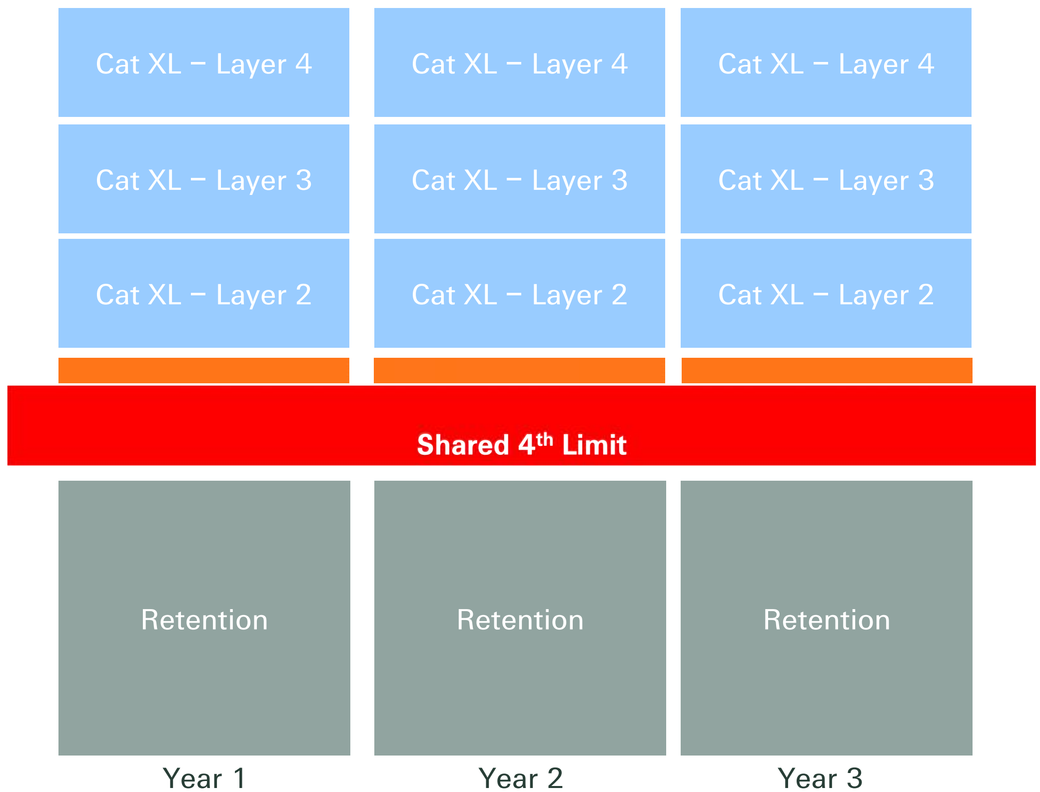
# Multi Year Cat Cover: Low Layer (example 2)

## More efficient purchase over multiple years

- Three year Layer 1 cover
- Each year provided one stand alone limit
- Additional limit available for multiple occurrence years
- Additional limit shared across three years



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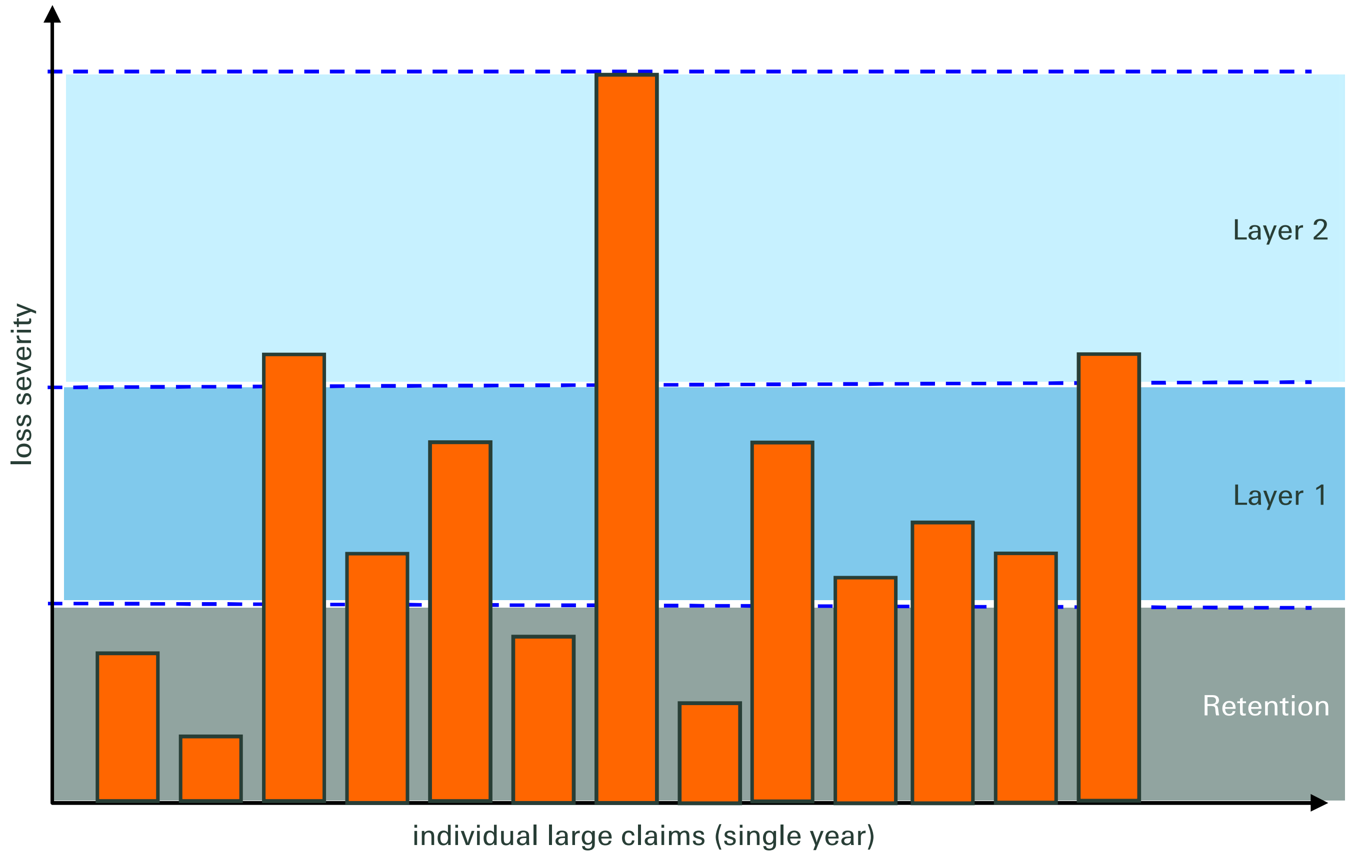
# First Layer Frequency Cover:
## Manage sideways exposure to frequency losses




