Bridging risk mitigation and insurance with structured solutions

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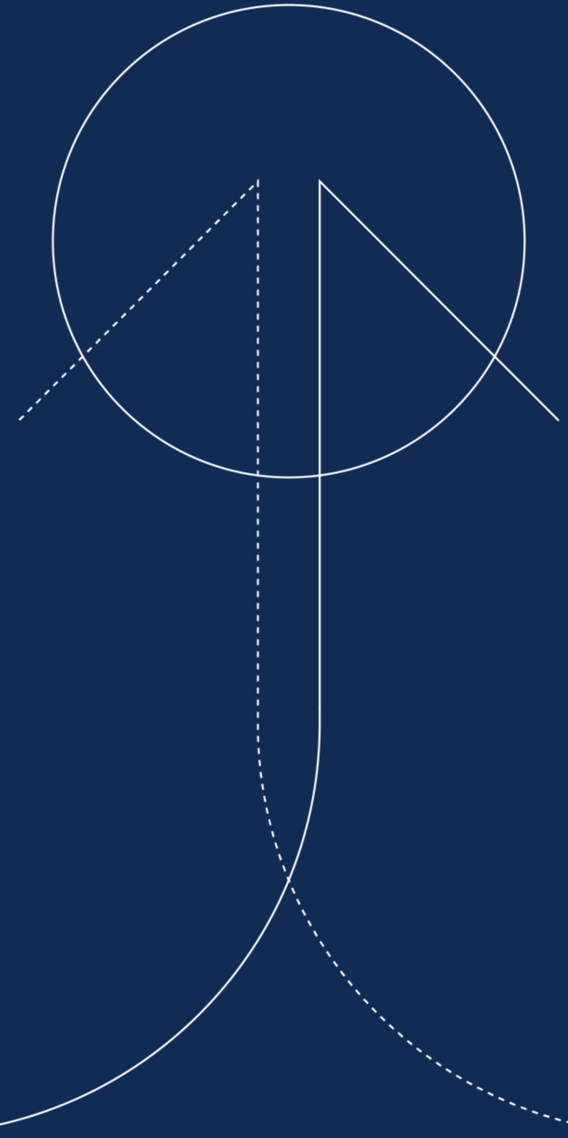

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The camel problem

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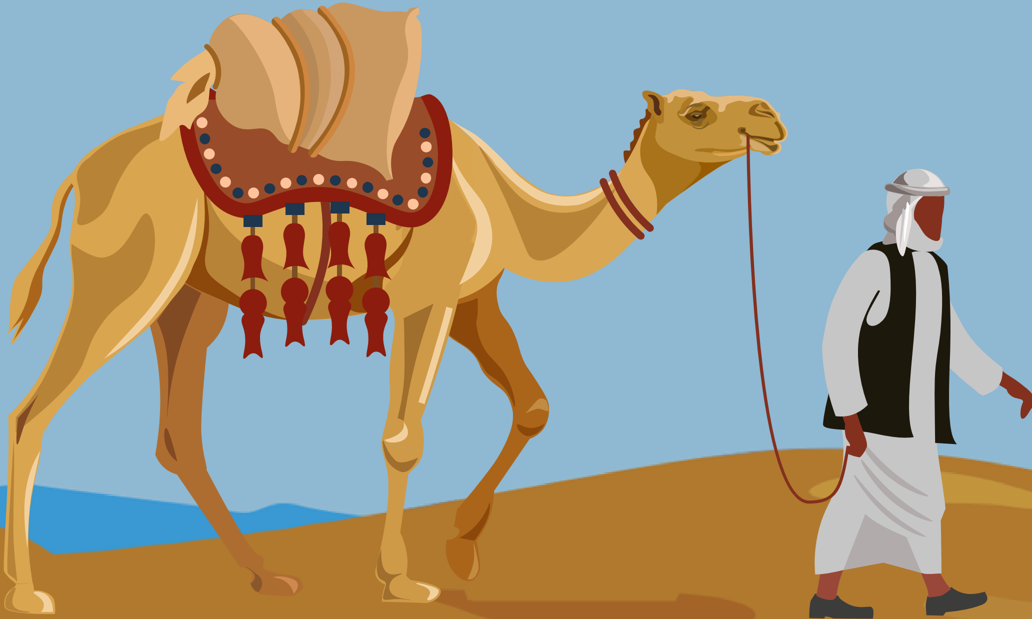

