

# GIBRALTAR INSURANCE FORUM

## Motor: Current Trends in Large Claims and Reinsurance

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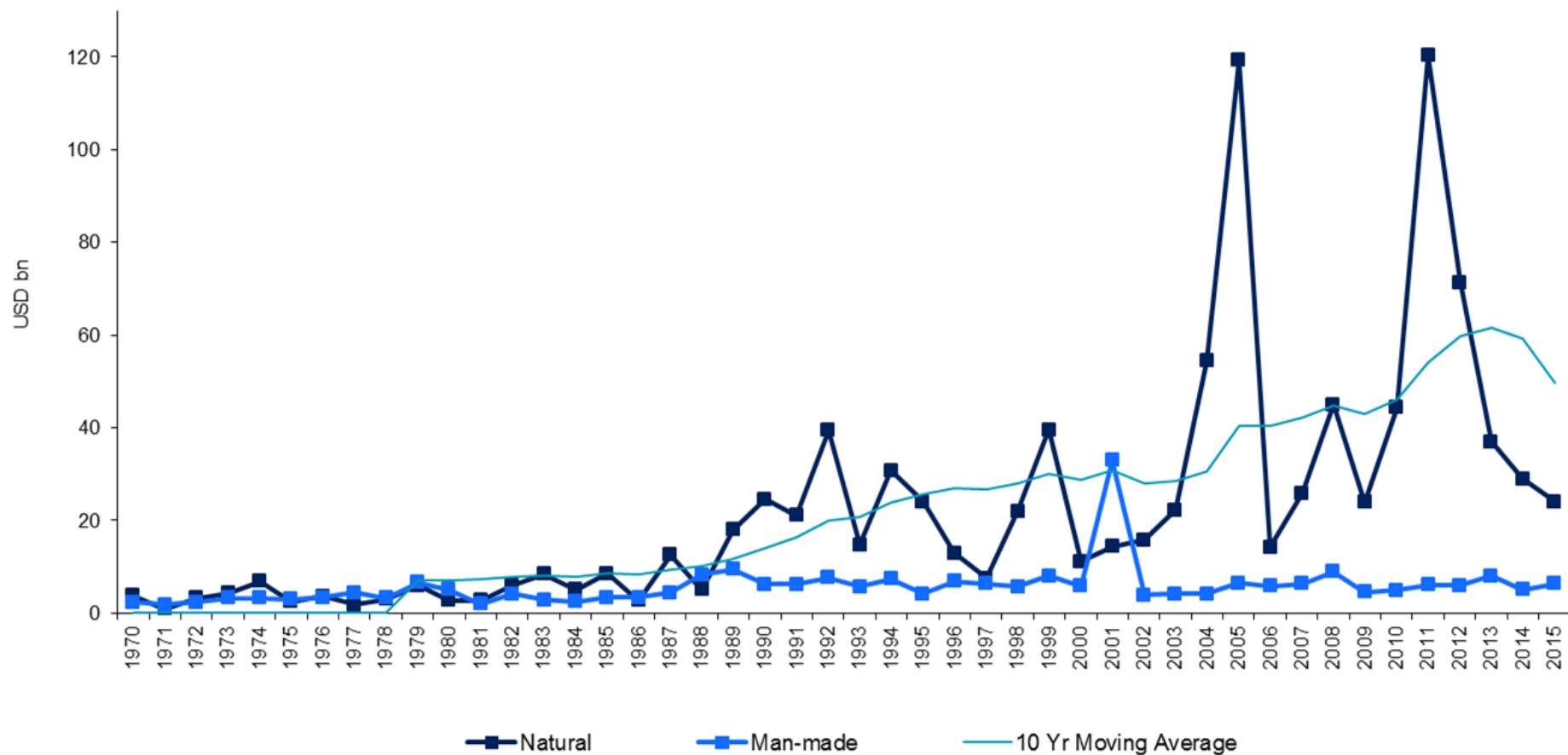
# CURRENT TRENDS IN LARGE CLAIMS AND REINSURANCE

- 1** | MARKET OVERVIEW AND EVENT LOSSES
- 2** | WHAT HAPPENED AT 2016 MOTOR RENEWALS
- 3** | CURRENT TRENDS IN PPOS
- 4** | VALUATION OF PPO RISK

