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Aggregation and Other Reinsurance Issues

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SWISS RE 150 YEARS

Agenda

- Aggregation
- Dependencies
- Divergence
- Key Take Aways
- Questions?

Aggregation

Aggregation situation today

- Source of numerous disagreements over the years at both Insurance and Reinsurance level:
  - Conflicts of interest can exist between the positions taken by the original Insured, Insurer and Reinsurer
  - Contract language typically not robust enough to respond to every eventuality
  - Language doesn't always have a clear and universal interpretation in all jurisdictions/territories
  - Expectations are not always clear/realistic (on both sides) – hindsight adjusting!
  - Pure "Risk" reinsurance covers will tend to rely on the original "per insured" interpretation
  - "Event" or other broader reinsurance covers present additional challenges

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Solutions

- Attempted solutions have included:
  - "Bolt-on" approaches
  - Concoction of new phrases which don't have existing legal meaning/precedent
  - Use of set "Scenarios" to illustrate intended application of coverage
  - Extremes such as use of "sole judge" and "follow fortune" provisions
- Reaction to these have been very mixed from both Insurers and Reinsurers

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Core issues around aggregation

- Aggregations arise from a number of angles:
  - Single "Risk" accumulations
    - Visible (target risks)
    - Invisible (unexpected)
  - Multiple "Event" accumulations
    - Clash of Insured or Clash of coverage situations
    - Localised events (same issue effecting numerous insureds such as a corporate failure or mis-selling scandal)
  - "Systemic" accumulations
    - Global systemic events (financial crisis, cyber-virus, etc.)
    - Macro economic trends (interest rates, inflation, etc.)
- Reinsurers must also deal with the further complications of inter-reinsured accumulations

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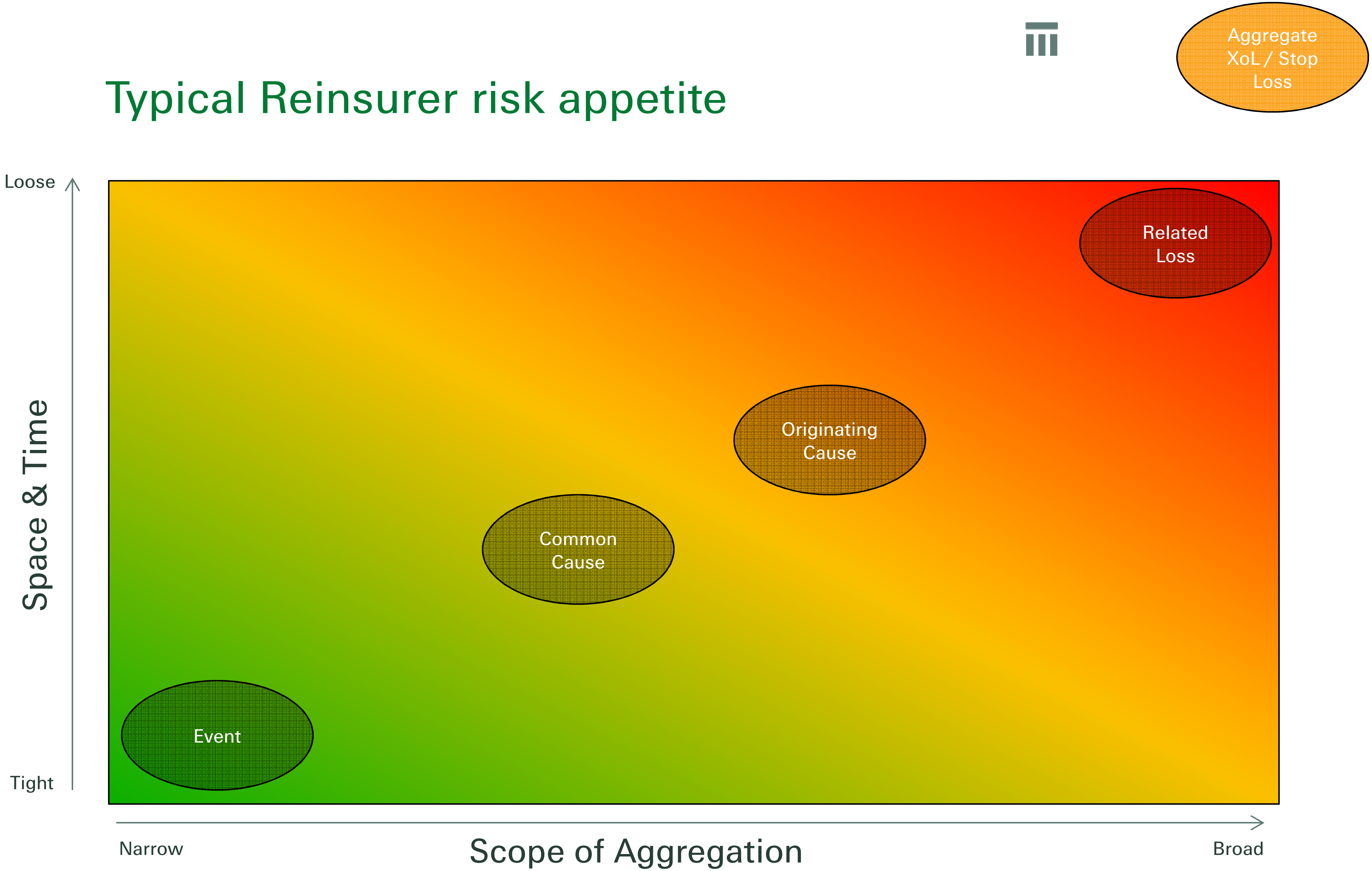
Typical reinsurance aggregation language