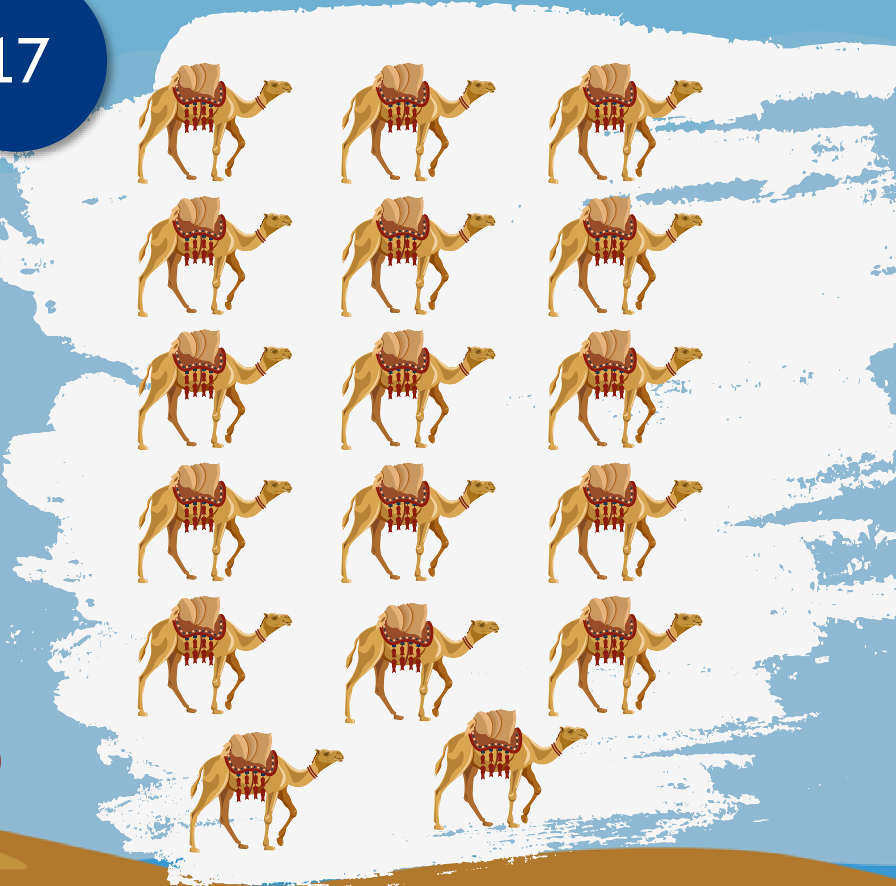

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The camel solution

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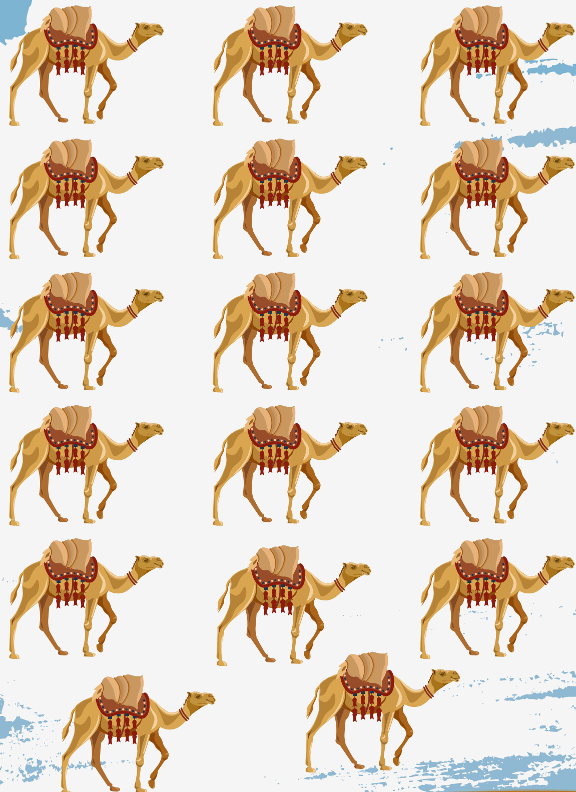

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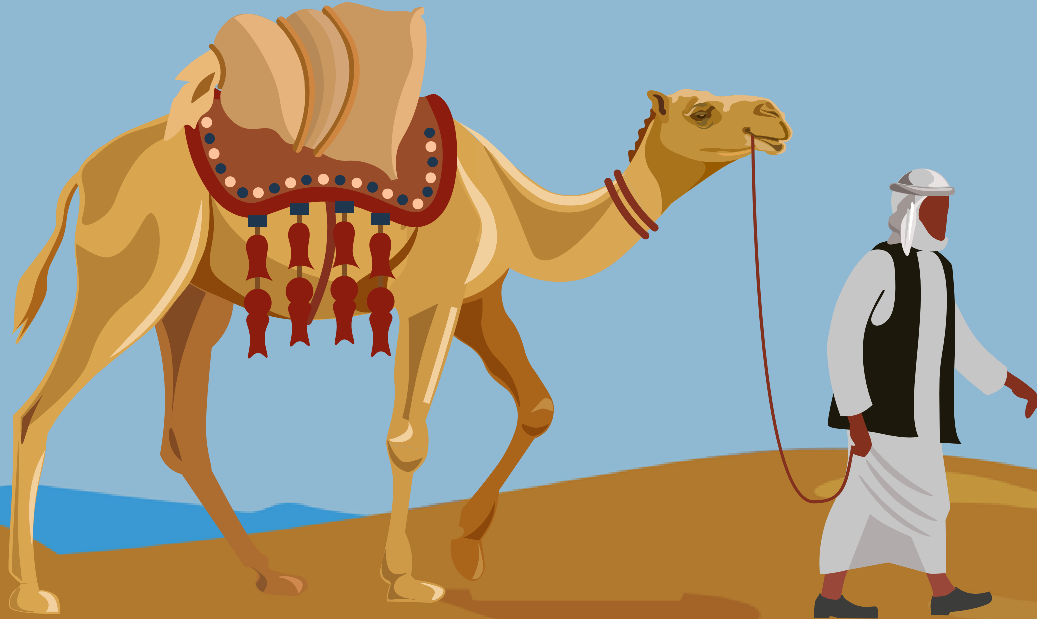

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What is structured insurance

Portfolio concept

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Traditional

The Law of Large Numbers

- portfolios of many “**LIKE**” risks
- Homogeneity is key
- Homogeneous risks are each a “trial”
- High trading volumes
- Stable demand-side

Collective risk spreading (solidarity principle):

- Predictable calculation base (frequency & severity)
- Homogeneous portfolios (standardized coverages and terms and conditions).
- A variety of exclusions (in order to achieve homegeneity and to avoid risk accumulation)

