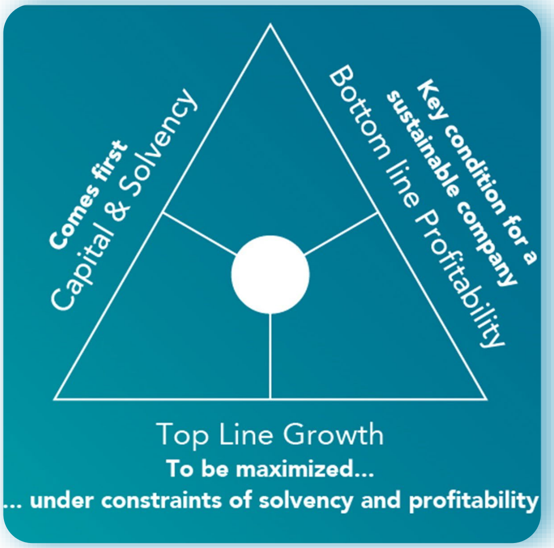
CAPITAL MANAGEMENT REINSURANCE



DID YOU KNOW?

REINSURANCE ALLOWS TO MAINTAIN OR TO RESTORE THE SOLVENCY RATIO WHILE REALLOCATING TRAPPED CAPITAL TO BUSINESS GROWTH OR DIVIDEND PAYMENT

Éric LE MERCIER
Chief Underwriting Officer
Alternative Solutions

To manage their solvency, companies can either increase their own funds (issue shares, raise debt) or reduce their capital requirement (reduce retained risk, improve diversification).

$$Solvency = \frac{Eligible\ Own\ Funds}{Solvency\ Capital\ Requirement}$$

The non-life underwriting “premium and reserves” risk is often the main driver of capital requirement. Proportional reinsurance efficiently mitigates that risk.

$$SCR_{NL,\ Premium\ and\ reserves} = 3 \cdot \sigma \cdot V$$

Volatility factor (based on benchmark)

Volume (BE of claims, premium) **NET of reinsurance**

Optimizing the cost of capital

- The capital requirement for a portfolio is actually lower when the risk is carried by a diversified company.
- Reinsurance allows a cedant to benefit from SCOR's internal model that recognizes the stability of a portfolio better than the Standard Formula.

REINSURANCE TO REDUCE THE CAPITAL REQUIREMENT

Rationale

- Under most risk-based capital regimes, a Quota Share solution efficiently reduces premium risk, providing substantial capital relief.
- A structured QS reduces the volatility for the reinsurer.
- A structured QS reduces the cost for the cedant.

Solution

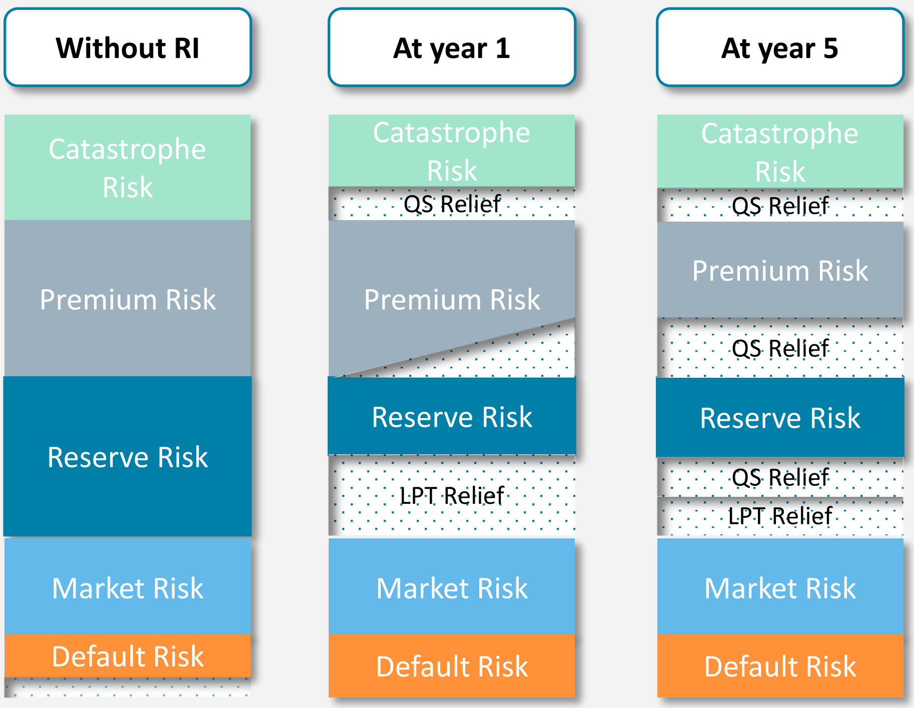
Most considered features:

