



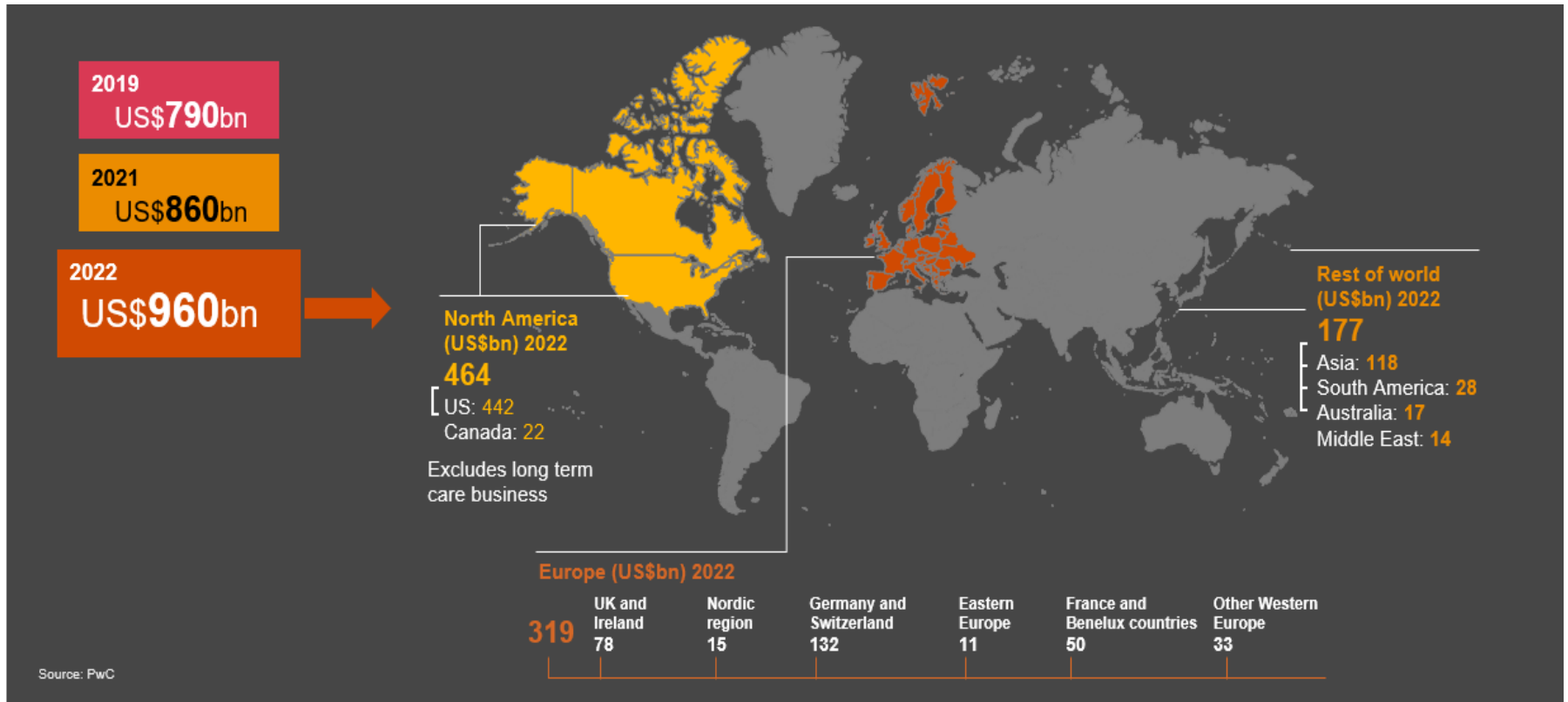
Capital Solutions for Insurers

Using Existing Liabilities

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**BCAR &
Balance Sheet
Strength**