# MARKET OVERVIEW AND EVENT LOSSES

# Market Overview and Event Losses

## Global significant insured event losses: 1970-2015

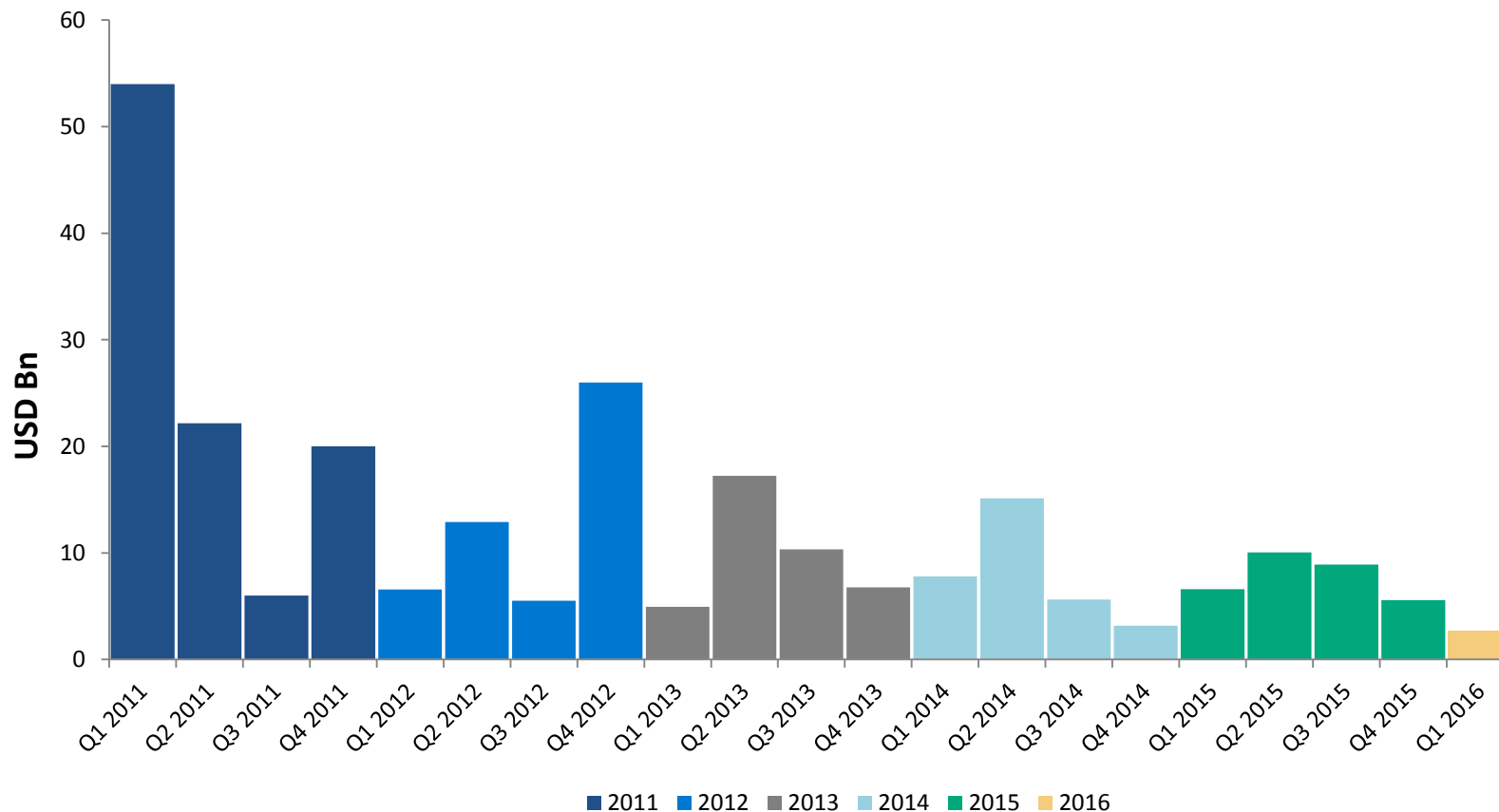


Source: Swiss Re, Guy Carpenter

*Losses in 2015 remain well below the current **10 year** average of **\$50 billion***

