Emeritus Reinsurance

REINSURANCE & UNDERWRITING FOR BUSINESS OPTIMIZATION-IAZ 2018

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OVERVIEW

- Reinsurance in simplest terms is insuring the insurers.
- R L Carter defines reinsurance as: ``the insurance of contractual liabilities to pay claims incurred under contracts of direct insurance or reinsurance .``
- Reinsurance enables insurance companies to spread out risk because reinsurance is international in scope. Reinsurers write business from many countries and also retrocede business to other reinsurers in other markets.

REINSURANCE PERFORMANCE TRENDS 2006-2017

- According to Aon Benfield analytics,Year 2017 had the highest Combined ratio(CR) 107.4% in the past 12years ,average CR was 94,5%.
- Lowest combined ratio was registered 12 years ago at 89,8%
- Underlying investment return (excluding capital gains) have been on a downward trend since 2007 from 4.3% all the way to 2.6% in 2016/2017. The lowest return was in 2008 at 2.1%.(WHY)……..

NATURAL CATASTROPHES

	2017	2016	10years Ave	30 years Ave	
No of events	710	780	605	490	
Overall Losses	$330bln	$184bln	$170bln	$130bln	
Insured losses	$135bln	$ 50,7bln	$ 49bln	$ 35bln	
Fatalities	10,000	9,650	60,000	53,000	

Major losses in 2017

- Overall losses from natural disasters in 2017 was US$330billion well above the 10year inflation adjusted average of US$170billion.
- Insured losses amounted to US$135billion(41%), who pays for the uninsured losses of US$165billion? : Governments/respective nations. The importance of insurance/reinsurance can not be overemphasized.
- There were 710 recorded natural castastrophoes globally well above the normal average of 605. (Source Munich Re 4th January 2018)

IMPACT OF 2017 MAJOR LOSSES ON REINSURERS

- Pre-tax profit for major reinsurers fell by 75% from US$20.5 Bin in 2016 to US$5,1Bln in 2017.
- Average return on equity(ROE) was down to 2% from 7,5% for 2016. Average for the past 12 years was 9.8%
- Average for 5years stood at 8.5%

WHERE DO WE GO FROM HERE?

MAIN FUNCTIONS OF REINSURANCE

- Reinsurance provide insurers with additional underwriting capacity thereby enabling them to accept larger risks which they are not able to underwrite on their own.
- Also enable insurers to underwrite risks they might not be able to accept maybe due to lack of experience or due to poor performance.

MAIN FUNCTIONS OF REINSURANCE

CAPITAL RELIEF/ADDITIONAL CAPITAL

- Reinsurance enables a direct insurer to write more business without necessarily increasing its capital base.
- Reinsurance enables insurance companies to manage their solvency margin i.e Net premium written/Shareholder´s funds. Solvency margin can be increased by ceding more premium to reinsurers.

MAIN FUNCTIONS OF REINSURANCE

Increases stability and security

- Reinsurance is key in smoothening the bad claims i.e in the case of Hurricanes, storms, floods, tornadoes and earthquakes.
- Technical role of reinsurance is to protect insurers against insolvency or financial strain by reducing the degree of variability in retained costs.
- An efficient reinsurance programme should produce greater stability in the underwriting results of a direct insurer.

MAIN FUNCTIONS OF REINSURANCE

Increases depth and width of coverage

- With adequate and comprehensive reinsurance support an insurance company can offer products with wide scope of coverage e.g terrorism, Cyber risks among others.

MAIN FUNCTIONS OF REINSURANCE

Helps with analysis and decision-making

- Help an insurance company evaluate its reinsurance needs
- Devise and effective reinsurance plan
- Analyze risks and price them accordingly.

MAIN FUNCTIONS OF REINSURANCE

Provides an array of services

- ❑ Training
- ❑ Accounting
- ❑ Organization/Administration

MAIN FUNCTIONS OF REINSURANCE

Helps with expansion

- Reinsurance help insurance companies to expand/grow through provision of cover on new products, reinsurers are good partners in product development as they have experience from different markets.

How can Re/insurers improve their performance

- Back to basics, underwriting for profit vs underwriting for market share.
- There is need to desist from cutthroat pricing, it will come back to haunt you.
- Avoid mismatch increased exposure for lower premium, it means you are overexposing you shareholder´s funds.
- Climate change/wheather related claims are increasing (recent floods in Kenya , Tanzania and frequency is high in Mozambique. 10years ago this phenomenon where far and apart, this calls for factoring in these risks in pricing and reinsurance structuring.

Underwriting Process

- Use historical data/statistics plus anticipation of impact of climate change on insurance claims.
- There is need to consider actuarial modelling in coming up with appropriate rates, the life assurance use actuarial input a lot more than short term.
- Direct underwriters can benefit more by working with reinsurers who tend to have exposure to different risks in different markets.

Reinsurance structuring for business optimization

- ❑ For new companies or companies that need capital enhancement:

- ✓ You can opt for Quota share treaty where you share all risks regardless of size at a predetermined ratio e.g 50% quota share.
- o **Advantages of Quota share** is that you share claims per the agreed ratio, quota share offers very high commissions than other proportional treaties like surplus treaty.
- o Disadvantage is that you share premiums even on risks you have capacity to retain.

Reinsurance structuring for business optimization

- For experienced companies :

- ✓ Surplus treaty you only cede business above your retention thereby enabling you to retain premiums for all risks within your retention.
- The disadvantage is that if your retention is big you could suffer immensely when a sizeable number of your risks are within your retention.

Reinsurance structuring for business optimization

- Use of Excess of loss(XL)/Non proportional treaty & CAT XL

At what level do you peg your deductible?

- Recommended deductible is 1-3% of your Shareholder´s funds.
- Or 0,5% to 4% of total assets.
- Or 5% to 15% of your cash resources/liquidity.

Reinsurance structuring for business optimization

- The frequency of natural disasters call for use of CAT XL or a combination of per risk XL and CAT XL. Real example from our experience , on 24th November 2017 one of our clients suffered 21 losses from a storm in Swaziland and due to appropriate structuring of our XL Retrocession programme our ultimate loss as a company was manageable.
- Just imagine the devasting impact of the 3 USA hurricanes Harvey,Irma and Maria US$94billion in a space of 5 months,!!! Will insurer exist without appropriate reinsurance programmes? NO!

Business optimization

What else can we do for business optimization?

- Introduce no cash no cover , Insurance Regulators are to play an important role in ensuring compliance.
- There is need to standardize commissions as high commissions erode your profitability and eventually your ability to pay claims.
- I am encouraging the Zambian Insurance market to co-operate on minimum market rates, wordings,commissions and local retention.

Business optimization

- Share risks and where possible create market pools for special risks like PVT, Natural catastrophes.
- Brokers,Insurers,Agents, Reinsurers should all adopt best practices and should shun corrupt practices which some players might use to get business ahead of others.(Long term relationships are key just like marriage).
- Optimisation is about the economics of reinsurance relationship ie ensuring the reinsurance (capital rented out) is being done in the best available economical way .

Why underwriting for business optimization

1. Why are we in this business? To make money!

a) Good Return on Investment(ROI) to shareholders
b) Capital growth.
c) Reward stakeholders(reward Employee well, government taxes , CSR).

Industry leaders, lets create a sound legacy for future generation through professional approach to business.

THANK YOU!

Thank You

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