Inflation impacts on claims and reserving

Fixed income equity adjustments from spikes in interest rates

Capital erosion

**Operating
Performance**

Increased catastrophes and secondary events

Volatility in underwriting results

**Business
Profile**

Ongoing erosion in performance bleeds into profile

Pricing sophistication and exposure management

ERM

Effectiveness of program being questioned

Realistic stress testing

ESG concerns

Efficiencies

Capacity

Goal Seeking

New Business

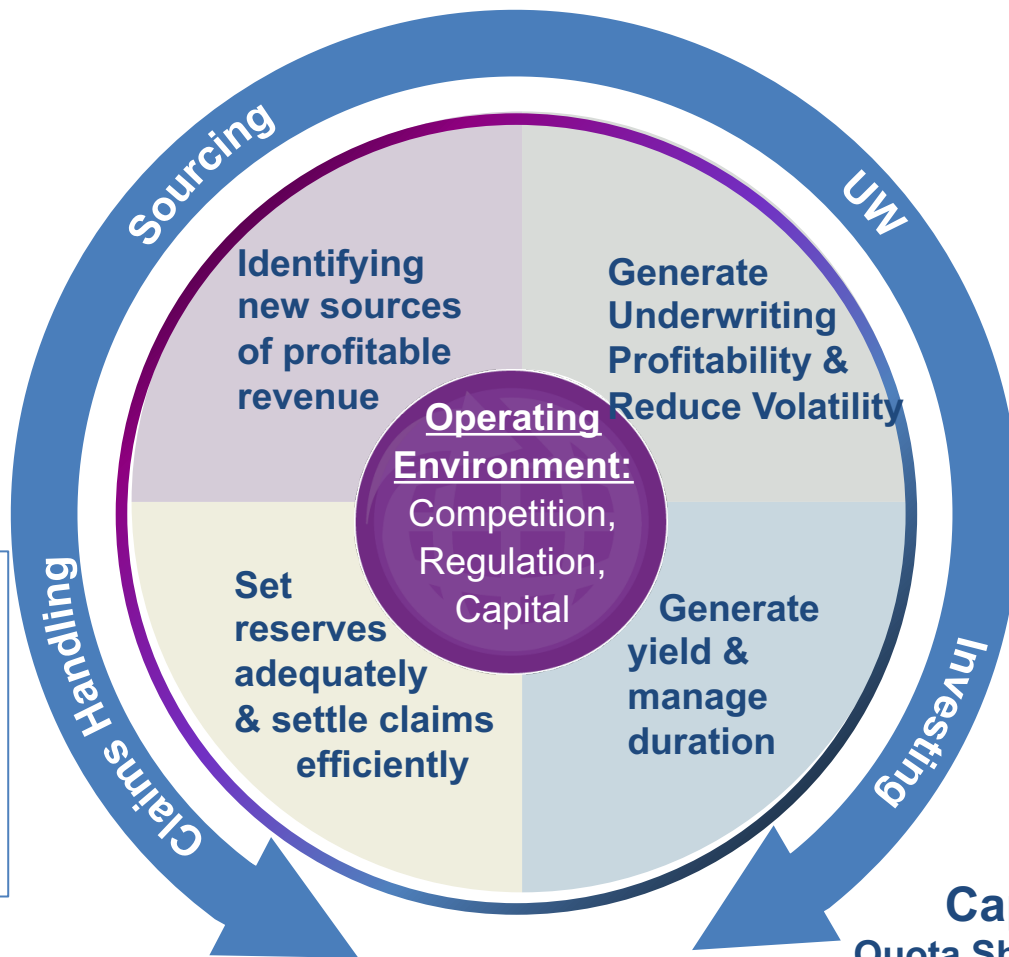
Prospective
Income &
Catastrophic
Exposure

Reserve
Management

Retroactive
Income

Non-
Underwriting
Income

Capitalization
Quota Share, Surplus Notes



Reserve Uncertainty

Inflation

Interest Rates

Capital Management

- Release, return and redeployment of trapped capital
- Regulatory capital relief

