

REDUCING REINSURANCE COSTS

The Key To Survival

Manoj Kumar, Chartered Insurer

ACII (UK), CPCU (USA), ARe (USA), ARM (USA), FIII (India). MBA

Email: manoj@einsuranceprofessional.com

Presentation Plan

- Think differently
- Reinsurance programme restructuring - Factors
- Reinsurance program design - Steps
- Reducing reinsurance costs – case study
- Available options for GCC

Think differently

- Classical view about role of reinsurance
 - Capacity
 - Stability
- The other angle
 - Surplus relief
 - Cat protection
 - Underwriting expertise
 - Withdrawal from a territory
 - Withdrawal from a line of business

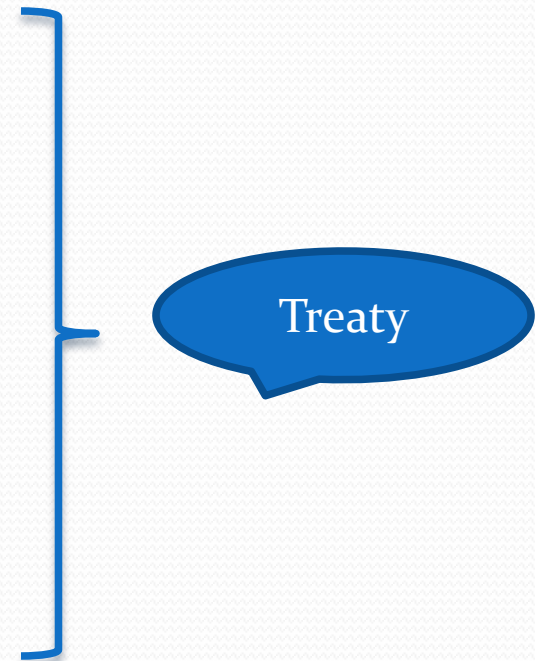
Think differently

- Non-traditional approach to reinsurance
 - Stop loss
 - Aggregate excess of loss
 - Variable QS
 - Layered approach
 - Mixed approach
 - Facultative obligatory
- Finite risk reinsurance
- Cat / Net protection
- Line slips

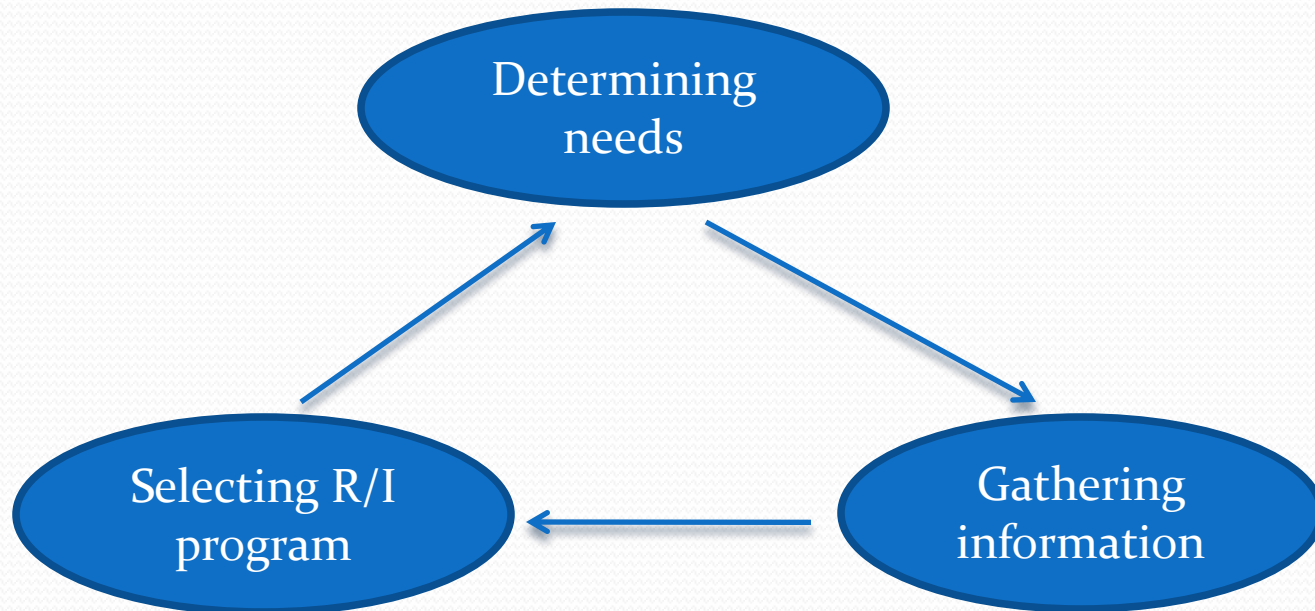
Restructuring your R/I Programme

Factors:

- Life cycle of the insurance company
- Risk appetite
- Capital and shareholders surplus
- Lines of business
- Modelling / Simulation
- External advise



Reinsurance program design



Determining needs

- Business strategy
 - Growth plans
 - Lines of business written
 - Company size & structure
 - Geographic spread
- Financial resources
- Management attitude towards risks



A blue rectangular box with rounded corners and a white border, containing the text 'Reinsurance needs', 'Retentions', and 'Limits'. To the left of the box is a large blue bracket that groups the list of factors on the left. The box has a white 'e' logo in the top-left corner and a blue 'e' logo in the bottom-left corner.

Reinsurance needs
Retentions
Limits

Gathering information

- Premium by line
- By territory
- Limits profile / triangulation
- Per occurrence losses
- Rate change history
- Existing R/I program details

Selecting type of reinsurance

Type of reinsurance and reinsurance functions

	Increase capacity	Stability	Catastrophic protection	Surplus relief	U/W expertise	withdrawal
Facultative	X				X	
Q/S				X		X
Surplus	X			X		
XOL	X	X	X			

Reducing reinsurance cost – Case study 1

15% QS Treaty / Loss Ratio 70% / R/I Comm @ 20% / Figures in USD Millions

Premium	R/I Share	Retention	Comm	Claims	Surplus
50	42.5	7.5	8.5	5.25	10.75

30% QS Treaty / Loss Ratio 70% / R/I Comm @ 20% / Figures in USD Millions

Premium	R/I Share	Retention	Comm	Claims	Surplus
50	35	15	7	10.5	11.50

Reducing reinsurance cost – Case study 2

15% QS Treaty / Loss Ratio 50% / R/I Comm @ 30% / Figures in USD Millions

Premium	R/I Share	Retention	Comm	Claims	Surplus
50	42.5	7.5	12.75	3.75	16.5

30% QS Treaty / Loss Ratio 50% / R/I Comm @ 30% / Figures in USD Millions

Premium	R/I Share	Retention	Comm	Claims	Surplus
50	35	15	10.5	7.5	18

Available options for GCC

- Continued dependence on BIG 2 despite having enough local capacity
- Pools (not cartels)
- Increased retention
- Better underwriting
- Innovative reinsurance solutions
- New markets like Far East, North Africa and Continental Europe



Thank You