

GIBRALTAR INSURANCE FORUM

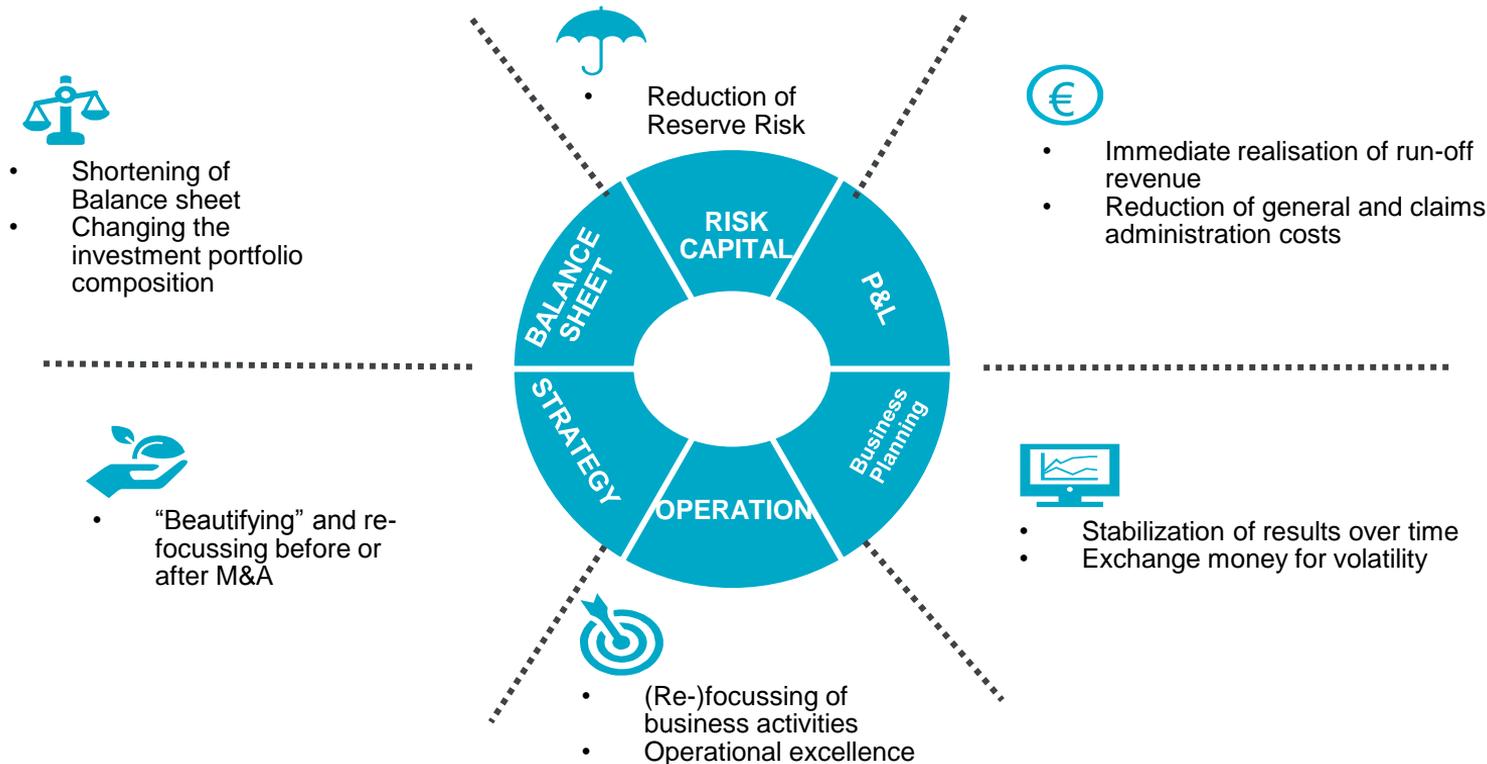
Retroactive Reinsurance Solutions

Assessing their effectiveness

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Reserve Management Run-Off Motivation