- The definition of "Loss Occurrence" under reinsurance contracts is not standard and contracts can offer widely different language around their treatment of aggregation:
  - Event
  - Common Cause
  - Originating Cause
  - Related Loss
  - Causative Agency
  - Business Disaster
  - Claims Made Casualty Catastrophe
  - Broad/Enhanced Trigger
  - Integrated Occurrence
  - Sole Judge, etc.

Generic/common use (Event, Common Cause, Originating Cause, Related Loss)

Proprietary/less common use (Causative Agency, Business Disaster, Claims Made Casualty Catastrophe, Broad/Enhanced Trigger, Integrated Occurrence, Sole Judge, etc.)

Typical Reinsurer risk appetite



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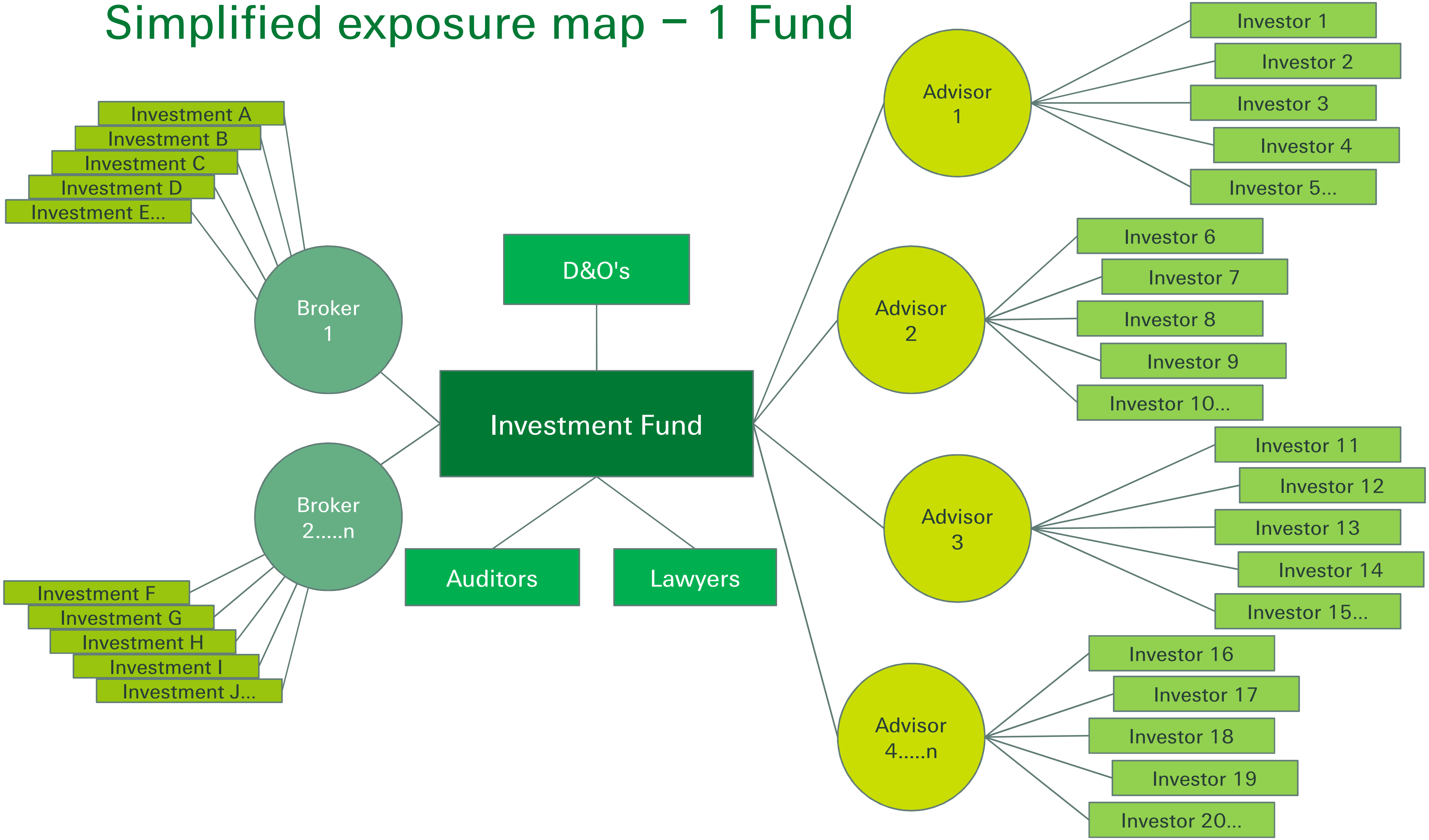
Why can Property do it? - Some fundamentals

Attribute	Property	Casualty/PI