Discontinued Operations

ESG

Economic, Administrative & Legal Finality

Motivations:**Drive operational efficiencies**

Improve management focus
on core business

**Optimize capital**

Minimize reserve risk
charges

**Reduce earnings volatility**

Protect earnings from
adverse loss development



Optimize resource allocation

Exit non-core business

Protect Capital

Manage ratings

Fund strategic initiatives

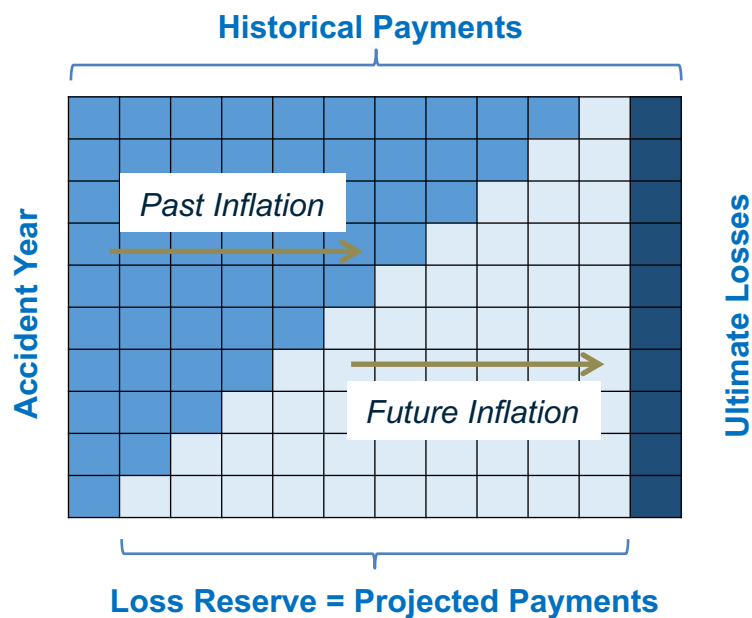
Support U/W stability

Tactical → *Strategic*

- Stress caused by reserve uncertainty, increased capital requirement, asset deterioration, and increased retentions
- Using third party capital to support reserve risk
- Release & reallocate inefficient capital (to drive growth)

Several drivers pointing to increased risk to reserve position going forward

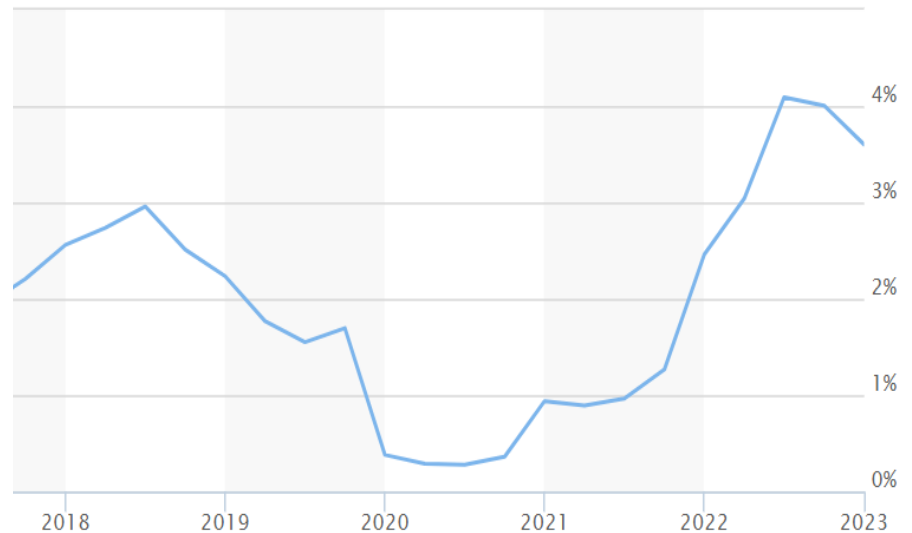
- Covid disruptions to reporting and payment lags likely dampened development during 2020-2022
- Casualty soft-market years of 2017-2019 show significant deficiencies on industry basis
- Impact of inflation on loss reserve depends on:
 - Historical rate
 - Length of claim payment pattern
 - Persistence
 - Cost driver (e.g., goods, wages, medical, verdicts)
 - Degree of past reinsurance utilization



Interest Rate shift has pros & cons

- Rising interest rates have impact insurance company balance sheets
 - Reducing MV of fixed income securities
 - Typically unrealized
 - Will take 3-5 years for new money rates to be fully reflected
- However, rising rates have increased the economic “equity” embedded in reserves
 - Realized as future investment income
 - Increased value of insurance “float”