Structured insurance

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Multiline

Multiyear

Structured insurance creates a portfolio out of your business

Types of risk transfer

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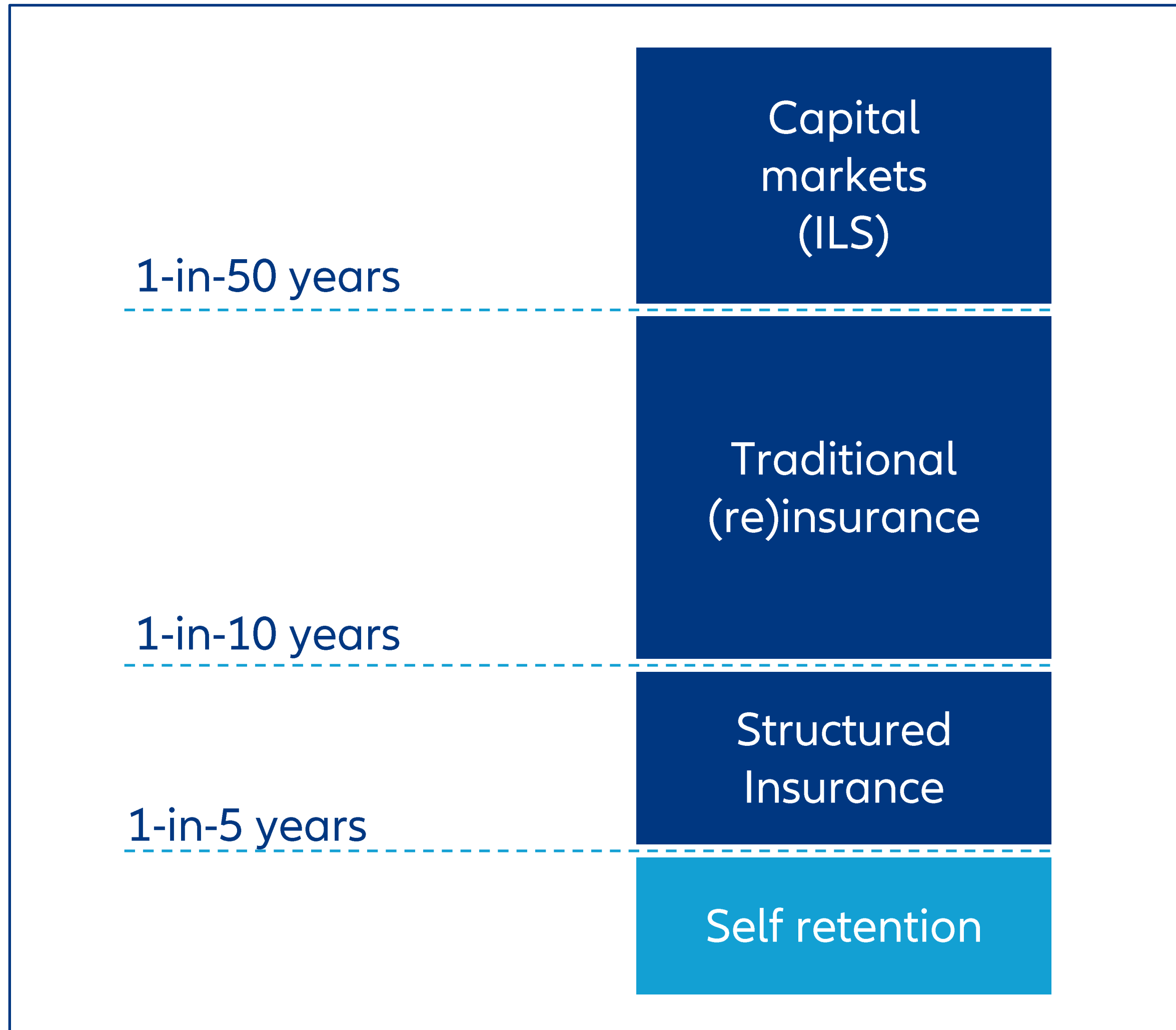
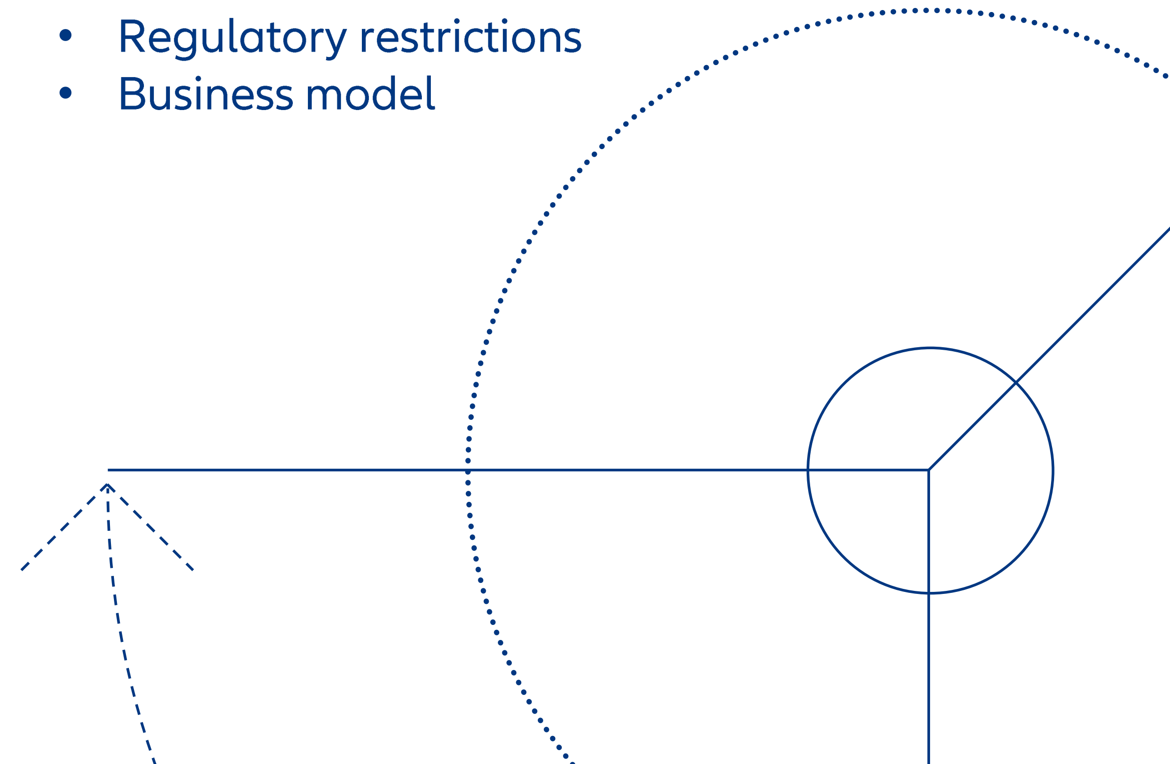