# Market Overview and Event Losses

## Quarterly Cat loss activity 2011 – 2016

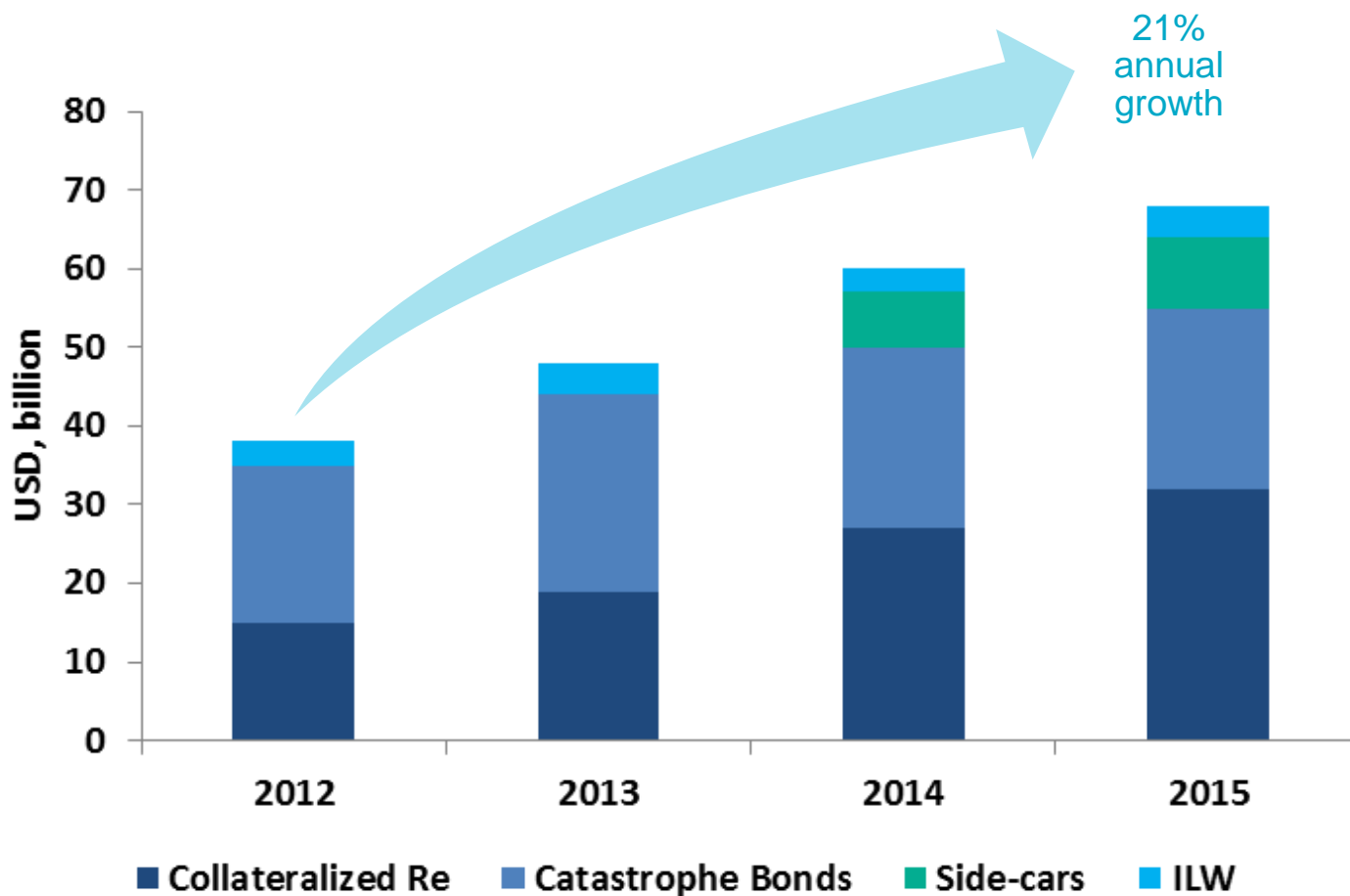


Source: Guy Carpenter

*Twenty straight quarters of benign catastrophic activity*

# Market Overview and Event Losses

## Convergence reinsurance capital still growing

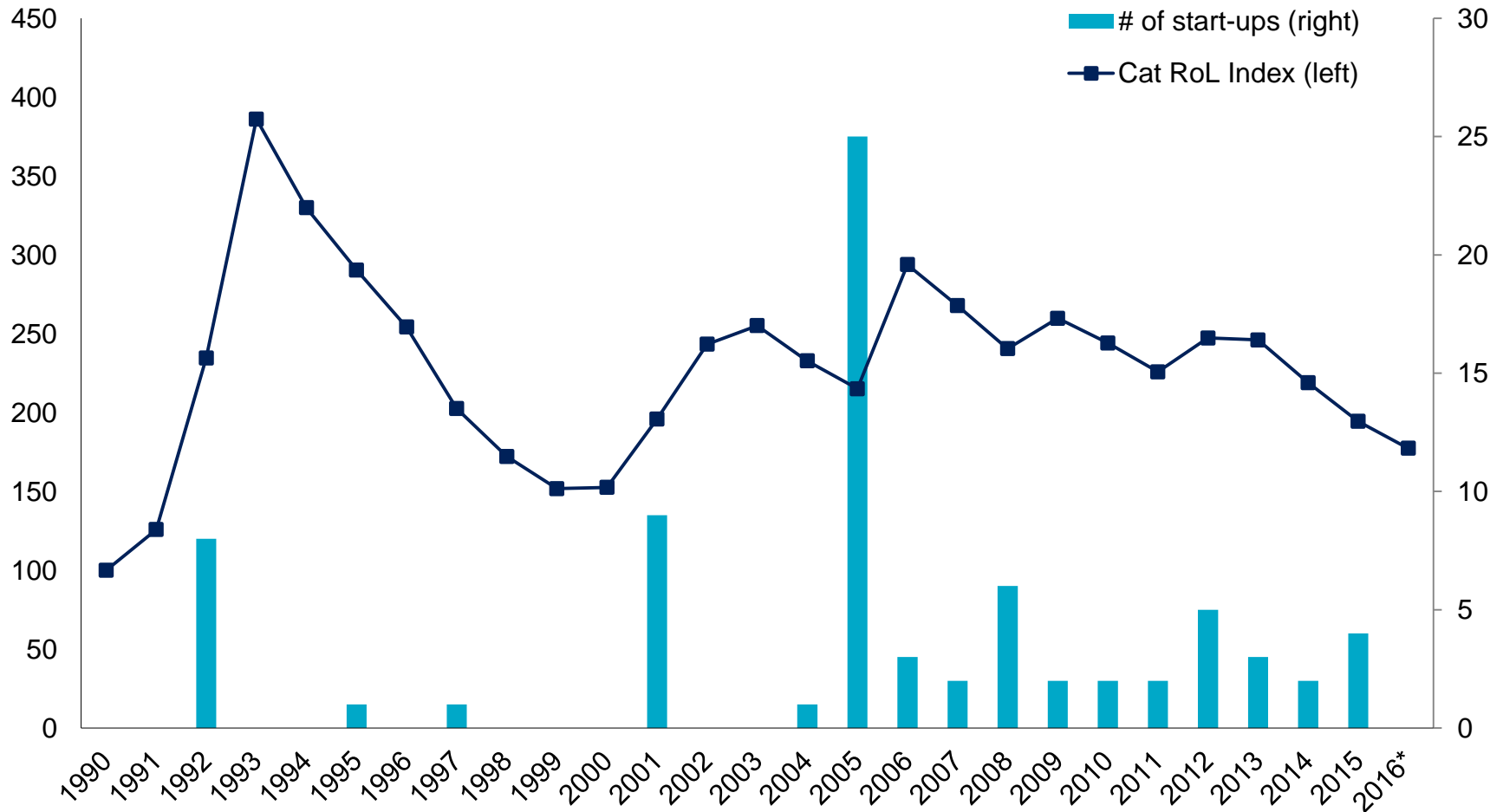


Source: Guy Carpenter

*In addition to **retained earnings**, supply of convergence capital is also growing*

# Market Overview and Event Losses

## Guy Carpenter's Global Property Catastrophe Reinsurance ROL Index



Source: Guy Carpenter

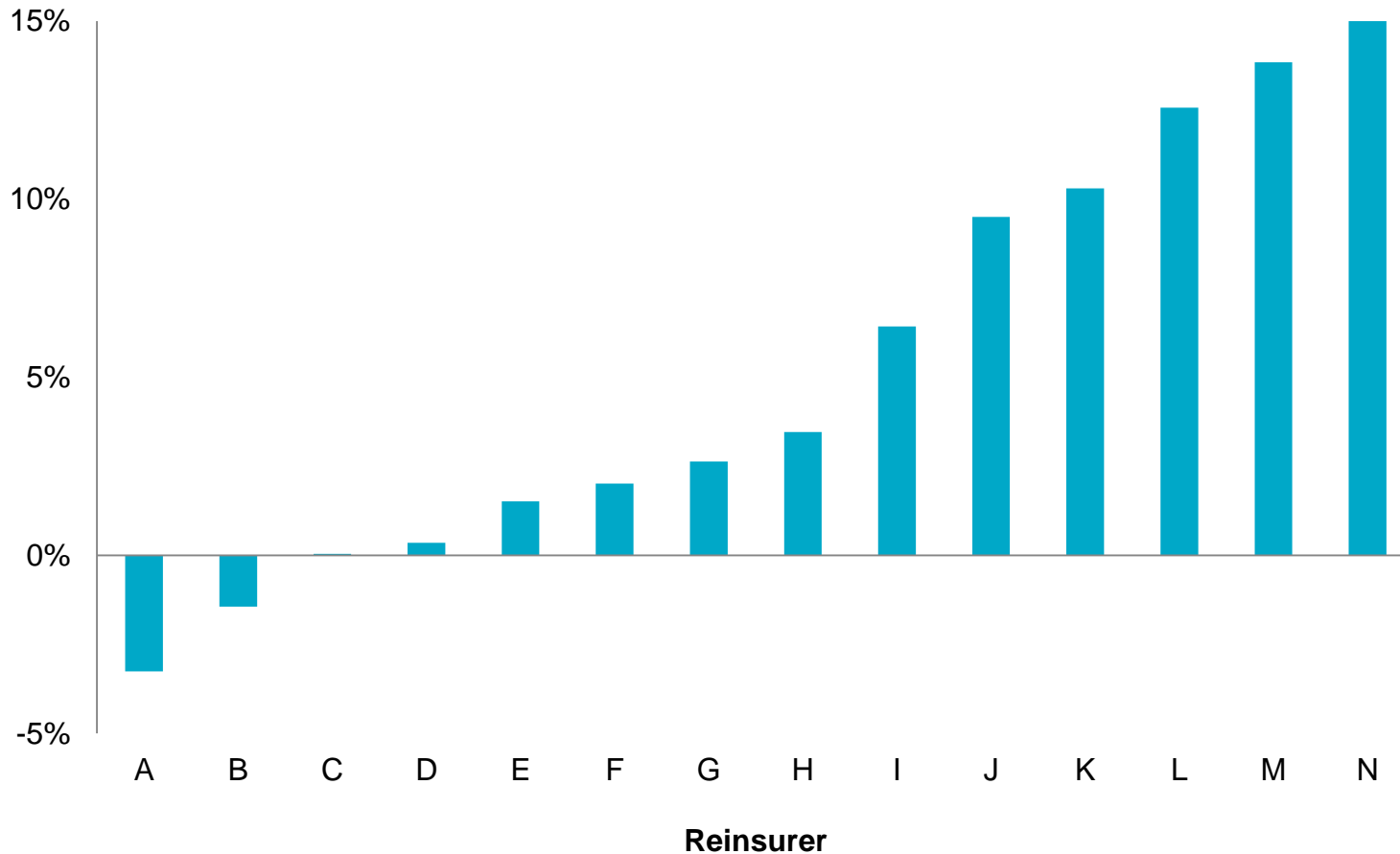
***Abundance of capacity continues to drive pricing downwards***