Time	Sudden	Sudden or gradual
Duration	Limited	Limited or Extended
Space	Localised	Localised or Global
Perils	Named or Physically Tangible	Legal Liability or economic
Exposure	Known values (TIV) Known limits	Unknown values Known limits
Modelling	Commercially available Sophisticated Tested PML calculable	Proprietary Variable Insufficiently tested PML's unreliable

How hard can it be?
Simplified exposure map – 1 Fund



So What Next?

- Expect far more interest/products in this area
- Industry and regulators increasingly aware of issues
  - Limited benefit for traditional covers under Solvency II proposals
- New products are emerging in this area which try to meet "essential" requirements;
  - Predict/Model
  - Quantify/Contain
  - Know/Respond

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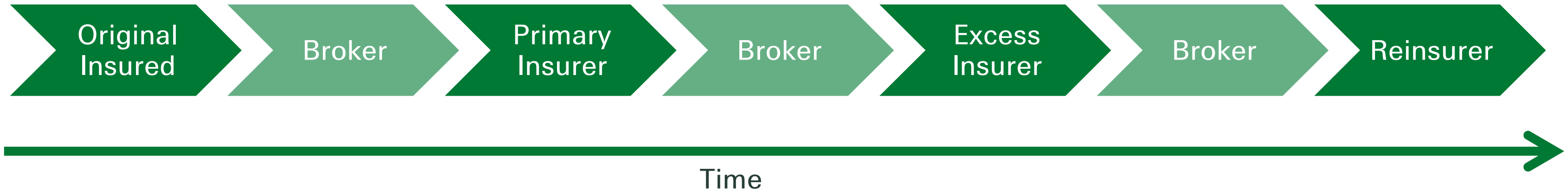
Dependencies

