



Aggregate Covers

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We have a soft market..

„Falling reinsurance prices point to sector shake-out“

Reuters, 25.02.2014

„Reinsurance Prices Decline on Oversupply“

Bloomberg, 01.04.2014



„Reinsurance prices to drop by double-digits at June renewals“

Fitch, 08.04.2014

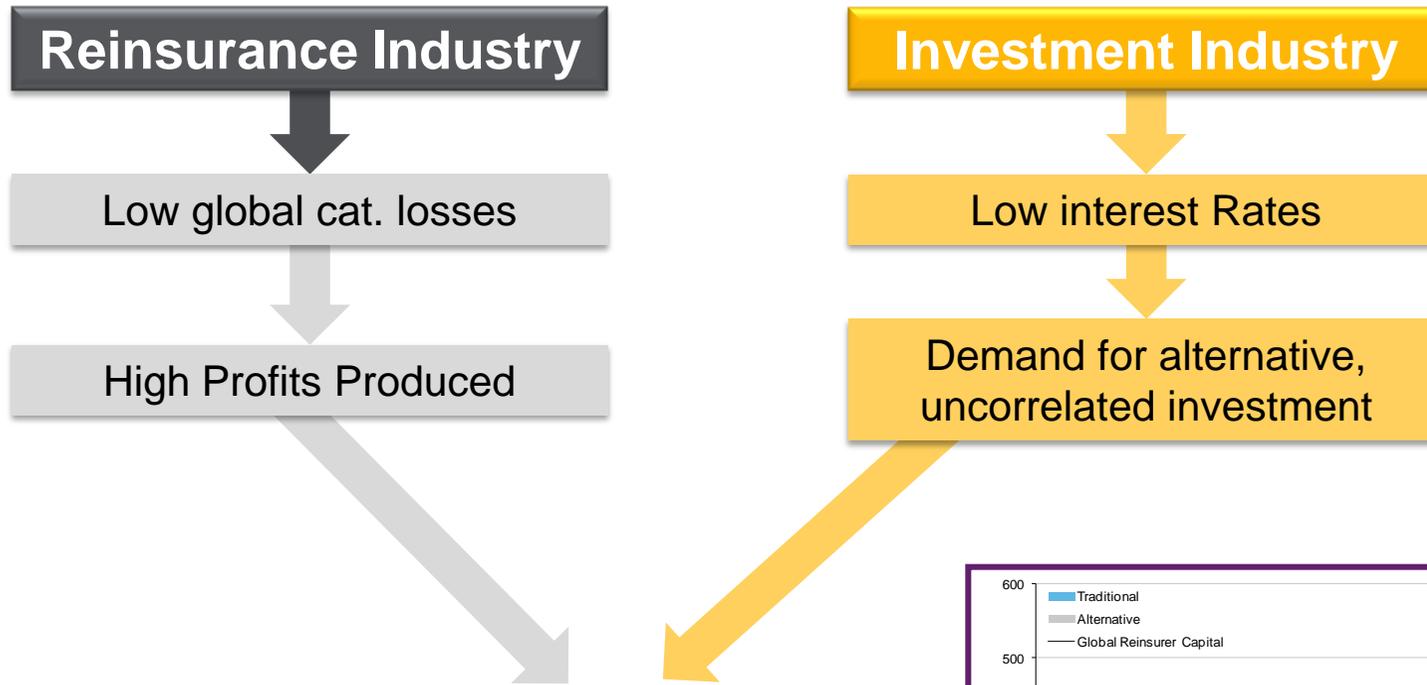
„Reinsurers face strong headwinds, says AM Best“