# WHAT HAPPENED AT 2016 MOTOR RENEWALS



# What Happened at 2016 Motor Renewals

## Reinsurer quotes versus Firm Order Terms

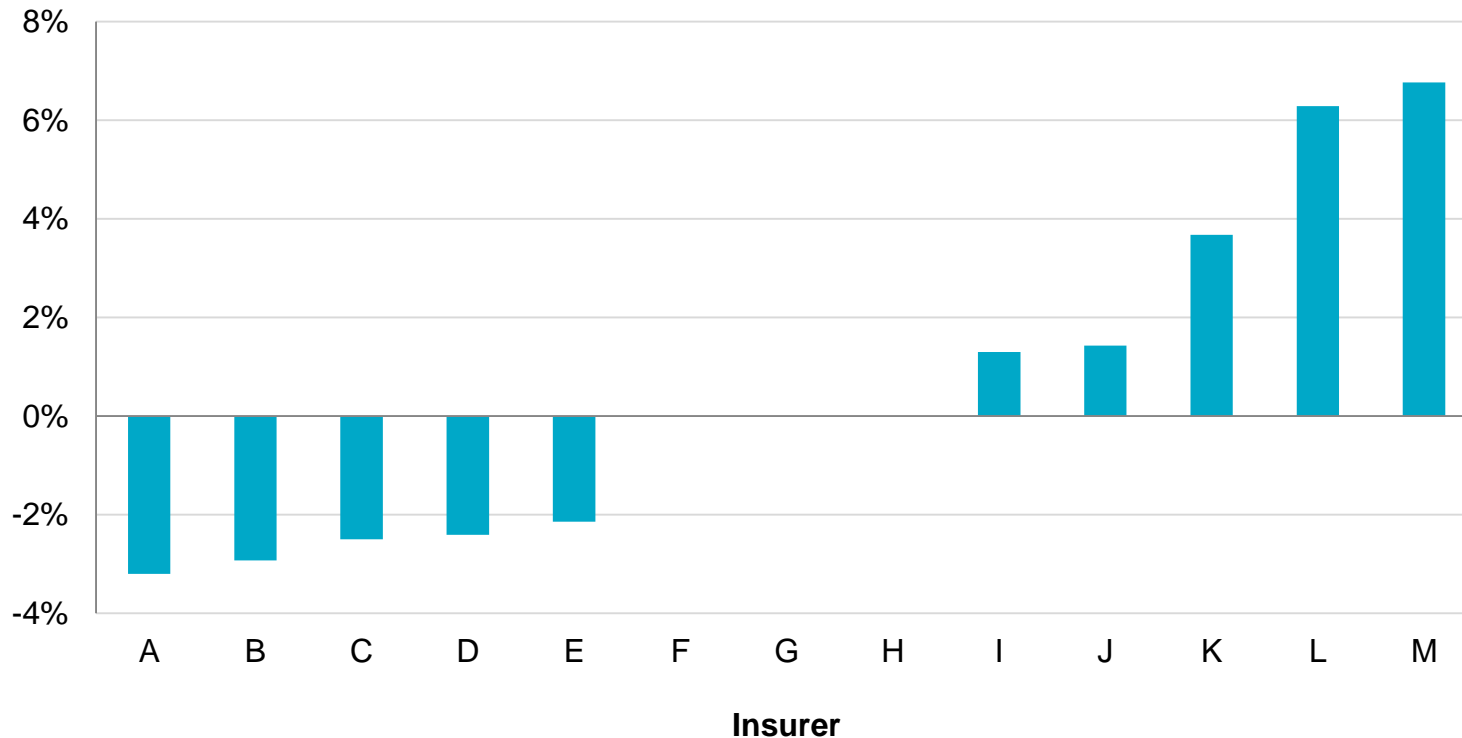


Source: Guy Carpenter

*Competitiveness of some reinsurers compelled others to write  
**considerably below** their quoted price*