There is no universal risk transfer solution.

In each case insurance program is assembled based on various factors, among which are:

- Own risk appetite
- Market situation
- Regulatory restrictions
- Business model



Programme schematics

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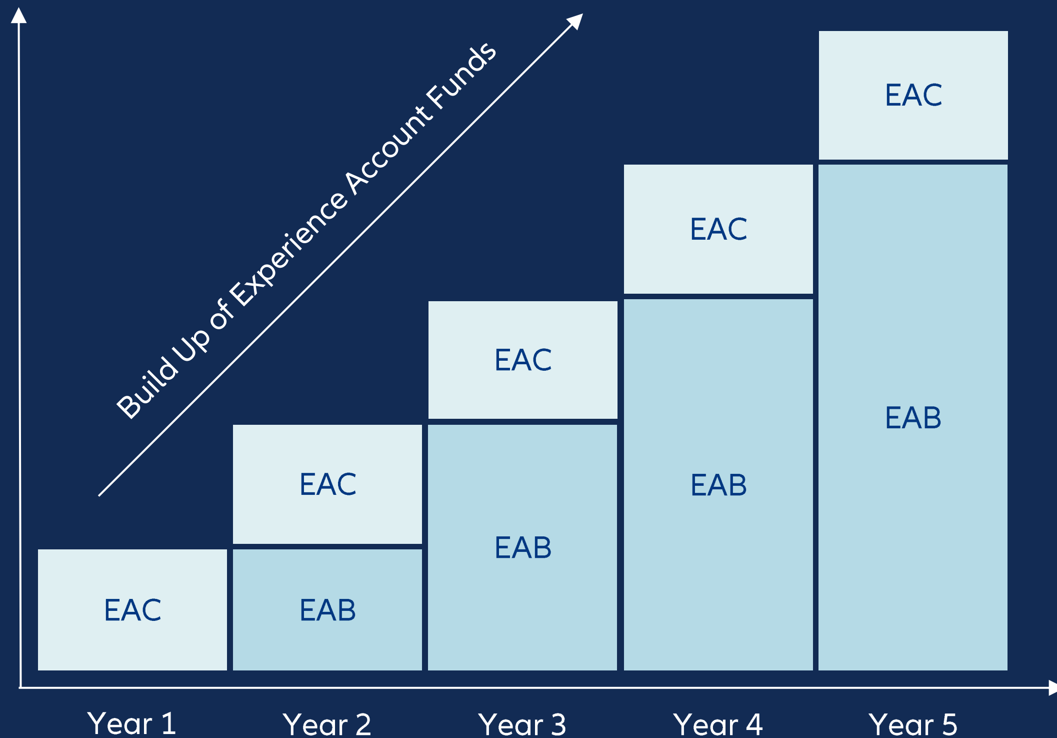

How does it work?

- Premium is split between:
  - Experience Account Contributions (or Loss Fund)
  - Insurer Margin (or risk transfer premium)
- Claims are paid out, in the first instance, of the accumulated Loss Fund until such funds are depleted, or the per occurrence/annual limit is reached.
- Any claim payment in excess of the Loss Fund would be paid by insurers, until the Limit is exhausted