The Royal Gazette, 07.04.2014

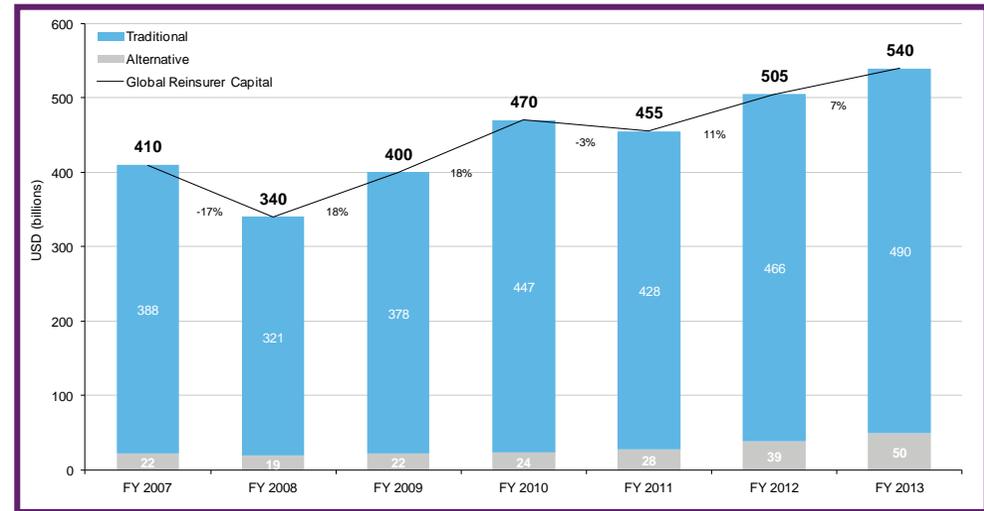
„Low Cat Losses in 2013 Driving Insurer Competition“

www.propertycasualty360.com, 09.04.2014

.. and we know why



Oversupply in Reinsurance capital that has to be deployed



May be therefore we are talking about aggregate covers

Soft market = Buyers' market

how do you **utilise** it?