# What Happened at 2016 Motor Renewals

## Rate decreases available for the first time since 2012

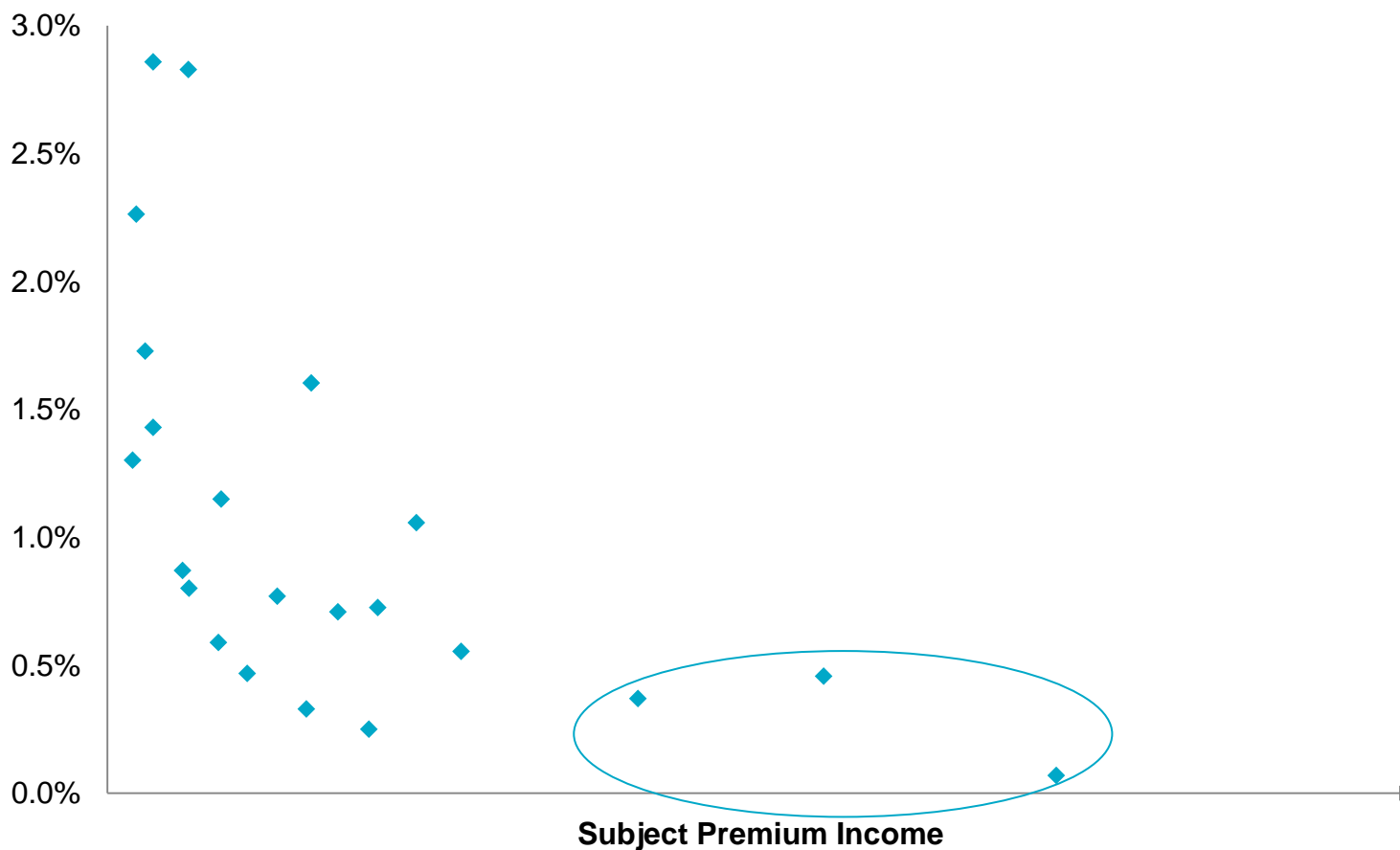


Source: Guy Carpenter

***Rate decreases available*** for insurers who can demonstrate decreasing risk and/or improving large claim performance

# What Happened at 2016 Motor Renewals

## Retention as a percentage of subject premium income



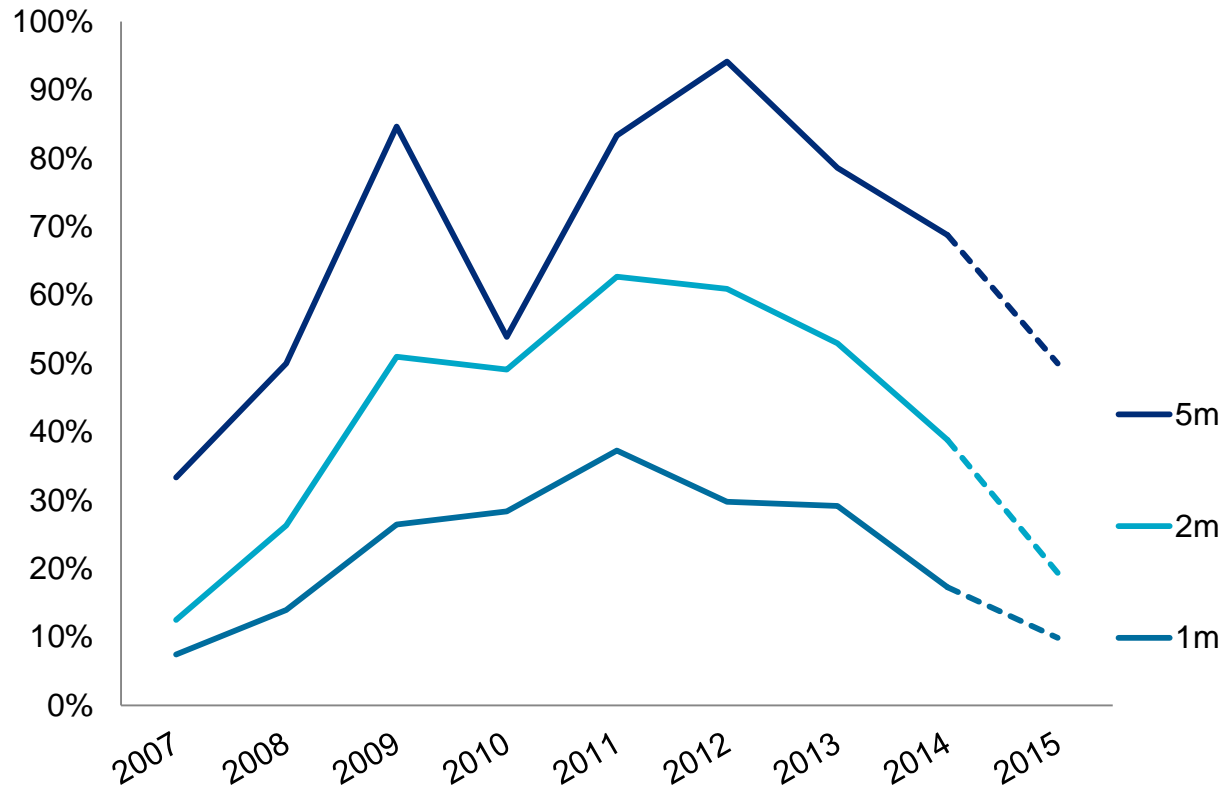
Source: Guy Carpenter

*Some of the largest insurers continue to **buy relatively low** attaching XoL reinsurance programmes*