EAB = experience account balance
EAC = experience account contribution

Programme schematics no claims example

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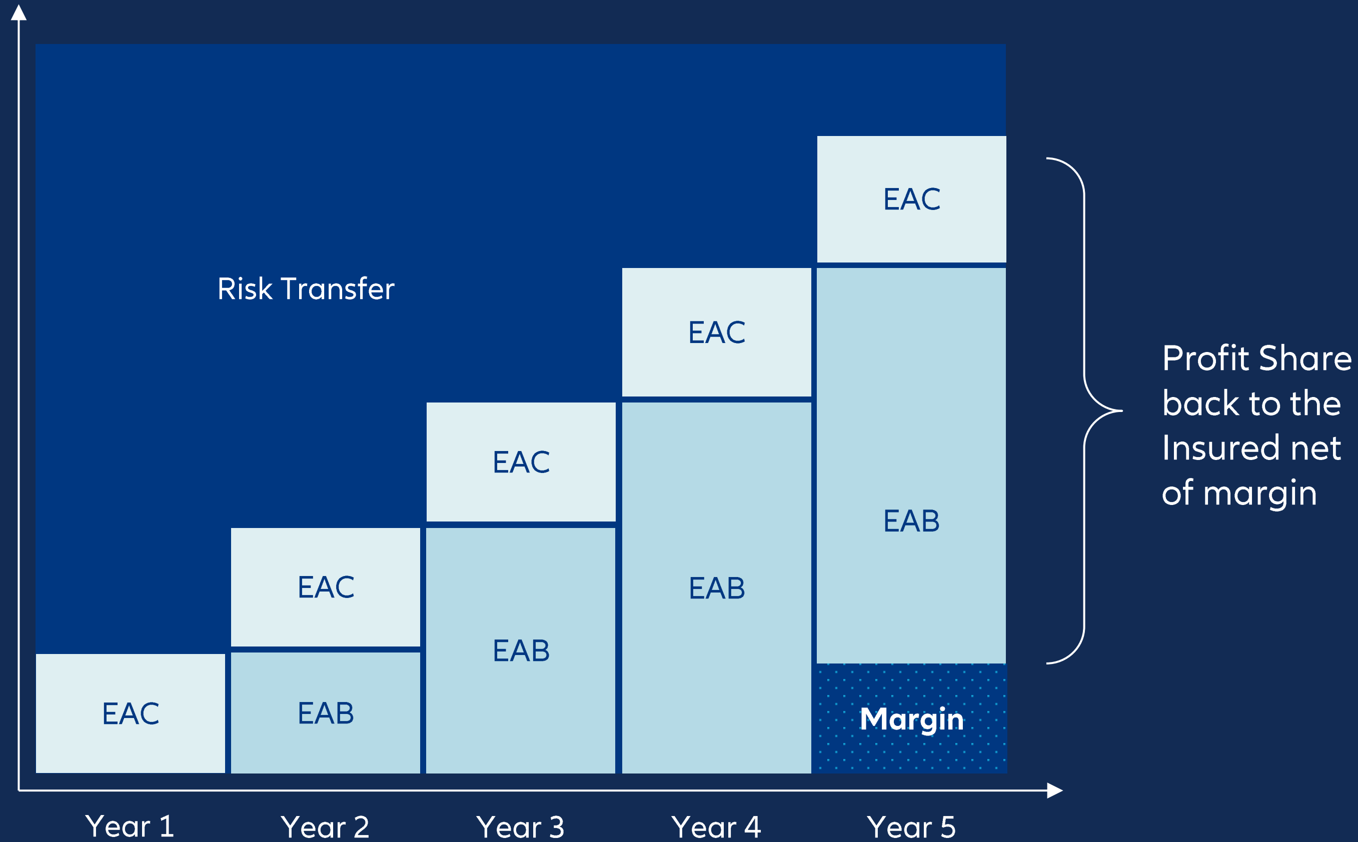

Profit Share back to the Insured net of margin

- Loss Fund builds up over the 5 years as no claims occur
- At the end of the period:
  - If there are still no outstanding claims, the Insured can commute the policy
  - Experience Accounts funds are released back to the insured as profit
- Net cost to the Insured, therefore, is the margin payment only

Bridging the gap to risk mitigation

Bridging the gap to risk mitigation

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A chunk of risk management budget flows out in form of insurance premium

Bridging the gap to risk mitigation

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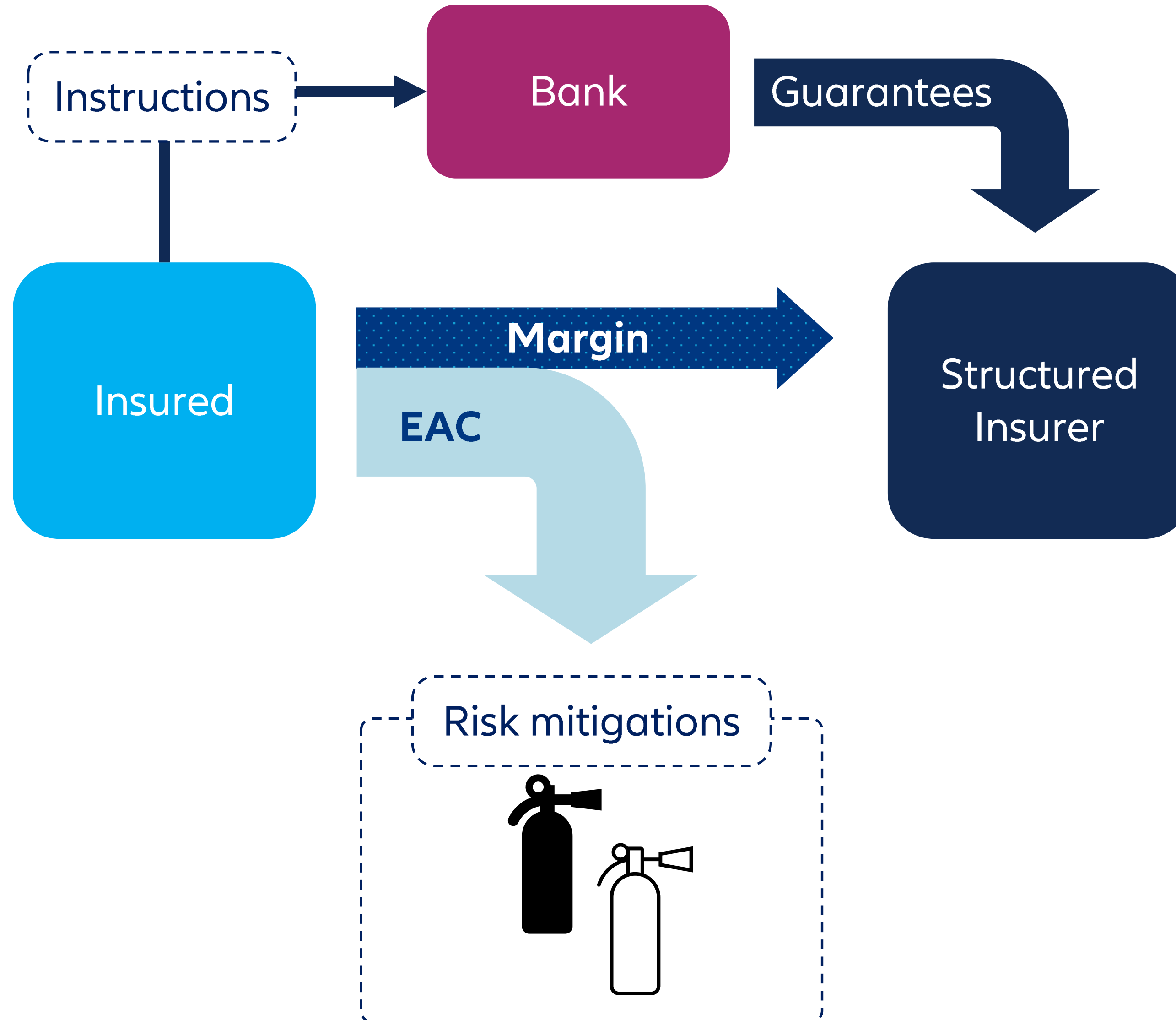