Buying the same cover cheaper



IMPROVEMENT IN YOUR BOTTOM LINE

For the same amount of money buying more cover

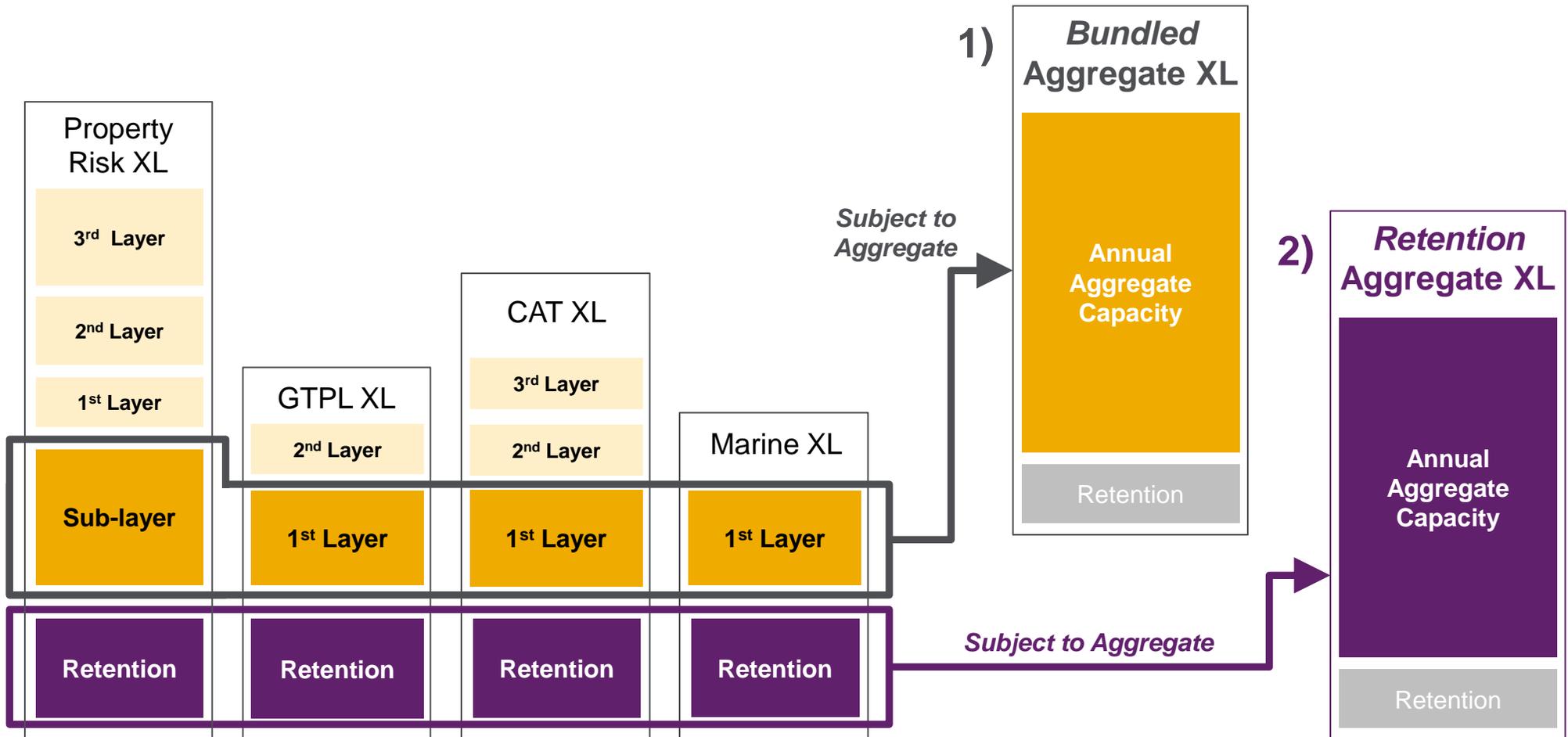


LOWERING THE VOLATILITY OF YOUR P&L ACCOUNT

Two main types of cover which we call aggregate

AGGREGATE = A whole formed by combining several separate elements

→ depending on what is combined we talk about two main areas of Aggregate XLs



1) Bundled Aggregate XL: Why do you go for it?

→ Save reinsurance costs incurred at the bottom part of existing reinsurance programmes

How is this possible?

- Diversification effect reduces the risk and hence the costs
StD of Total Recoveries lower than sum of all StDs
- No reinstatement premium exists
Advantage for budgeting: costs known upfront
- Additional Aggregate XL retention can bring further premium reduction

When does it usually work?

- Well diversified book of business
- Layers which are bundled have no/little losses
- Placed with high margins

1) Bundled Aggregate XL: Why can it NOT work?

Examples

- × Lack of diversification effect
 - *For example heavy weight of one line of business*
- × Too many losses from one LOB increase the required Aggregate XL capacity
 - *Making the Aggregate XL more expensive*
- × Risk XL placed below burning costs
- × Benefit of internal reinsurance programmes with lower than market prices
- × Sizeable share of losses coming from long-tail classes
 - *Recovery from the Aggregate XL would be delayed due to their long development*

2) Retention Aggregate XL

Multiline Aggregate XL & Catastrophe Aggregate XL

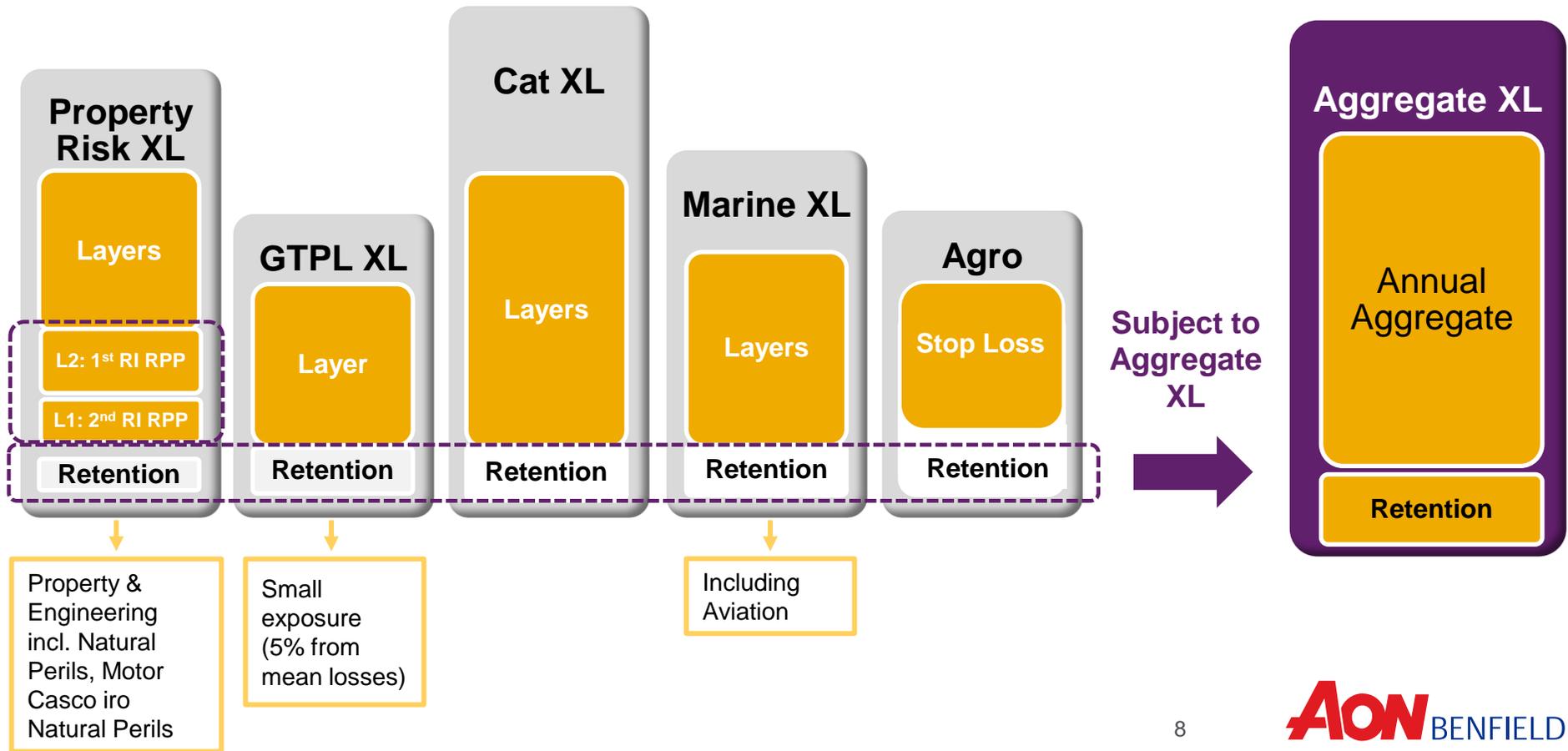
- ✓ **Designed to protect financial result** across multiple classes of business
- ✓ **Real “Net UW result”** reinsurance protection
 - No bad surprises – deviation from the standard pattern is transferred to Reinsurers
- ✓ The inuring programmes can be redesigned **to decrease the reinsurance costs** – saving can be used for Aggregate XL

