Structured Reinsurance Solutions

Structured Reinsurance Solutions (SRS) is an unique approach to risk financing or risk transfer and can involve combination of these techniques. It is an agreement of reinsurance concepts with a profit and loss potential predictable for both sides which primarily spreads the risk over time and hence has a stabilizing effect on the ceding company's balance sheet. This approach does not really differ from Traditional Reinsurance except that the contractual terms manifest the intent at the inception itself. While the SRS technique has been widely used for several decades in the Developed Financial World (North America, Europe & Japan) by most of the major Reinsurers to provide Risk Financing and Risk Transfer at optimum costs, it is gaining considerable acceptance in the Developing Financial World in the last few years.

The technique is structured so as to provide Capacity to underwrite risks from alternate sources of Capital Providers such as Financial Institutions, Mutual Funds, Hedge Funds, Investors and others that are not in a traditional sense always "Core Reinsurers " .

The Contracts generally have a simple structure so as to transfer finite risk to these capital providers and also ensure that the risks and exposures are short tail in nature, .i.e. the risk retained by the purchaser at the end of the contract is 1-3 year term. The very nature of these contracts permit both parties (distributer and the carrier of the risk) the full flexibility to define and agree on the terms of the contract and thereby not be limited in any way to the restrictions of the Traditional Reinsurance markets where standard wording, deductible and exclusions are used.

The growth and interest in these structured solutions is mainly due to the value created by enforcing a strong relationship between the two parties under contract. In SRS, carrying of risks and the sharing of losses (usually with high Profit Commissions in cases of low losses) aligns interest between both parties which often is not exhibited in short term and selective nature of Traditional Reinsurance contracts.

Each participant gains tremendously from the contract as each sees a specific value which is typical of the Insurer/Reinsurer relationship and ultimately the most effective and efficient use of Capital to provide optimum Returns to both parties over the long term.

The contracts either involves a basket of risks (multi-line) or a specific type of risk which the two parties wish to participate on based on their appetite and capital structures.

Over period of time (three to five years and beyond) all Traditional Risk Transfer contracts are effectively Structured Reinsurance. The only difference being, terms are set each year, whereas in a Structured Reinsurance, the terms for the period of the contract are set at inception.

The combination of SRS with conventional methods is now common among all major top class reinsurers for a portfolio and/or individual risks.
In current environment, Risk Management includes Traditional and Structured solutions

Types of Structured Reinsurance Contracts:

- ✓ Event Linked Bonds
- ✓ Cat Swaps
- ✓ Cat Options
- ✓ Insurance Linked Securities (ILS)
- ✓ Derivatives i.e. Weather Derivatives
- ✓ Finite Risk
- ✓ Financial Reinsurance i.e. Credit Securitization

Special Features:

- Defined Risk Transfer- Quantified
- Results to either party based on performance on the contract alone.
- Profit commission & additional premiums fixed at the start of the contract based on possible outcomes.
- An alternative to the Traditional Markets
- Contracts can be stop-loss, excess of loss, or Quota Share and Multi year, Multi Class
- used along with traditional Reinsurance, provides a very powerful tool and a viable alternative

Major Players:

- ✓ Ace Ltd.
- ✓ Partner Re
- ✓ St. Paul Re
- ✓ Swiss Re
- ✓ Hannover Re
- ✓ XL Capital
- ✓ Munich Re
- ✓ Tokio Marine And Fire Insurance Company
- ✓ FM Global
- ✓ Chubb Financial Solutions
- ✓ Zurich

Some of the innovative ART deals during the past few years have been ……..

- Swiss Re USD 16.4 Million Notes to cover losses due to windstorm in France and hurricanes in Florida and Puerto Rico.

- American Re USD 120 Million Cat securities to cover against the financial impact of super catastrophe of Midwest earthquake and eastern and gulf coast windstorms. Triggering is based on an index and not the actual insurance loss.

- Royal Bank of Canada CD 200 Million Portfolio protection and capital retention in times of economic downturn through an option to sell share.

- Swiss Re. Munich Re USD 300 Million - Securitisation to cover exposure due to hurricane in Florida and New York, earthquake in California and windstorm in Europe.

- Hannover Re EUR 200 Million - Securitisation of life reinsurance assets to provide capital in view of high acquisition cost and the German accounting practice of writing the cost during the first year itself.

- SAAB USD 1.3 Billion Securitisation of deemed leased income from aircraft lease due to market cycles, competition, obsolescence and customer default.

SRS Finance & Accounting:

- This technique is recommended for Companies with strong Balance Sheets
- Each Contract being finite and specially structured to protect the Balance Sheet in the event of an occurrence must go through due diligence checks by Accountants.
- The technique is well accepted by regulators and auditors worldwide and accounting of the same is well documented.