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# Financial Reinsurance

Proven concepts in a changing world

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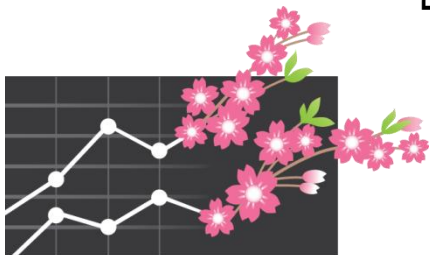
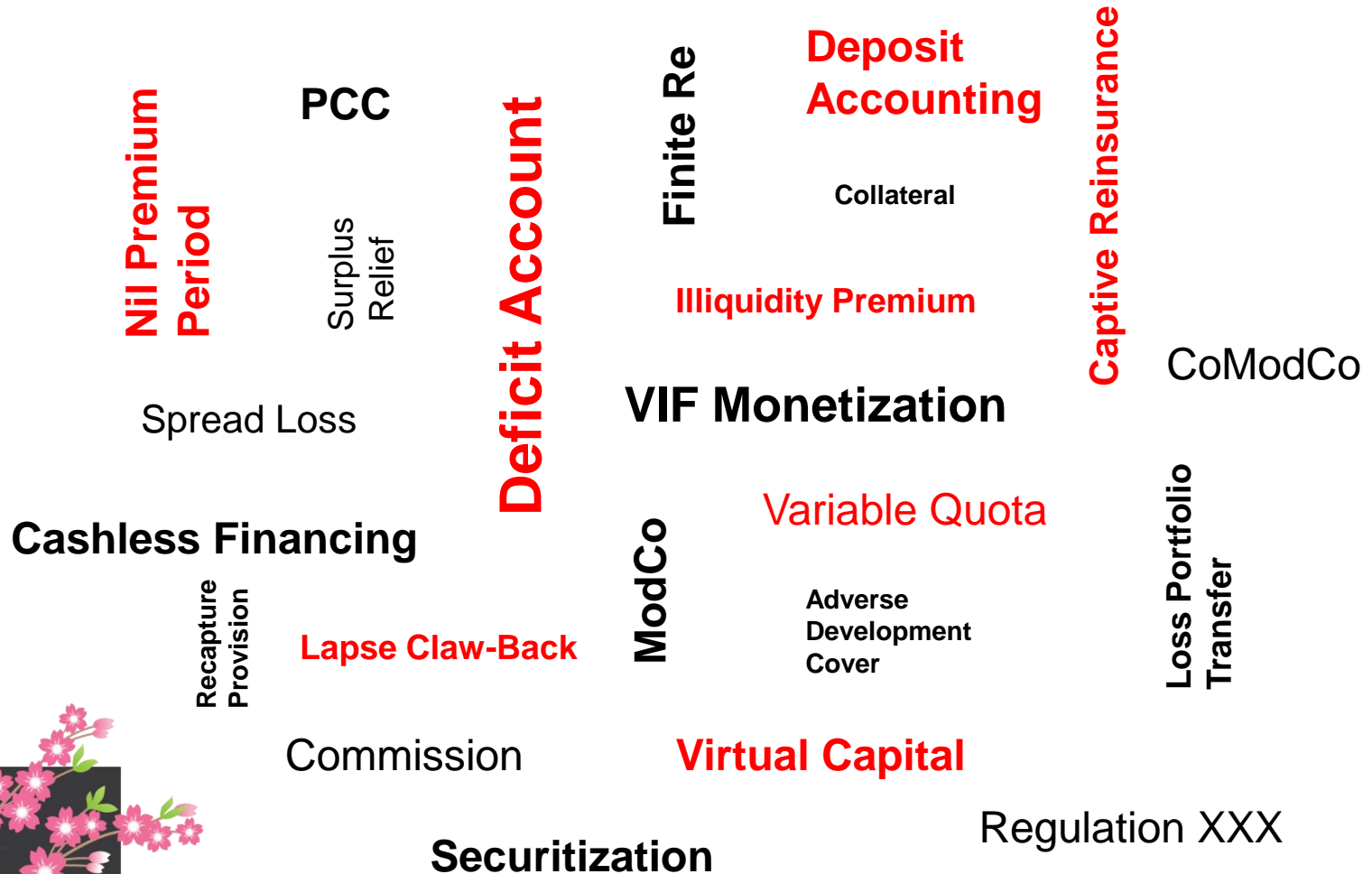
## Disclaimer

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# What is Financial Reinsurance?



## Let's start with a Quiz

Which of the following structures would you count as FinRe?