Only part of the premium is transferred to the insurer. The rest of the premium remains on the balance of the insured.

Cash remained on the balance of insured can be invested into risk mitigation, reducing the probability of losses.

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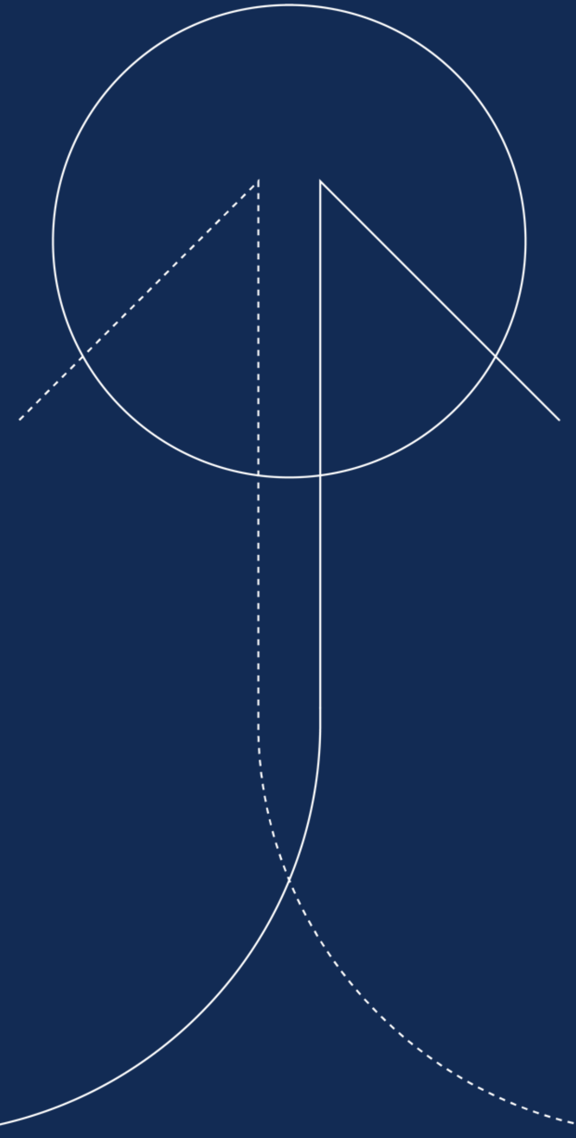
Examples