# CURRENT TRENDS IN PPOS

# Current Trends in PPOs

## PPO propensity in large claims – By settlement year



Source: GC industry database of PPO settlements

*PPO propensity has been **falling** since 2012*

# Current Trends in PPOs

## PPO propensity in large claims – By insurer



Source: Guy Carpenter  
Insurers with more than 5 PPO settlements

*PPO propensity is partly a function of **insurer behaviour***

## Current Trends in PPOs

### Attributes of PPO settlements to date

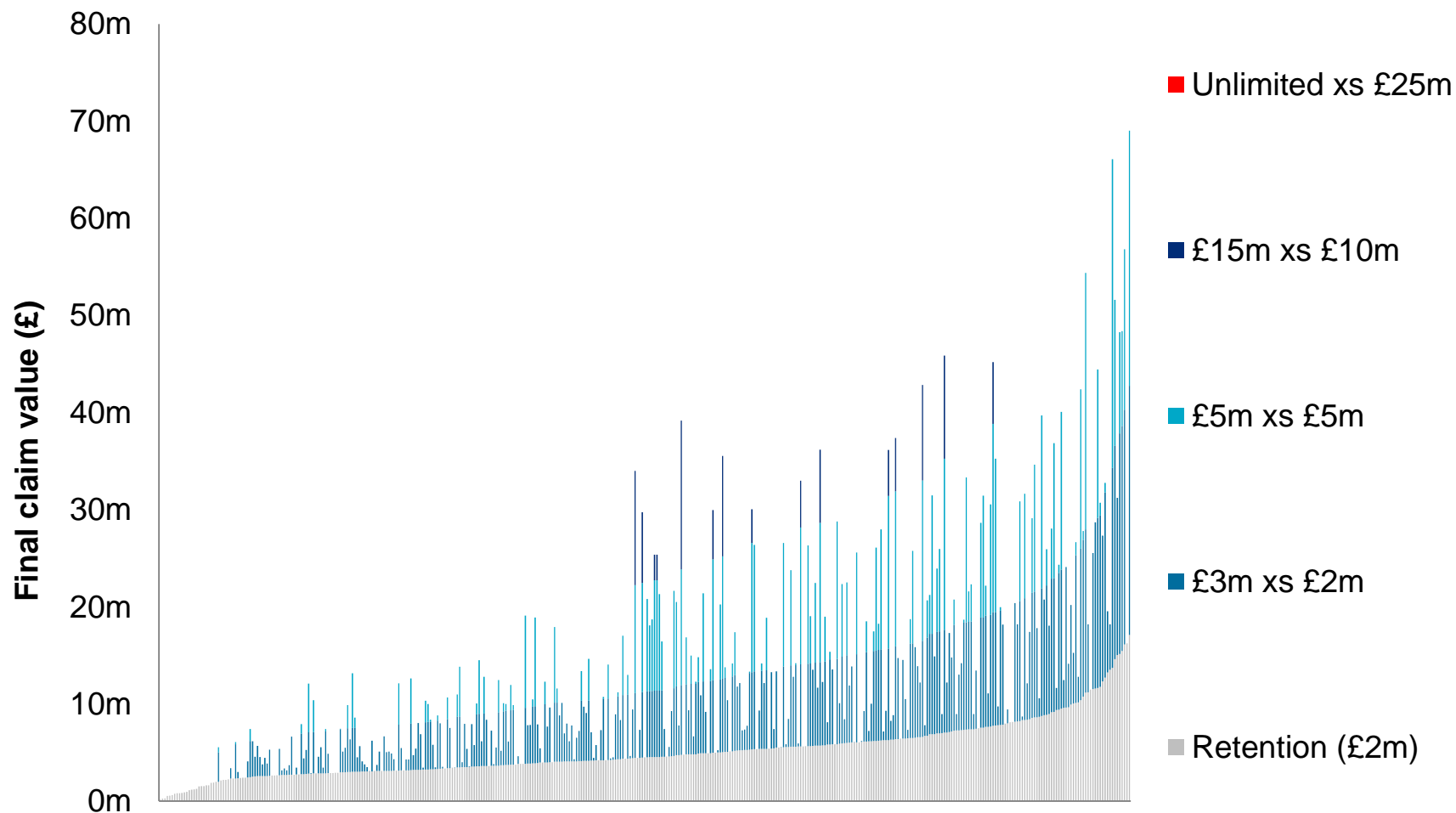
PPO Settlement Attribute	Minimum	Maximum	Average
Time to settlement (years)	2	21	6
Age at Settlement	7	88	36
Lump sum component (2016 value)	138,162	16,113,329	3,163,368
Annual PPO award (2016 value)	4,405	587,274	126,876
Gender	69% male		
Life expectancy (inc. impairment)	1	76	41
Proportion with impairment	70% of cases		
Life expectancy impairment %	0%	94%	21%

Source: GC industry database of PPO settlements

*The largest PPOs represent very substantial **annuity settlements***

# Current Trends in PPOs

## Reinsurance outcome for actual PPO settlements



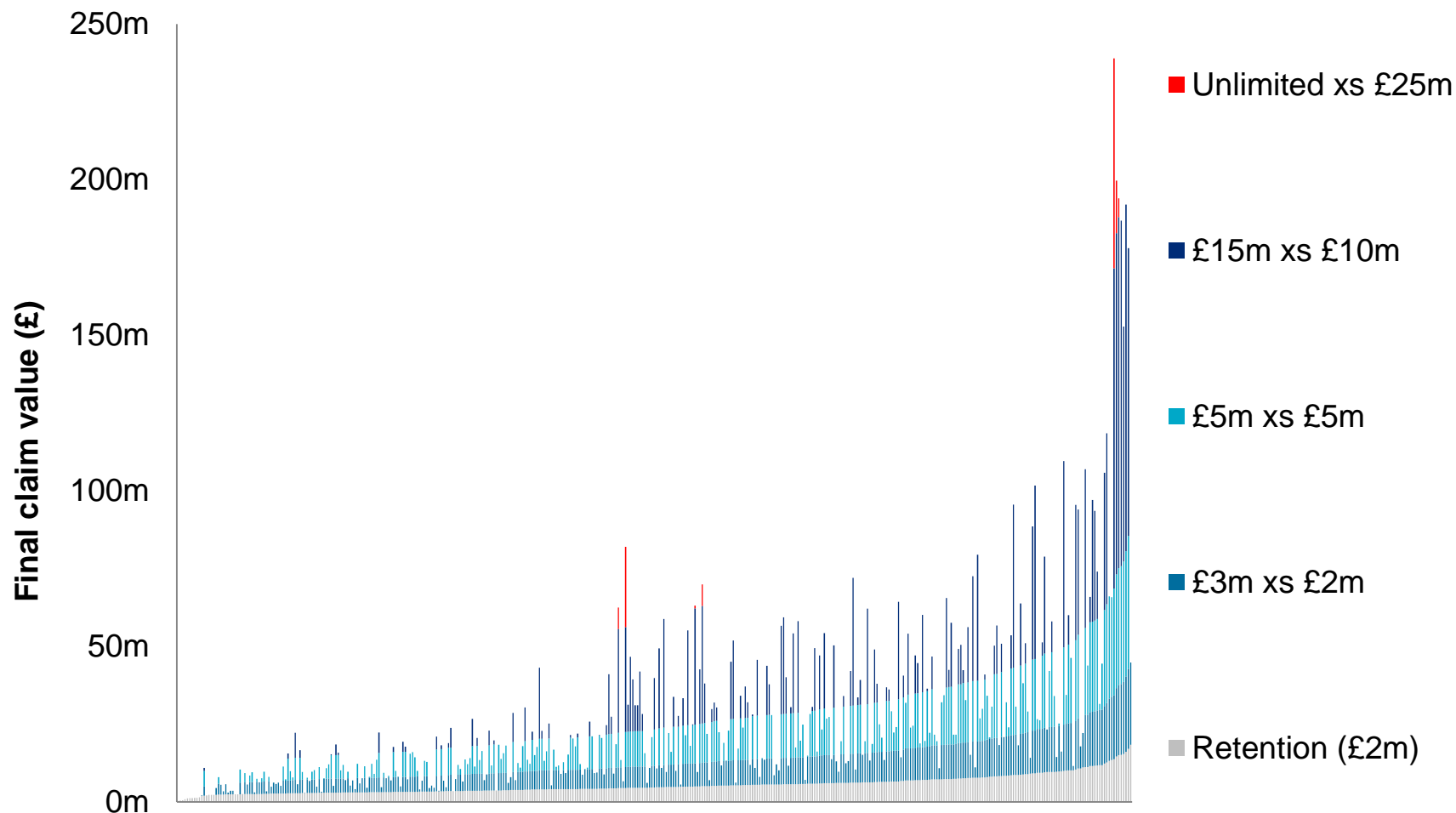
Source: GC industry database of PPO settlements

