Aggregation and Other Reinsurance Issues

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Agenda

- Aggregation
- Dependencies
- Divergence
- Key Take Aways
- Questions?
Aggregation
Aggregation situation today

- Source of numerous disagreements over the years at both Insurance and Reinsurance level:
  - Conflicts of interest can exist between the positions taken by the original Insured, Insurer and Reinsurer
  - Contract language typically not robust enough to respond to every eventuality
  - Language doesn't always have a clear and universal interpretation in all jurisdictions/territories
  - Expectations are not always clear/realtistic (on both sides) – hindsight adjusting!
  - Pure "Risk" reinsurance covers will tend to rely on the original "per insured" interpretation
  - "Event" or other broader reinsurance covers present additional challenges
Solutions

- Attempted solutions have included:
  - "Bolt-on" approaches
  - Concoction of new phrases which don't have existing legal meaning/precedent
  - Use of set "Scenarios" to illustrate intended application of coverage
  - Extremes such as use of "sole judge" and "follow fortune" provisions

- Reaction to these have been very mixed from both Insurers and Reinsurers
Core issues around aggregation

- Aggregations arise from a number of angles:
  - Single "Risk" accumulations
    - Visible (target risks)
    - Invisible (unexpected)
  - Multiple "Event" accumulations
    - Clash of Insured or Clash of coverage situations
    - Localised events (same issue effecting numerous insureds such as a corporate failure or mis-selling scandal)
  - "Systemic" accumulations
    - Global systemic events (financial crisis, cyber-virus, etc.)
    - Macro economic trends (interest rates, inflation, etc.)

- Reinsurers must also deal with the further complications of inter-reinsured accumulations
Typical reinsurance aggregation language

- The definition of "Loss Occurrence" under reinsurance contracts is not standard and contracts can offer widely different language around their treatment of aggregation:
  - Event
  - Common Cause
  - Originating Cause
  - Related Loss
  - Causative Agency
  - Business Disaster
  - Claims Made Casualty Catastrophe
  - Broad/Enhanced Trigger
  - Integrated Occurrence
  - Sole Judge, etc.

  Generic/common use

  Proprietary/less common use
Typical Reinsurer risk appetite

- Aggregate XoL / Stop Loss
- Related Loss
- Originating Cause
- Common Cause
- Event

Scope of Aggregation

- Narrow
- Broad

Space & Time

- Loose
- Tight
### Why can Property do it? - Some fundamentals

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Property</th>
<th>Casualty/PI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time</td>
<td>Sudden</td>
<td>Sudden or gradual</td>
</tr>
<tr>
<td>Duration</td>
<td>Limited</td>
<td>Limited or Extended</td>
</tr>
<tr>
<td>Space</td>
<td>Localised</td>
<td>Localised or Global</td>
</tr>
<tr>
<td>Perils</td>
<td>Named or Physically Tangible</td>
<td>Legal Liability or economic</td>
</tr>
<tr>
<td>Exposure</td>
<td>Known values (TIV) Known limits</td>
<td>Unknown values Known limits</td>
</tr>
<tr>
<td>Modelling</td>
<td>Commercially available Sophisticated Tested PML calculable</td>
<td>Proprietary Variable Insufficiently tested PML's unreliable</td>
</tr>
</tbody>
</table>
How hard can it be?
Simplified exposure map – 1 Fund
So What Next?

- Expect far more interest/products in this area
- Industry and regulators increasingly aware of issues
  - Limited benefit for traditional covers under Solvency II proposals
- New products are emerging in this area which try to meet "essential" requirements;
  - Predict/Model
  - Quantify/Contain
  - Know/Respond
Dependencies
Reinsurers can have a high degree of dependency on a sometimes lengthy chain of counter-parties:

- This goes much further than just usual notification issues
- Need to obtain adequate information and regular updates
- Market performance has been very variable in this area
- It's challenging to predict development patterns or assess IBNR if there's nothing there!
Divergence
Divergence

- Diversification of exposure is normally good – it usually reduces risk
- Divergence of interests normally isn't – it can lead to conflicts
- Insurers are tending to retain more
- Over-riders and ancillary income can present conflicts to alignment of interest
- Business ceded to Reinsurers is increasingly diverging from business retained:
  - Small limits business is usually retained: Tends to be mostly stable/safer
  - High limits business is usually ceded: Tends to be more volatile/peak risks
- Overall presents fundamental challenges to insurer/reinsurer partnerships
Divergence: "Picture of Perfection Ins Co"

Assume client buys layer of £15M x/s £10M
Take Aways
Take Aways

Securing adequate Reinsurance coverage for aggregations is increasingly important as Insurers retain more exposure "per risk"

Dependencies present threats to the ability of the market as a whole to accurately assess and reserve for PI losses

Divergence is putting increasing pressure on traditional partnerships
Questions?
& Thank you
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