2) Retention Aggregate XL

Example A: Multiline Aggregate XL

- Multiline Aggregate XL for a CEE company, incepted 1/1/2014
- 100% structured and placed by **Aon Benfield**

Programme finally designed to cover net retention of the following Lines of Business:



2) Retention Aggregate XL

Example A: Multiline Aggregate XL

- Analysis started in April 2013 → Final structure fixed in December 2013
- **Aim = stability of the financial result without substantial increase in reinsurance premium spent**
- **Discussion with the Client based on results showing:**
 - Net Losses prior to Aggregate XL per LOB and in Total
 - Aggregate XL Recoveries
 - As-If Burning Cost/Historic Results – Means for various periods, Variability measures
 - Modelled Results (DFA ReMetrica) – Mean, Variability measures , 1 in 2 VaR to 1 in 1000 VaR
- **Structuring of Aggregate XL (incl. re-designing of inuring reinsurances to save overall reinsurance spend)**

Programme marketing and placement:

2010-2012	Net losses	UW result	Structures	Reinsurance premium
As if 2013 Structures	15,027,076	5,148,971	As if 2013 structures	15,054,205
New structures with AGG XL	15,207,164	6,189,924	New structures with AGG XL	14,380,298
Difference	180,088	1,040,953	Saving	-673,907