*Historically, only a few PPO settlements are projected to trigger reinsurance **above £10m***



# Current Trends in PPOs

## Reinsurance outcome for PPO settlements (revalued to 2016 AY)



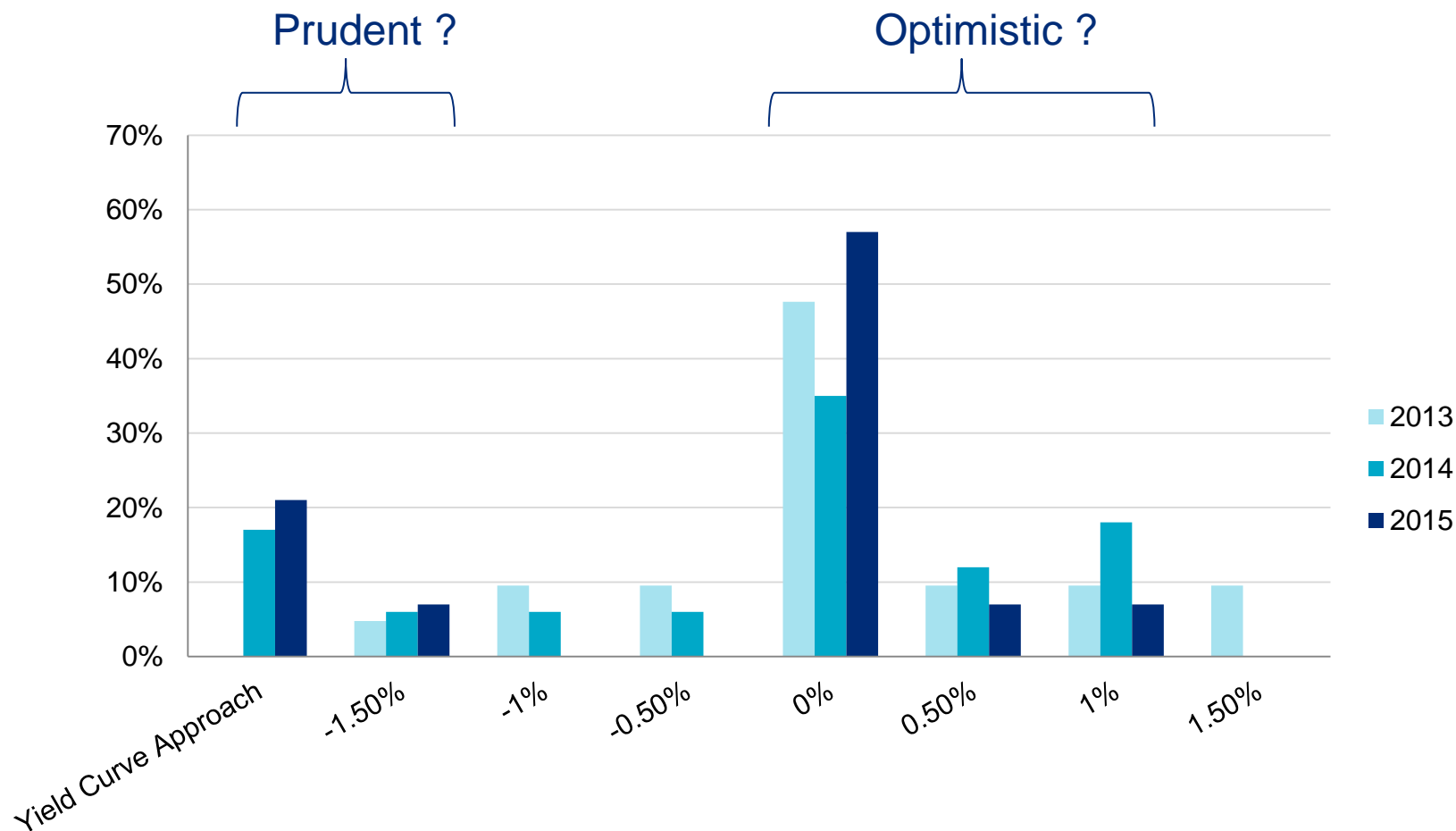
Source: GC industry database of PPO settlements

**Nominal claim values** arising from current accident year could be very substantial. Far more PPOs will trigger reinsurance above £10m