**Classic View:**

- Insurer sets retention level per claim
- Buys layered excess of loss reinsurance
- For instance:
  - Layer 1: 500k XS 500k
  - Layer 2: 1m XS 1m

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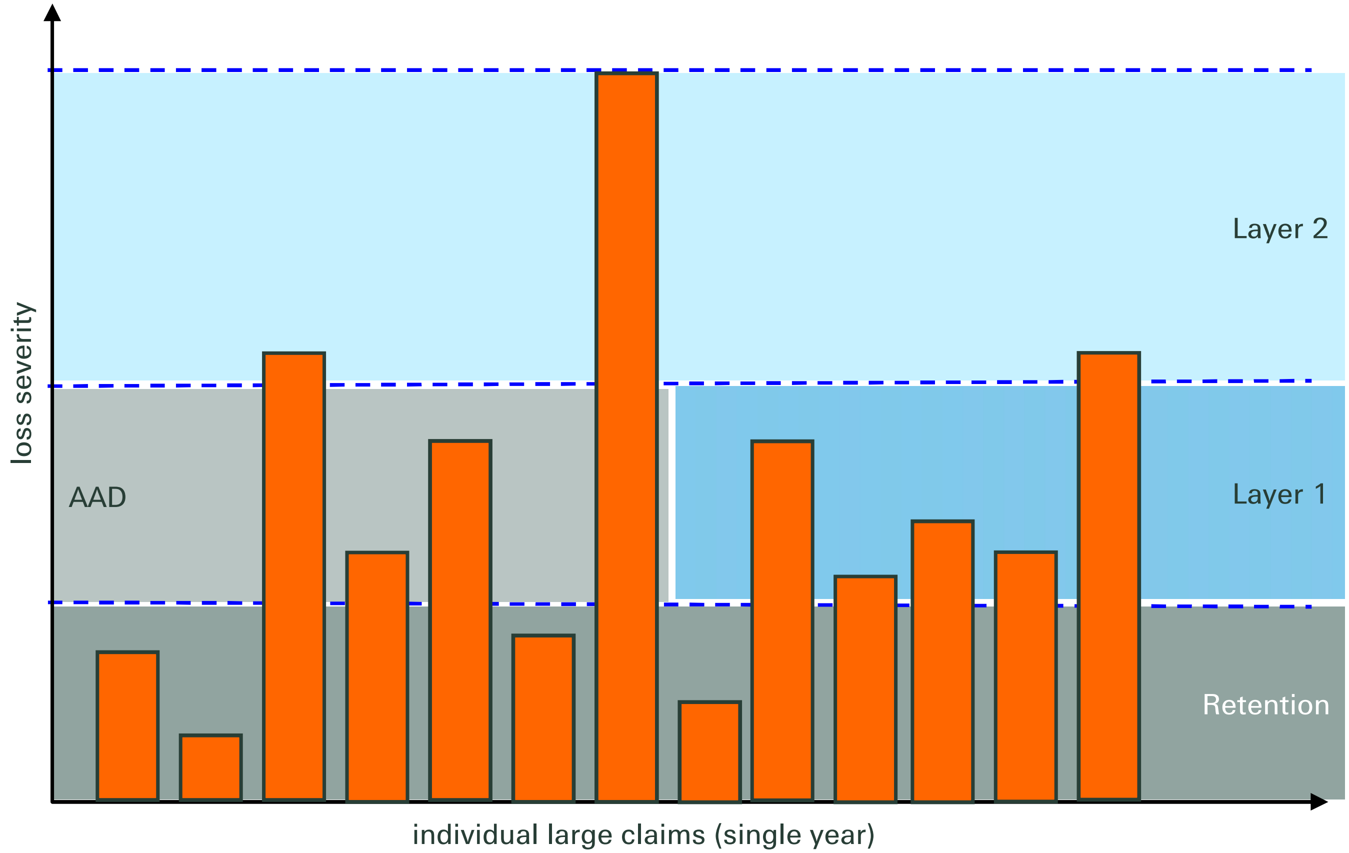
# First Layer Frequency Cover:
## Manage sideways exposure to frequency losses




**New View:**

- Annual Aggregate Deductible with respect to Layer 1 losses
- Reduces "dollar trading" in the layer
- Keeps level of severity protections unchanged
- Still protects net result against adverse frequency situations

# Questions

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# Thank you

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