New written level premium term life business ceded as 50% quota share on original terms with

- a) an initial cash commission of USD 1 M OR
- b) 20% first year premium discount OR
- c) 1 year Nil Premium period OR
- d) 100% profit commission after 5% expenses



## Hint: It's (probably) Financial Reinsurance, if

- The **B/S impact** of the transaction dominates the negotiations (and more MBA's, CFA's and lawyers than actuaries are involved)
- The (biometric) **risk transfer test** is barely (if at all) passed
- The **cash flow** in the first years is positive for the cedant
- The reinsurer can set up a **DAC** item under US GAAP
- The **rating** of the cedant counts (not the other way round)



You will (probably) know when you see it

# Financing vs. Solvency Support

## Financing

**Objective:** Increase in assets by bringing forward future profits

**Works if there are differences in**

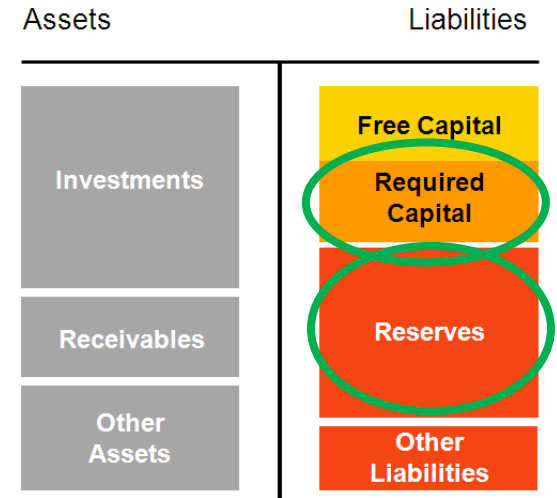
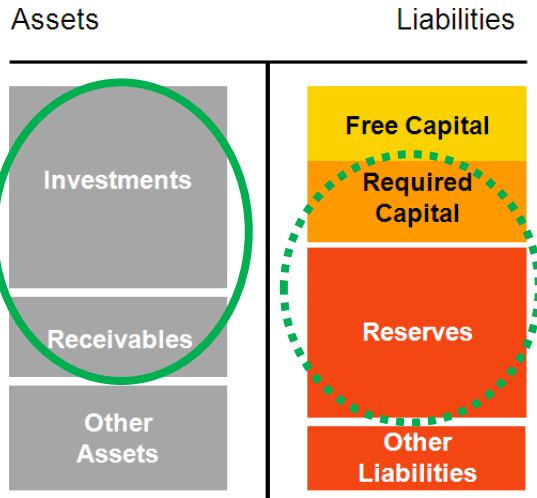
- Refinancing conditions
- Accounting standards
- Regulation

## Solvency Support

**Objective:** Reduction of required capital or reserves

**Works if there are differences in**

- Cost of Capital
- Diversification benefits
- Regulation
- Best Estimates



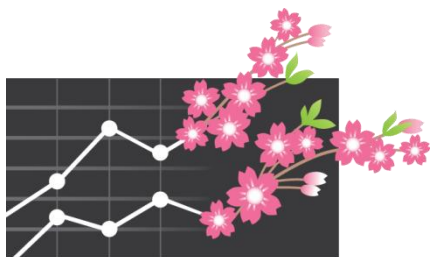
# Another – rather simplistic - way of looking at it



Source: PartnerRe

## Reinsurance vs. other Capital Management Solutions

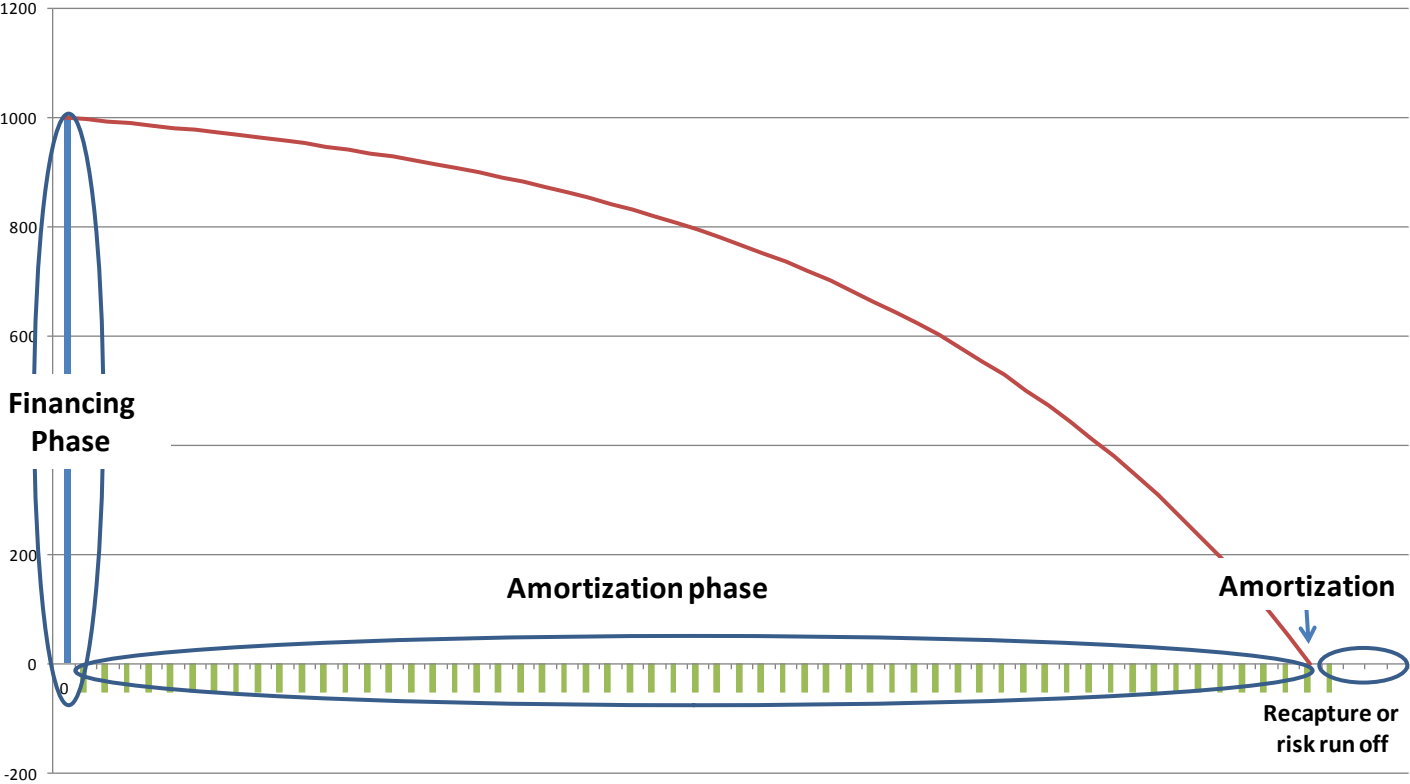
	Reinsurance	Equity	Sub Debt
Cost	Depends	<b>Expensive</b>	Depends
Flexibility	<b>High</b>	<b>Low</b>	<b>Low</b>
Liquidity	Depends	<b>Yes</b>	<b>Yes</b>
Capacity	<b>Limited</b>	<b>High</b>	<b>High</b>
SII Recognition	<b>Usually Tier 1</b>	<b>Tier 1</b>	<b>Usually below Tier 1</b>
Tax Deductible	<b>Yes</b>	<b>No</b>	<b>Yes</b>
Risk Transfer	<b>Yes</b>	<b>No</b>	<b>No</b>
Service	<b>Yes</b>	<b>No</b>	<b>No</b>