# VALUATION OF PPO RISK

# Valuation of PPO Risk

## Evolution of insurers' real discount rates through time

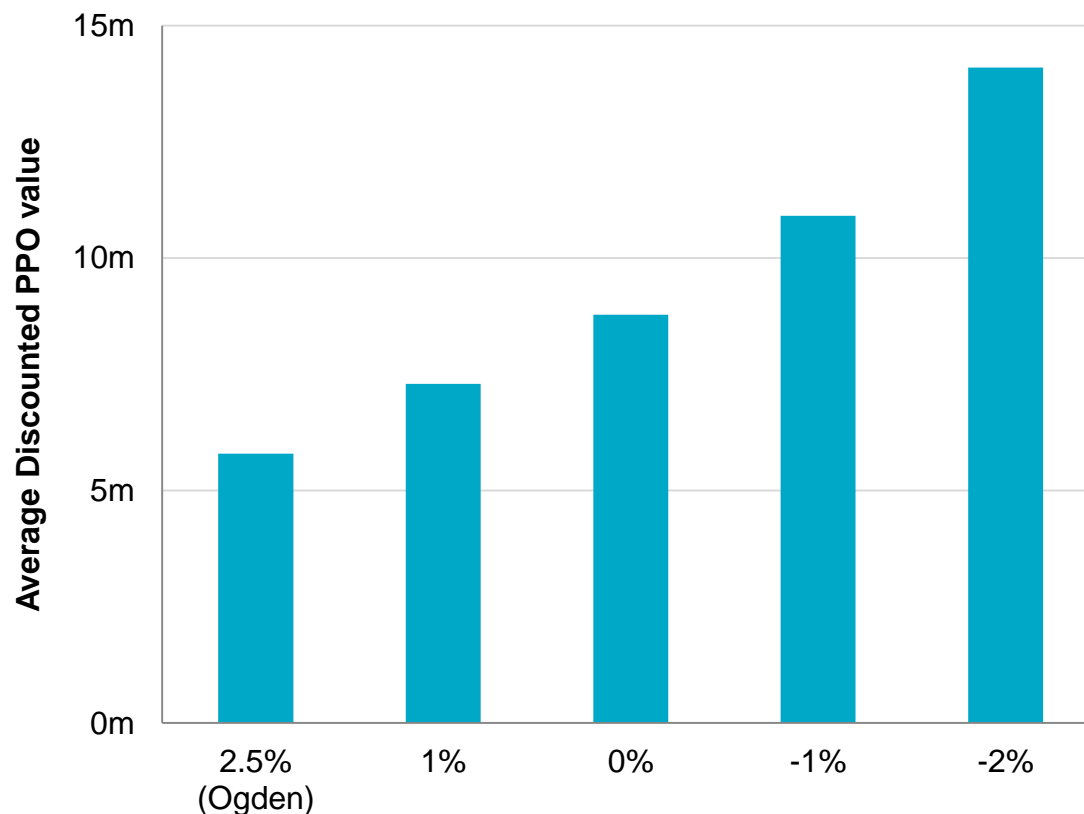


Source: GIRO & CIGI PPO Working Party reports

***Two bases of opinion forming? One based upon anchoring to 0% and one based upon real interest rates?***

# Valuation of PPO Risk

## Impact of real discount rate assumptions on best estimate



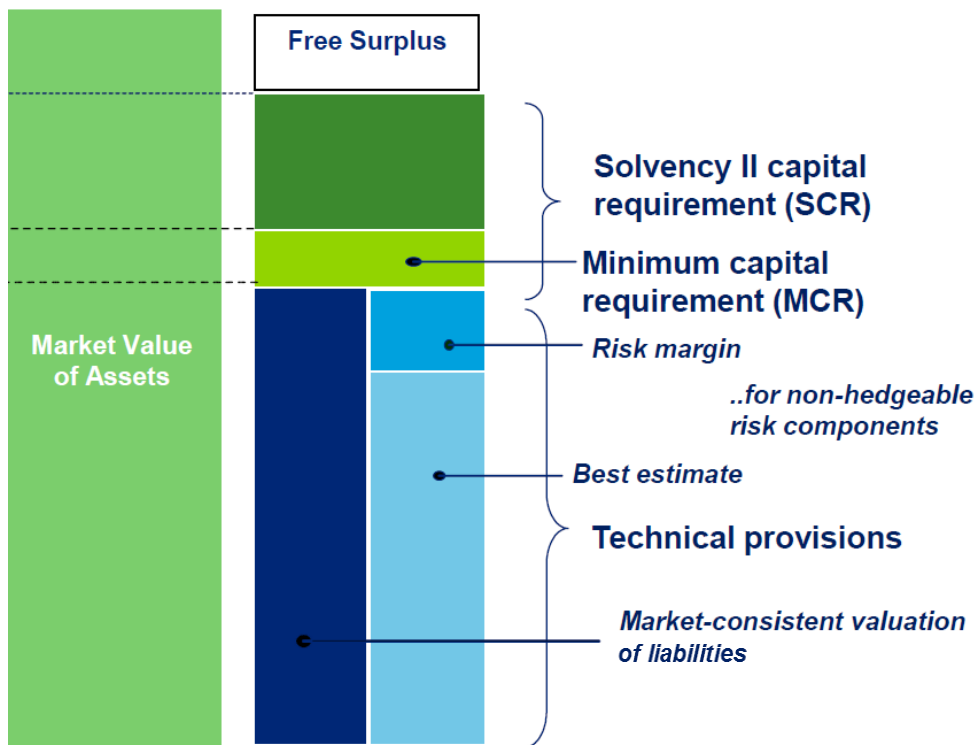
Source: Guy Carpenter

*Discount rate risk is **heavily concentrated** – any changes will impact all outstanding PPO liabilities*

# Valuation of PPO Risk

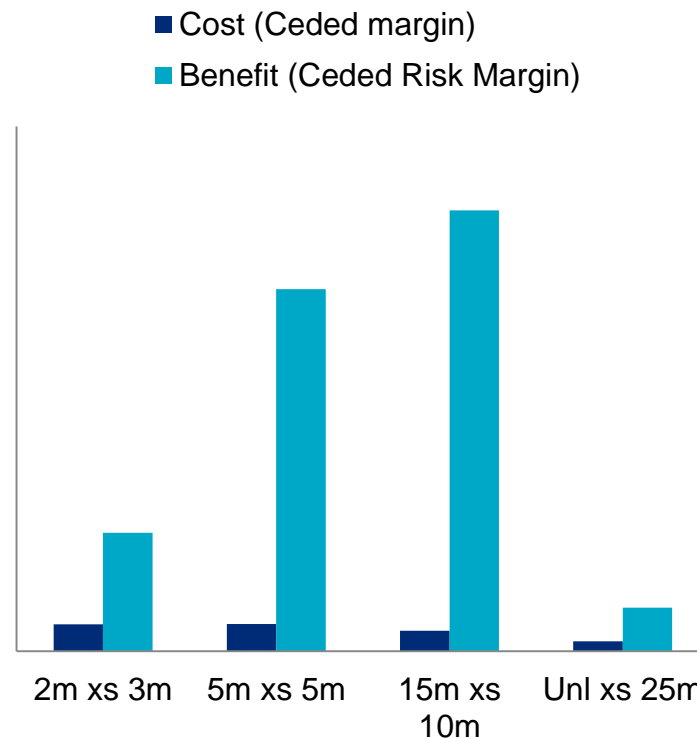
Ceded Risk Margin is a critical part of evaluating PPO risk

## Best Estimate & Risk Margin with Solvency II



Source: CEIOPS & Deloitte, Solvency II Technical Provisions, April 2010

## Risk Margin Cost/Benefit by RI Layer



Source: Guy Carpenter stochastic projection  
Full stochastic model for PPOs economic uncertainty

*Risk margin calculations can be **incredibly complex** and there is no consensus yet on a common approach*

# Valuation of PPO Risk

## Holistic approach to managing PPO risk



*Non-commutable QS and non-capitalised XoL reinsurance remains the **best value hedge** against reserve uncertainty*

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