- Rolling 2-year term
- Single or multiline
- Coverage of underwriting or accounting years
- Net of inuring XL reinsurance
- Funds transfer or funds withheld basis
- Non-linear ceding commission
- Predefined reinsurer margin
- Annual loss ratio cap above the 99.5% loss ratio

To go further

- Reserve risk can contribute significantly to the capital requirement, namely for long tail business.
- Retrospective cover (LPT) transfers this risk to the reinsurer.
- Combining prospective and retrospective reinsurance produces an immediate and lasting effect.

Capital requirement: benefit of a combined QS+LPT



- At inception, LPT has an immediate effect on reserve risk, while the QS has a progressive effect on premium risk.
- QS has progressively positive impact on reserve risk, while the benefit of LPT fades out.
- QS may also have a positive impact on Catastrophe risk.

ALTERNATIVE SOLUTIONS

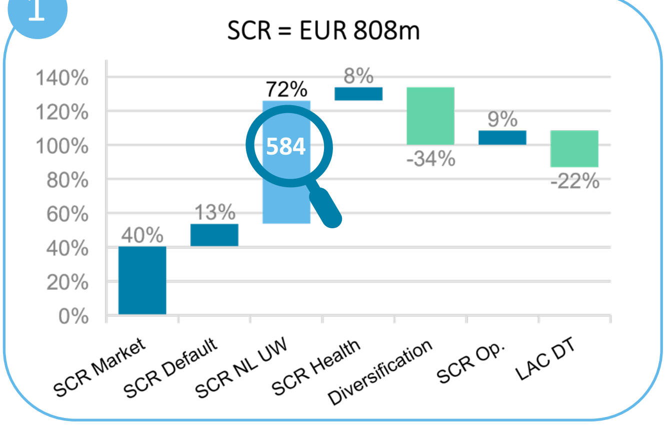
Capital Management Reinsurance

SCOR
The Art & Science of Risk

CASE STUDY

Capital management reinsurance targets the portfolios that contribute the most to the solvency capital requirement.

1



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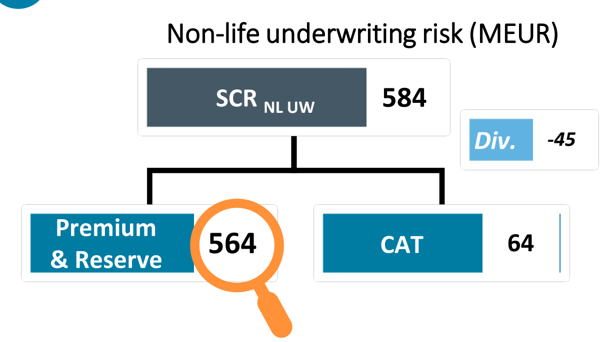

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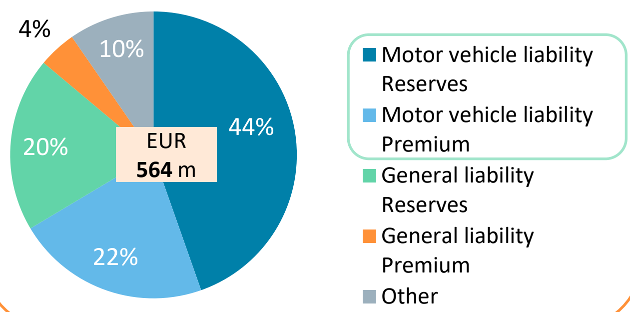
LoB contribution to $SCR_{NL, \text{premium and reserve}}$



Read: on this example, the 'motor premium and reserve risk' is the main contributor to the solvency capital requirement of the company. Ceding 40% of this portfolio's reserves and premiums would improve the solvency ratio by more than 20pt.