Five Year Treasury Note:



	Benefit	Consideration
Quota Share	<ul style="list-style-type: none"> Provides benefit in Capital Models by reducing premium and reserve risk 	<ul style="list-style-type: none"> Loss ratio caps may be limiting Credit risk consideration for ceded balances outstanding
Aggregate Stop Loss	<ul style="list-style-type: none"> Provides benefit in Capital Models by reducing premium risk and, to a lesser extent, reserve risk 	<ul style="list-style-type: none"> Must attach between ELR and capital charge Credit risk consideration for ceded balances outstanding Does not address UW leverage concerns
Adverse Development Cover	<ul style="list-style-type: none"> Provides benefit in Capital Models by reducing reserve factor charges 	<ul style="list-style-type: none"> Must attach between carried reserves and capital charge Credit risk consideration for ceded balances outstanding Benefit erodes over time
Surplus Note	<ul style="list-style-type: none"> Provides immediate increase to available capital 	<ul style="list-style-type: none"> For AM Best, limited to 90% capital credit for third party surplus note; 95% for affiliated, with equity credit lessening at five years to maturity. Higher amounts raise quality of capital concerns For S&P, amount recognized is limited to 15% of total reported capital (surplus + surplus notes)

Standard & Poor's Rating Service

Quantitative benefits:

- S&P released guidance reflecting the benefit of reserve covers in their capital model (August 2019)

“Effectively executed LPT/ADC transactions could enhance cedants’ financial risk profiles and overall creditworthiness”

- Ultimate benefit will need to be negotiated with the analytic team

Qualitative benefits:

- To the extent that they are concerned about adverse reserve development in future years, an adverse development cover could mitigate that risk

AM Best Company

Quantitative benefits:

- AM Best utilizes a standard methodology for reflecting the benefit of reserve covers in BCAR
 - Adverse development component of the cover can be reflected as a reduction to capital required to support reserve risk (B5)

Qualitative benefits:

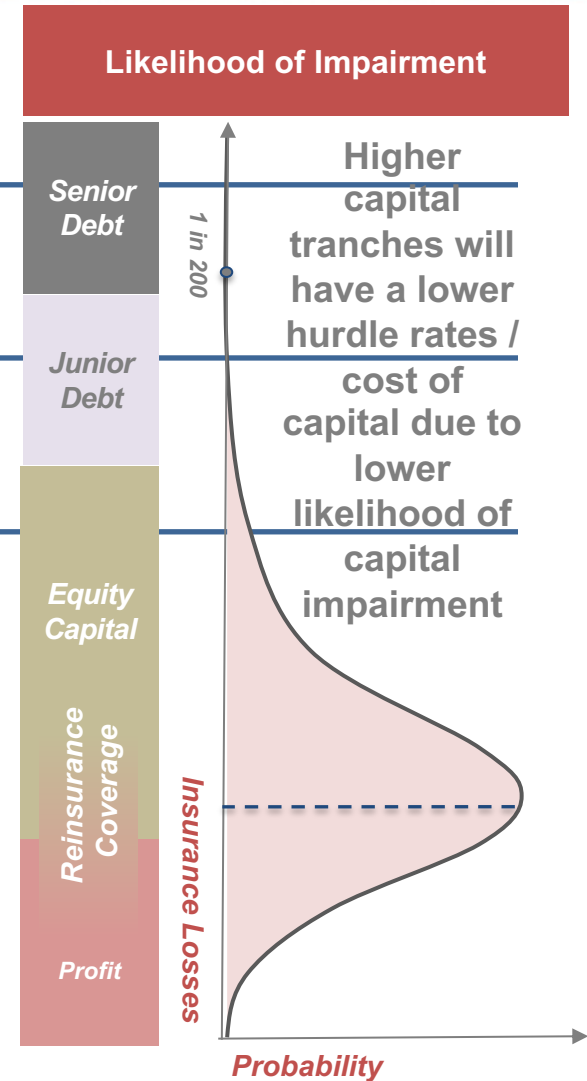
- To the extent that they are concerned about adverse reserve development in future years, an adverse development cover could mitigate that risk
- Also, potential impact on their ERM assessment