Dependencies

- Reinsurers can have a high degree of dependency on a sometimes lengthy chain of counter-parties:



- This goes much further than just usual notification issues
- Need to obtain adequate information and regular updates
- Market performance has been very variable in this area
- **It's challenging to predict development patterns or assess IBNR if there's nothing there!**

Divergence

Divergence

- Diversification of exposure is normally good – it usually reduces risk
- Divergence of interests normally isn't – it can lead to conflicts
- Insurers are tending to retain more
- Over-riders and ancillary income can present conflicts to alignment of interest
- Business ceded to Reinsurers is increasingly diverging from business retained:
  - Small limits business is usually retained: Tends to be mostly stable/safer
  - High limits business is usually ceded: Tends to be more volatile/peak risks
- Overall presents fundamental challenges to insurer/reinsurer partnerships

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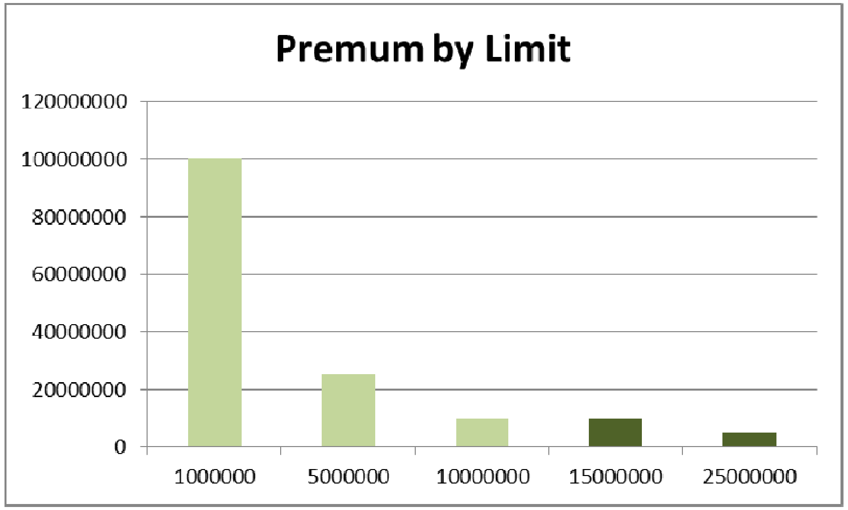
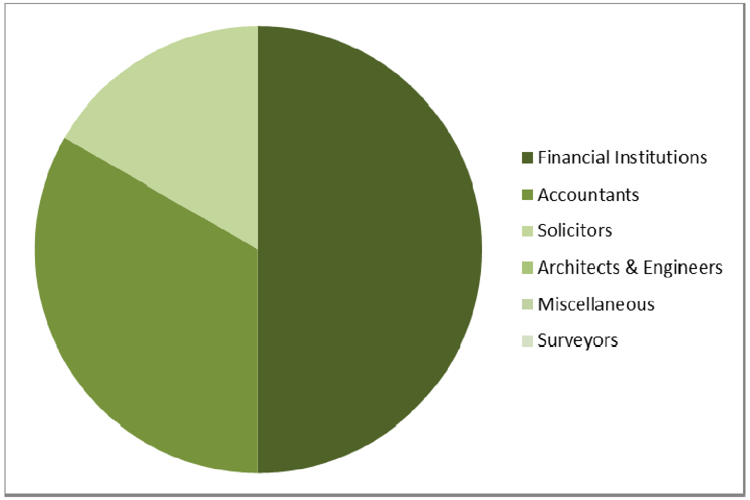
Divergence: "Picture of Perfection Ins Co"

Overall



Ceded



Assume client buys layer of £15M x/s £10M

Take Aways

Take Aways

Securing adequate Reinsurance coverage for aggregations is increasingly important as Insurers retain more exposure "per risk"

Dependencies present threats to the ability of the market as a whole to accurately assess and reserve for PI losses

Divergence is putting increasing pressure on traditional partnerships

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Questions?
& Thank you

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