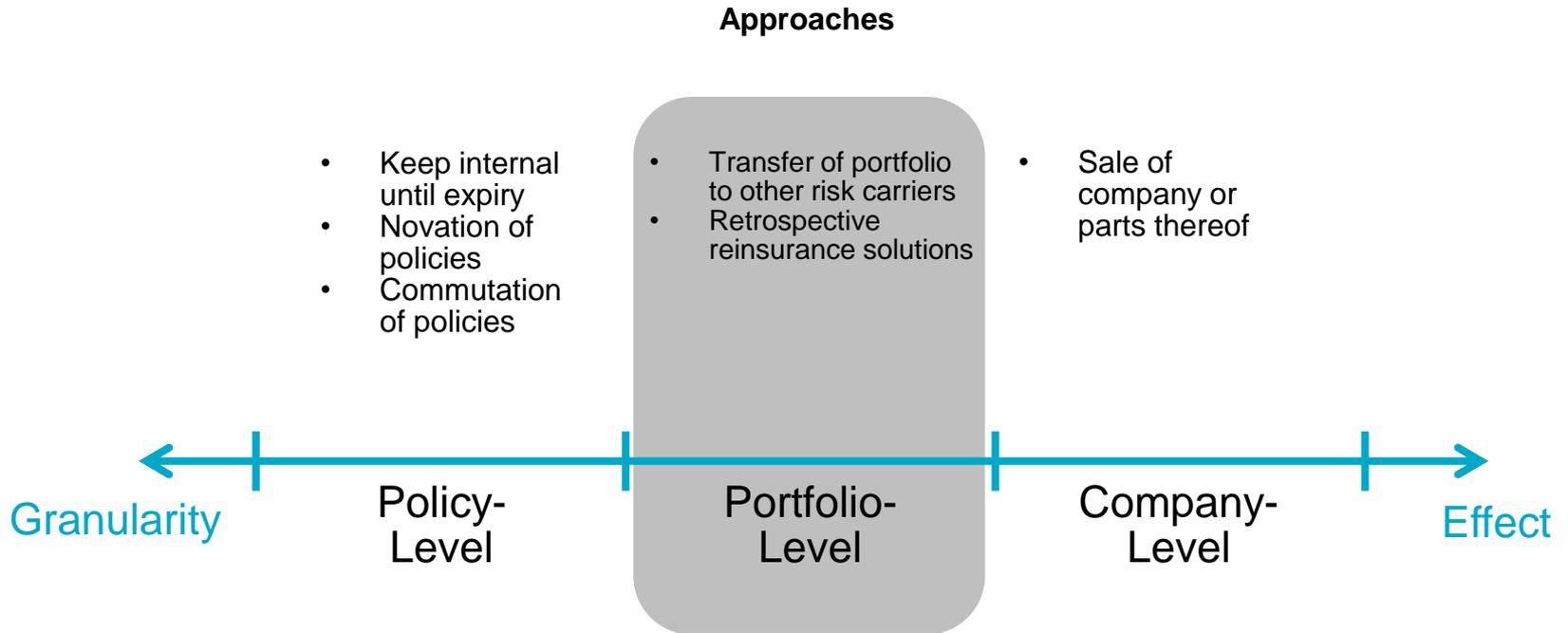
Reserve Management Run-Off

Product vs. Motivation

Motivation	ADC	LPT	Transfer
Solvency Capital Release			
- Standard Formula	●	●	●
- Internal Model	●	●	●
<hr/>			
Protection from Adverse Development	●	●	●
<hr/>			
Reduction of Admin Costs	●	●	●
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Internal claims handling	●	●	●
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Finality			
- commercial	●	●	●
- legal	●	●	●
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Execution	● Easy	● Difficult	