→ **Increase of Net U/W result whilst reducing the overall reinsurance spend**

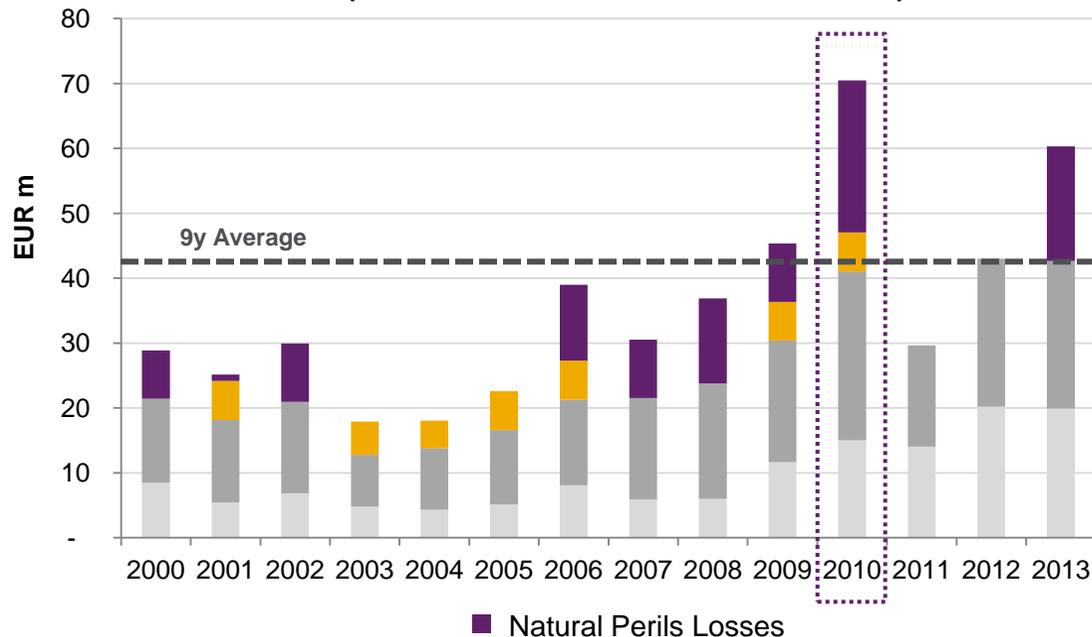
2) Retention Aggregate XL

Example B: Catastrophe Aggregate XL

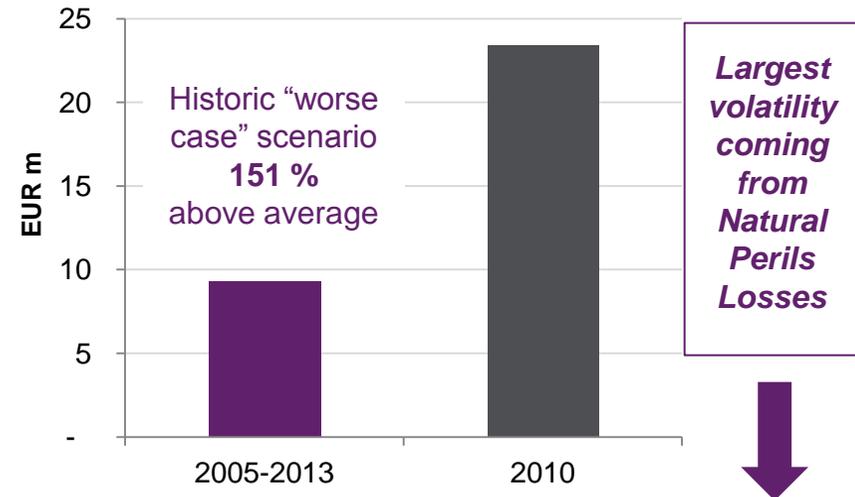
- Catastrophe Aggregate for a CEE company, incepted 1/1/2014
- 100% structured and placed by **Aon Benfield**

- Analysis started in April 2013 → Final structure fixed in March 2014
- Historic results on As-if basis + DFA modelling presented
- Finally simple benchmark gave directions to finalising the structuring process:

Original Net Losses per LOB
(after current reinsurance structures)



Natural Perils Losses



**Structuring and placing
Catastrophe Aggregate XL**

2) Retention Aggregate XL

Example B: Catastrophe Aggregate XL

- ✓ Programme covers company's **all net retained losses from Natural perils**
- ✓ Programme reduced the **volatility of net retained losses by more than 30%**
- ✓ On As-if basis would have been **hit 3 times in the last 10 years** and is placed below burning cost
- ✓ The **maximum exposure** to the company from Natural Perils losses NOW **equals two retentions** of their Catastrophe Excess of Loss
- ✓ The spent for the Aggregate XL **below 20% of the costs of the company's CAT XL cover**
- **Management of the company very much in favor of the deal and decided to convert it to 3-year-cover**

Time to summarize..

→ I showed how - in Reinsurance – we can combine several separate elements into an **Aggregate Excess of Loss** programme:

1) Various layers/sub-layers

2) Net retentions: Example A) Net retention of various LOBs
Example B) All net retained losses from Natural Perils

What is **Aon Benfield** bringing:

- ✓ **Transactional Track Record**
- ✓ **Expertise enabling us to model each line of business**
 - ✓ **Local CEE knowledge and large local claims database**
 - ✓ **Impact Forecasting modeling suite with extensive CEE coverage**



Thank you for your attention

AON BENFIELD