Example 1: optimise PDBI structure

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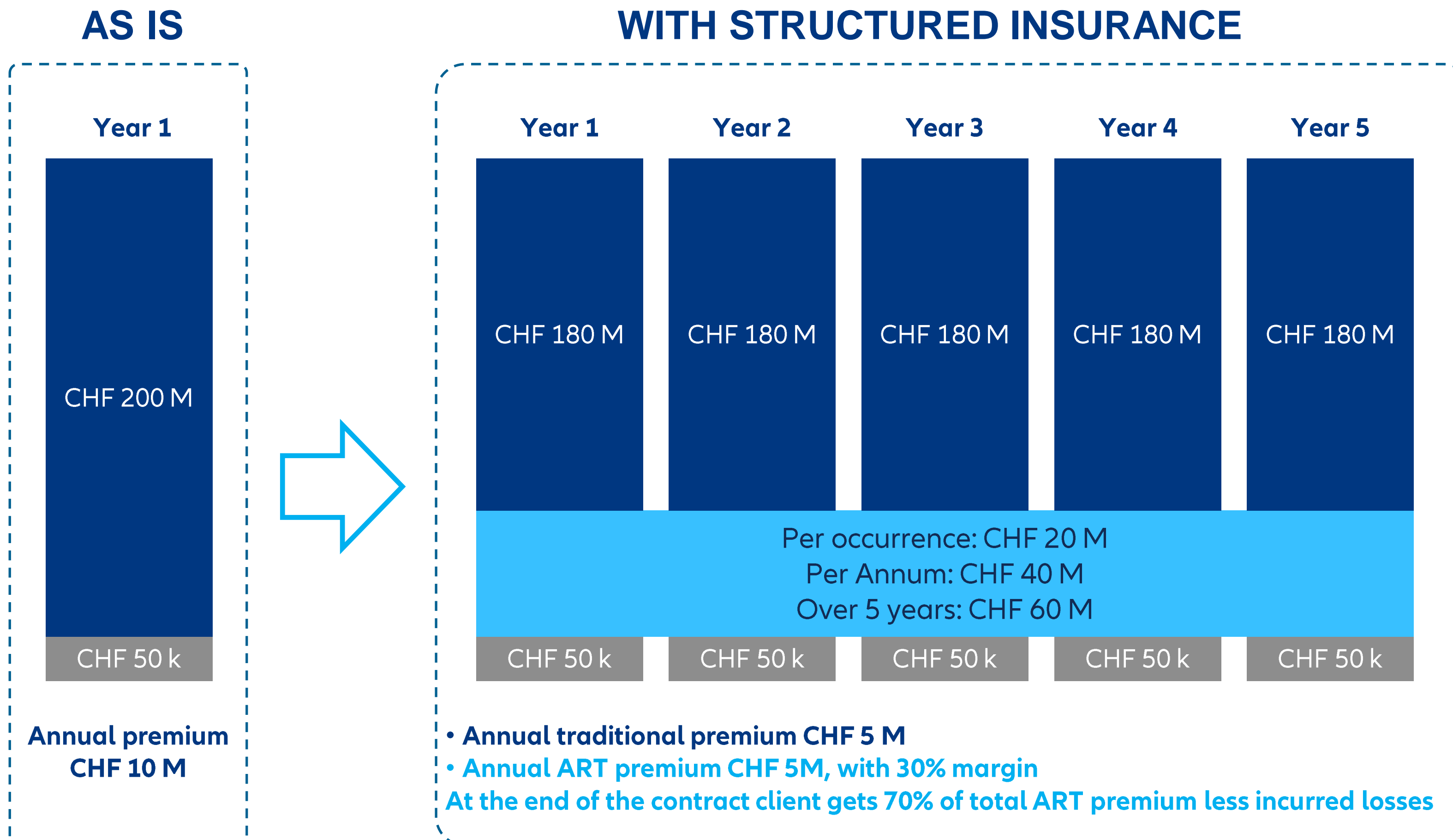

Introducing a structured multiyear contract into a PDBI insurance program allows to:

- **Benefit from positive loss experience, while managing the volatility**
- **Have additional negotiation factor with the primary insurers**
- **Be less dependent on market cycles**
- **Have more stable budget for insurance**
- **Manage local deductibles at desired levels**
- **Align insurance program with the strategy of the company**