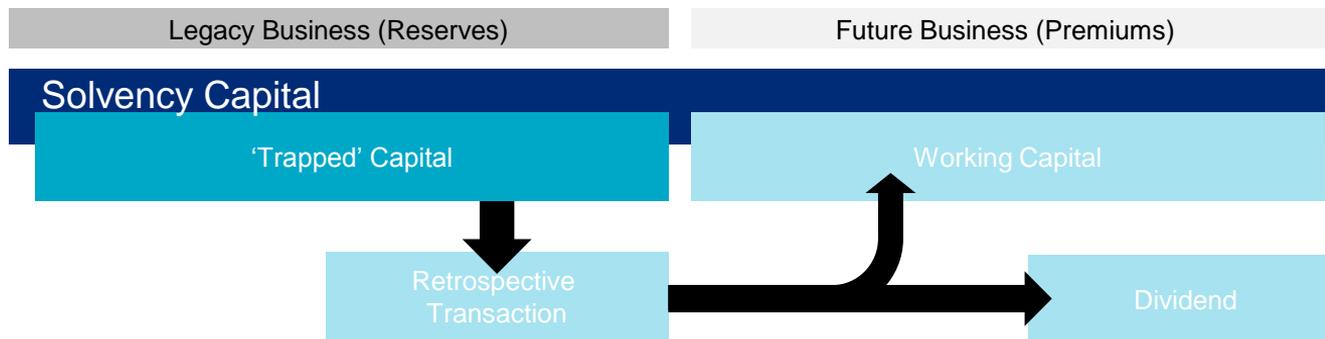
Reserve Management Run Off

Granularity of solutions and effects on company



Retrospective solutions part of the toolkit

Shifting capital usage through retro transaction

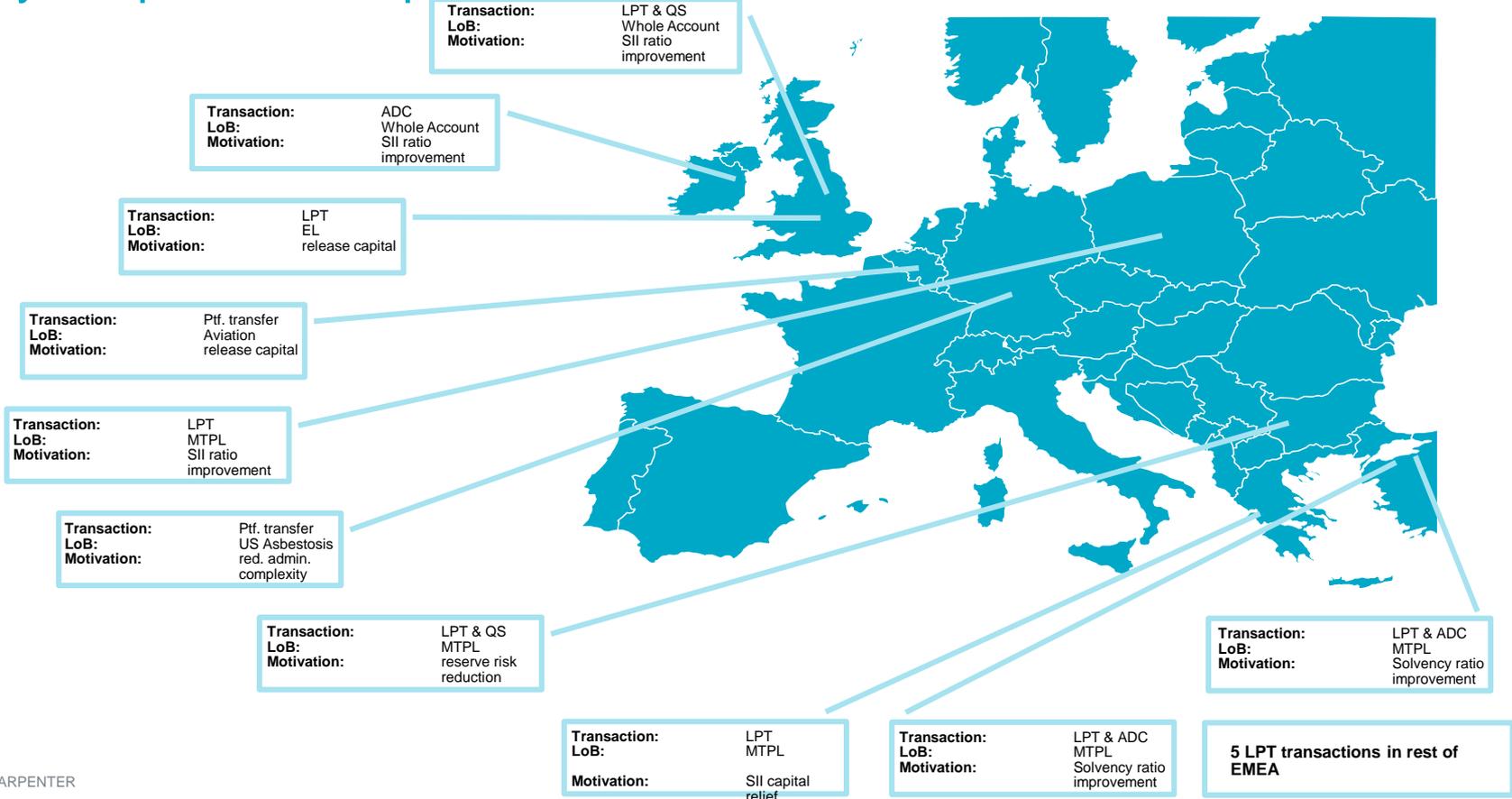


LV= Annual Report 2015

“During the year we have maintained a strong focus on ensuring we are ready to comply with Solvency II requirements from 1 January 2016 and the potential impact this will have on our capital position. A **significant capital management action taken was the general insurance business entering into a loss portfolio transfer agreement** at the end of the year which reduced our capital requirements.”

Retrospective Reinsurance Transactions 2015/16