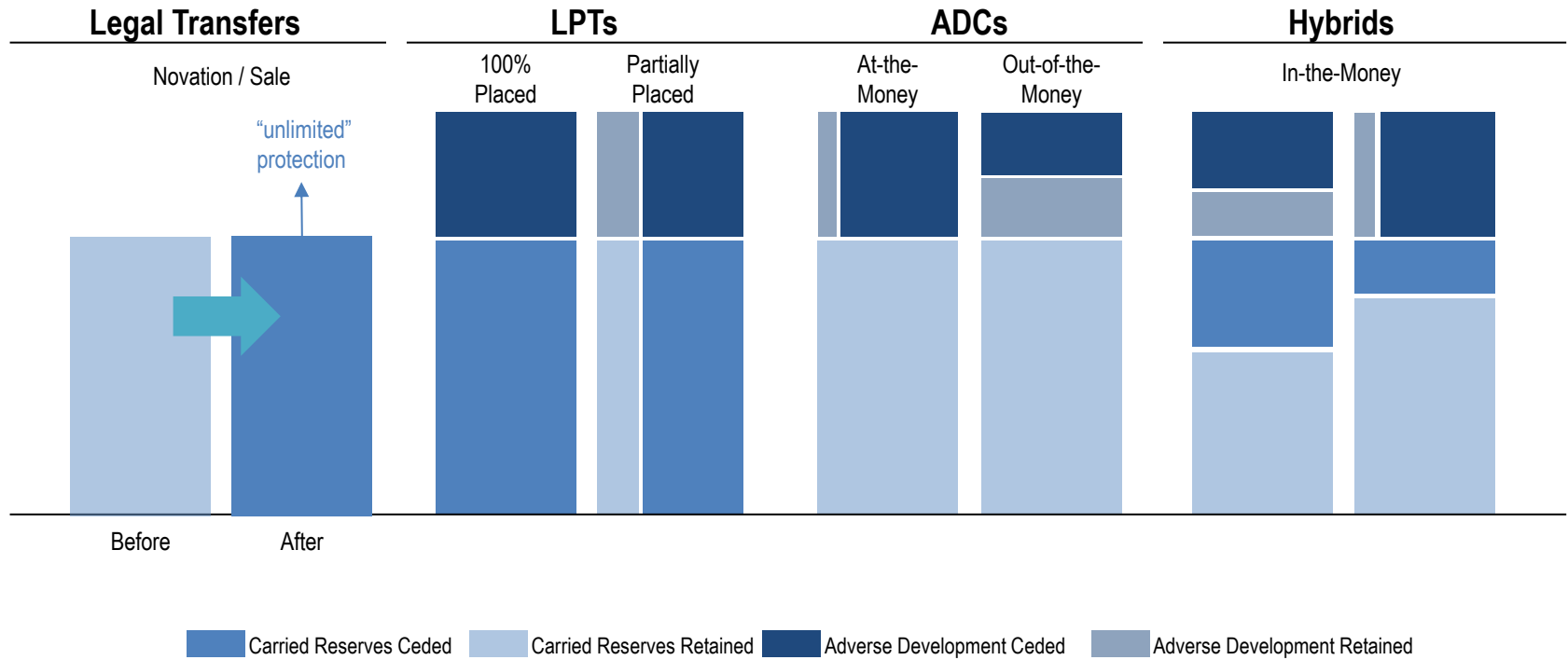
Debt & Equity

Prospective Reinsurance

Retroactive Reinsurance

- Adverse Development Covers
- Loss Portfolio Transfers
- Hybrid LPTs
- Novations
- Sales & Insurance Business Transfers





Submission

Due Diligence

Intent Letter

Agreements

Regulatory Approvals

Actuarial Expected ultimate losses, required reserves and payment pattern

Project range of possible outcomes

Calculate the fair value of the reserves

Claims and
Financial

Ground up claim review

Runoff administration analysis

Cash flow modeling

Reinsurance
Assets

Quality of counterparties

Collectability of Reinsurance Asset

Disputes, Arbitrations

Implications on
customers and
employees

Implementation
and opportunity
cost

Regulatory
requirements

Impact on
management
time

Reputation

Materiality of
foregone
investment income

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