Example 2: diversification benefit

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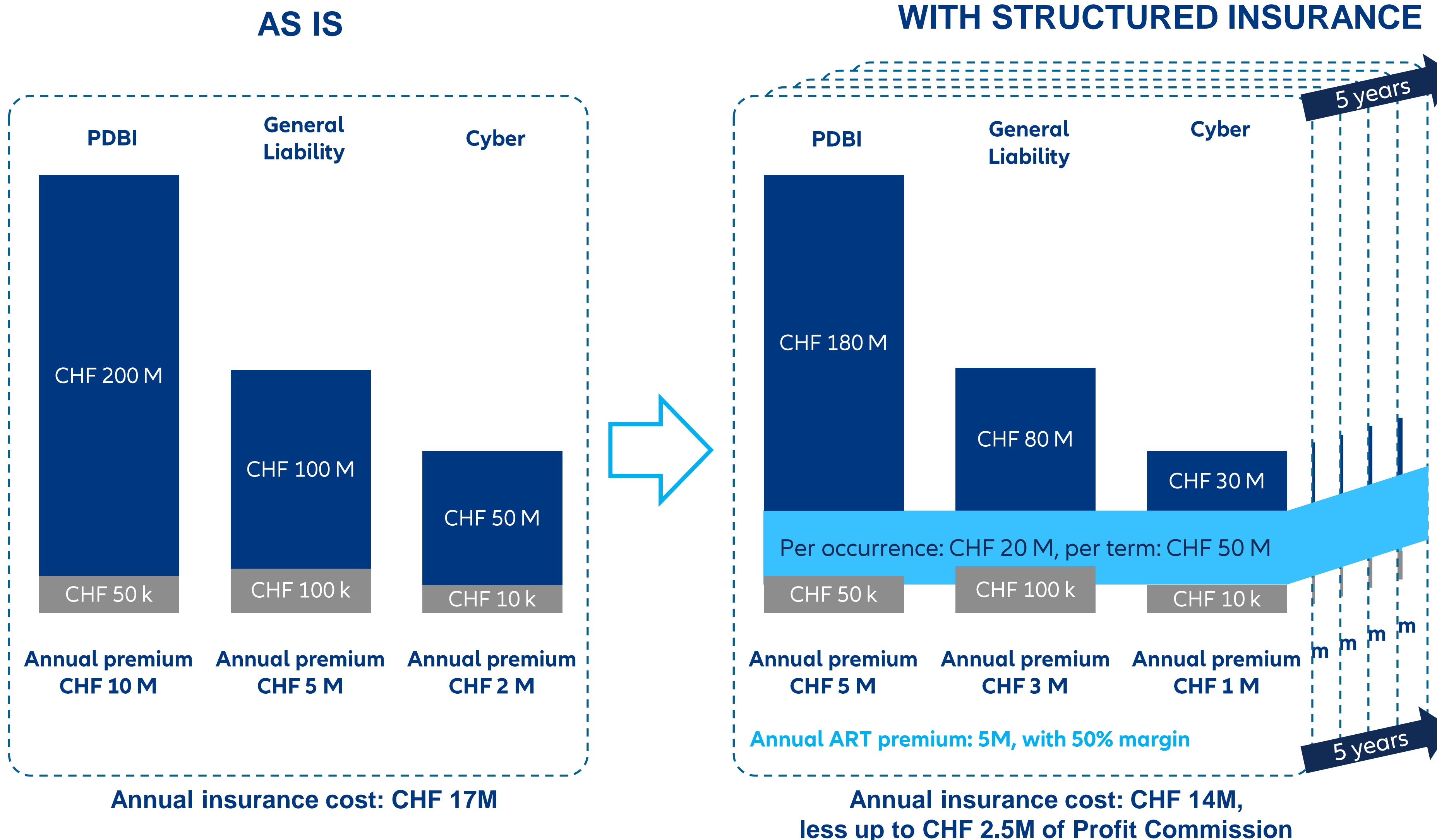
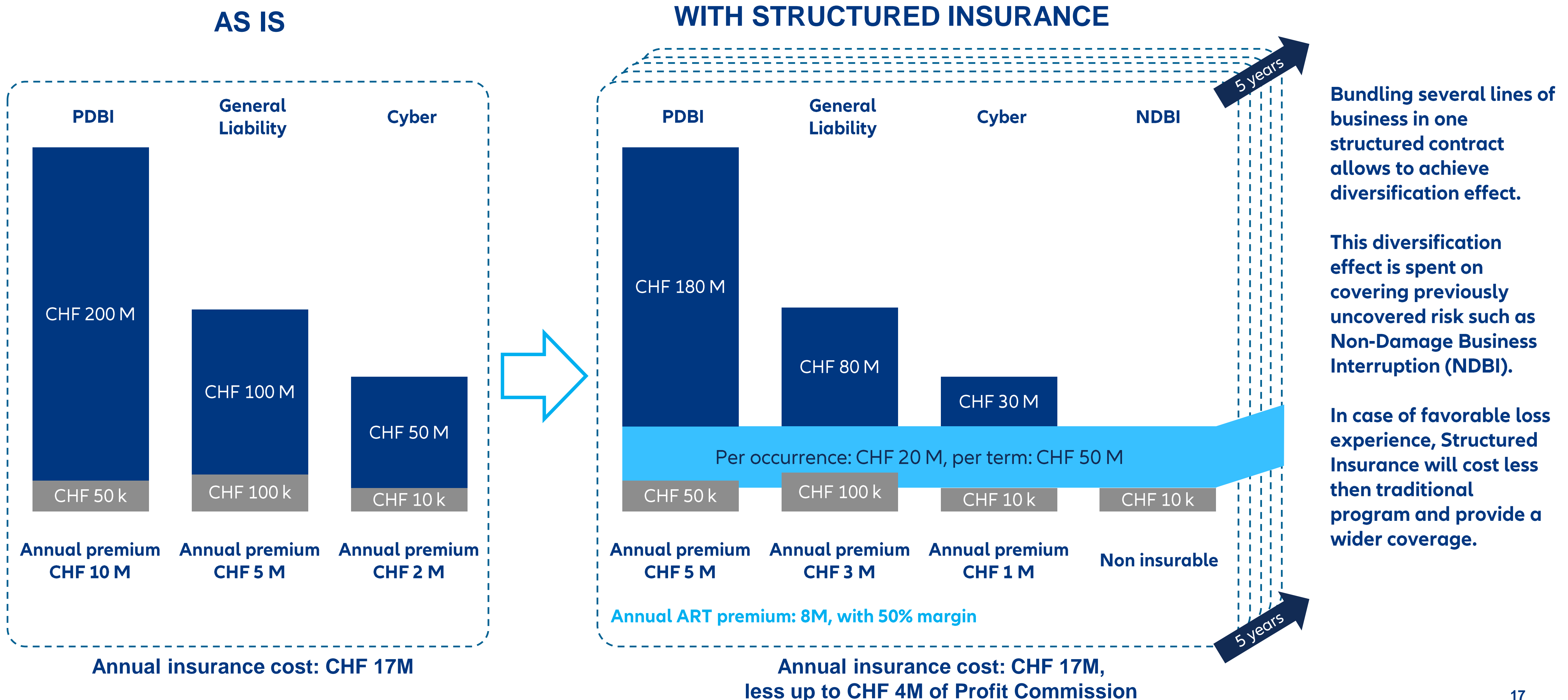


Bundling several lines of business in one structured contract allows to achieve diversification effect for the benefit of the client.

Same benefits as in Example 1 together with reduced insurance costs.

Example 3: bring-in uncovered risks



Structured insurance

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- Is a **multi-year** programme
- Has **multi-line** capability
- **Aligns interest** between insured and insurer as money saved in claims can be commuted back to the insured at the end of the period via **profit sharing elements**
- **Fixed annual premiums** provide **budgetary stability** for insureds in the most volatile primary area
- **Reduces capital/solvency requirements** of a captive
- Are **flexible** to the needs of the client and can include the ability to fund for **difficult/uninsurable risks**
- Combines a **stable funding mechanism with risk transfer**, which overtime can be used to increase retentions without increased capital injections

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