Guy Carpenter European Theatre Non-life

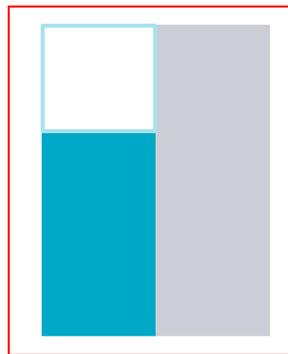


...but there isn't any market consistent terminology

Examples of 50% LPT



'When I use a word,' Humpty Dumpty said in rather a scornful tone, 'it means just what I choose it to mean — neither more nor less.'
'The question is,' said Alice, 'whether you can make words mean so many different things.'



 Booked Reserves

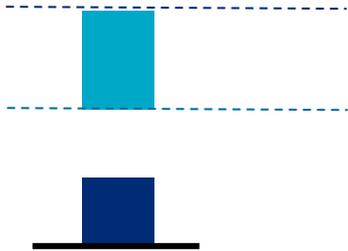
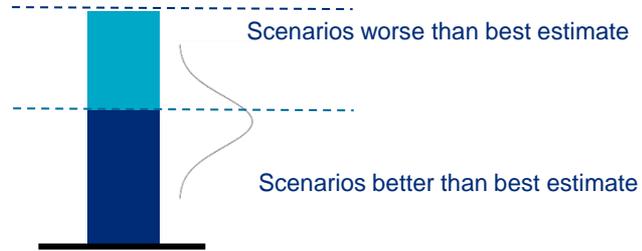
 Reinsurer's Share

 Potential Deterioration

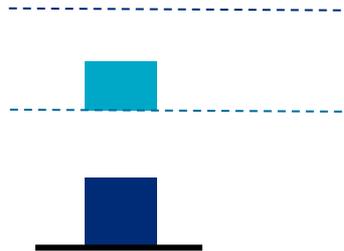
Different structures *should* be reflected under SF differently...

Impact on TPs

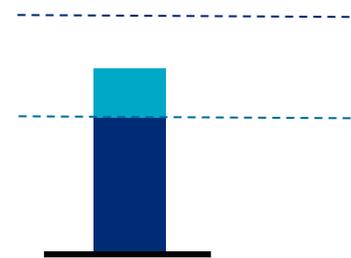
Best estimate decomposition



50% "pure LPT"