**No 'one size fits all' solution**



# A typical European Example: Deficit Account

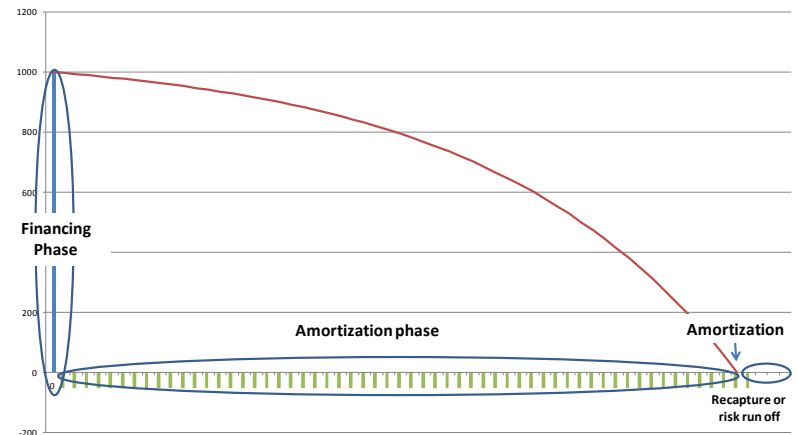


Source: PartnerRe

## Deficit Account Structure (cont'd)

Typical items to consider in underwriting and pricing DA deal:

- Stability of projected cash flows
- Proportion of future profits financed
- Fixed vs. floating interest on DA
- Amortization pattern/period
- Value of the risk run-off
- (Biometric) Risk transfer
- Policyholder behavior patterns
- Counterparty credit risk
- Regulatory aspects
- Reputational risk



**Actuarial Pricing vs. 'Market' Price**



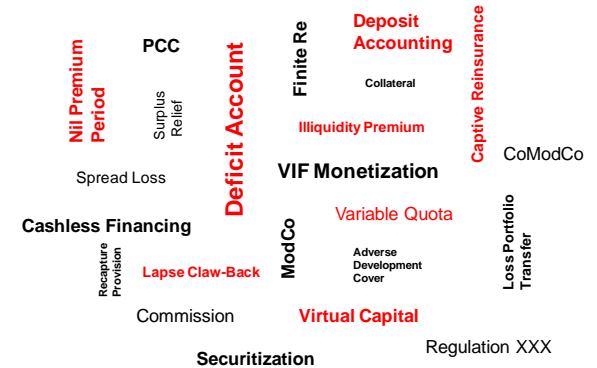
## What is going on around the globe?

- US: Regulation (A)XXX solutions
- UK: Nil premium periods for TCI business
- Iberia: VIF monetization for bancassurance business
- EU: Preparing for Solvency II
- Germany: Financing reserves for interest rate guarantees
- China: Short-term bridging non-cash financing



# Key Points

- It's not always obvious where to draw the line between traditional and financial reinsurance
- The underlying concepts are – despite all the lingo – actually relatively simple
- Financing can and need to be adapted to the concrete circumstances, which can vary significantly



## Questions or comments?

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