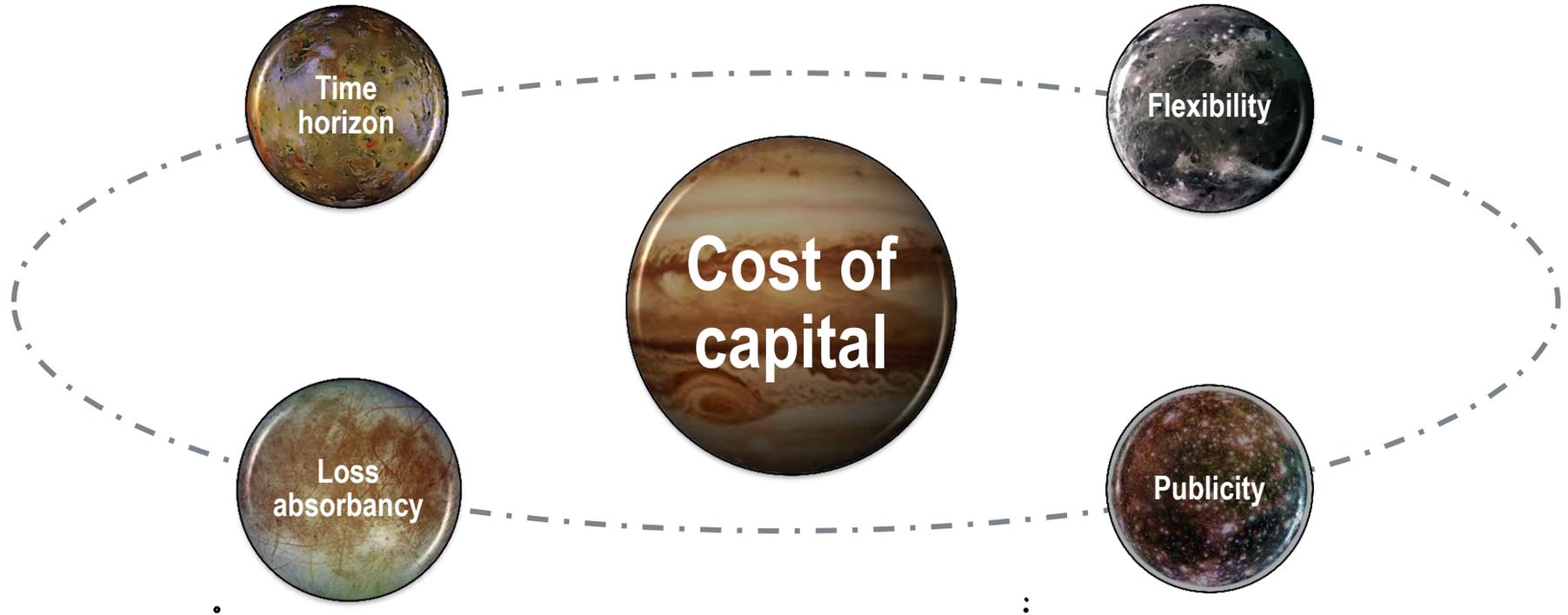


50% "LPT incl. ADC"



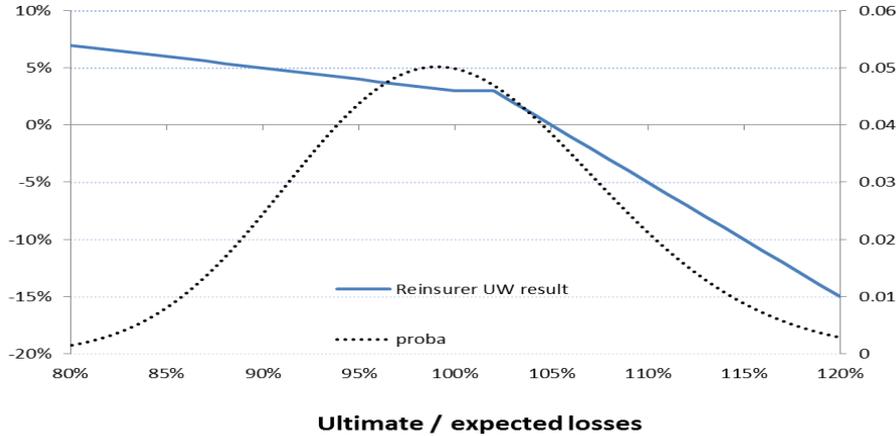
50% "pure ADC"

So how do you tell if a retrospective solution makes sense?



Common issues in assessing cost of capital

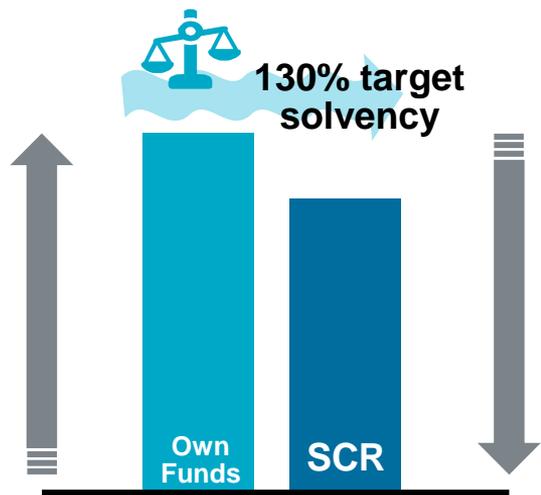
1. look at full range of outcomes



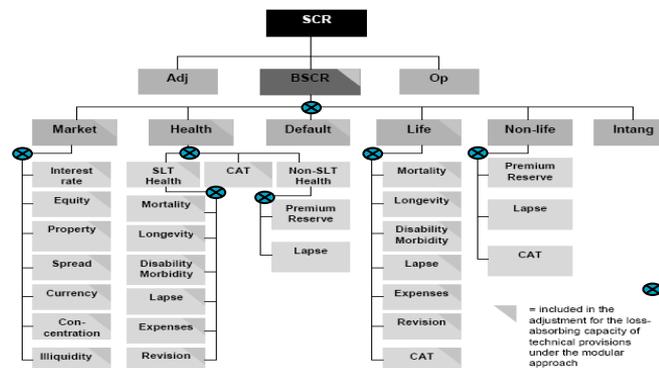
Scenario	Reinsurer result	Cost of capital
Good experience	6%	11% pa
Plan	5%	9% pa
Bad experience	-2%	-5% pa
Average	3%	5% pa

Common issues in assessing cost of capital

2. Quantify diversification and leverage



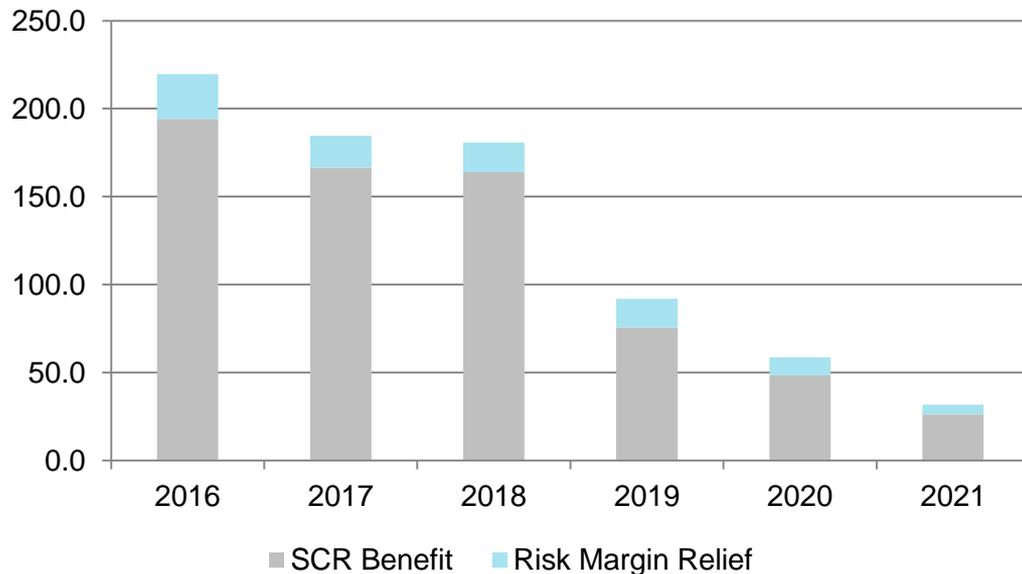
An SCR reduction of 1 GBP is equivalent to a raise of 1.30 GBP in Own Funds.



Diversification can reduce effectiveness of reinsurance in managing SCR

Common issues in assessing cost of capital

3. Remember risk margin



4. Look at lifetime value

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