4

$SCR_{NL, \text{premium and reserve}}$ after reinsurance

MTPL premium cession rate (columns) / *MTPL reserve cession rate* (rows)

	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
0%	564	552	540	529	[illegible]	507	497	487	478	469	461
[illegible]	539	527	515	503	492	481	471	461	452	443	435
20%	515	502	490	478	467	456	445	436	426	418	410
[illegible]	491	478	466	454	442	431	420	410	401	392	385
40%	468	455	442	430	418	407	396	386	376	368	360
[illegible]	446	432	419	407	395	383	372	362	352	344	336
60%	424	411	398	385	372	361	349	339	329	320	313
70%	404	391	377	364	351	339	328	317	307	298	291
80%	386	372	358	345	332	320	308	296	286	277	270
90%	370	356	342	328	315	303	290	279	268	258	251
100%	356	342	328	315	302	289	277	265	254	244	234

MEUR	Actual	After RI	Gain
SCR Market	327	327	
SCR Default	107	107	
SCR Health UW	64	64	
Life underwriting risk	0	0	
SCR Non-life UW	584	439	-145
NL premium & reserve risk	*564*	*418*	-146
Non-life CAT risk	*64*	*64*	
Non-life laspse risk	*0*	*0*	
Non-life diversification	*-45*	*-44*	
Diversification	-274	-255	
Basic SCR	**808**	**682**	-126
Operational risk	69	69	
LAC DT	-175	*-150*	25
SCR	**702**	**601**	-101
Eligible own funds	950	950	
Solvency ratio	**135%**	**158%**	23 pt

The cost of Capital Management Reinsurance is competitive compared to debt or capital solutions, and reinsurance is far more flexible.

QS and LPT remain the most efficient under the standard formula capital model.

The combined LPT & QS cover is becoming increasingly popular in Europe.

Contingent QS is on the rise for its flexibility.

Capital management reinsurance also features other highly efficient tools designed to address specific situations, such as stop loss on internal model's output, future profit monetization, and so on.

ALTERNATIVE SOLUTIONS

Capital Management Reinsurance

SCOR
The Art & Science of Risk

HOW CAN WE HELP YOU?

The team, composed of highly experienced specialists leveraging the Group's worldwide presence and its strong local risk expertise, is dedicated to supporting our clients with state-of-the-art analysis and structuring capabilities.

A COMPREHENSIVE RANGE OF STRUCTURED SOLUTIONS

Alternative Solutions provides insurance companies clients with a wide range of structured and non-traditional solutions for the transformation, financing and transfer of their risks.

1 Solvency & Capital Management

- Solvency / rating enhancement
- Balance sheet strengthening
- Protection of solvency against adverse deviations

2 P&L Volatility Management

- Protection of performance
- Cash-flows stabilization
- Securing dividend payments

3 Fronting Solutions

- Access to captives
- Reinsurance fronting to access local subsidiaries
- ILS fronting

4 ESG Solutions

- Energy transition, performance risk, tax credit protection
- Societal resilience, housing, water supply, disaster emergency relief

5 Gap Covers

- Parametric / index based, for non-standard perils
- Unusual covers, including non-damage insurance

Contacts for Capital Management Reinsurance

Éric LE MERCIER
Chief Underwriting Officer
Alternative Solutions
elemercier@scor.com

ADVISORY & TECHNICAL FUNCTIONS

Jacky MOCHEL
Chief Technical Officer
jmochel@scor.com

Fanny ROSSET, Deputy CUO Reinsurance, Zurich
frosset@scor.com

Nizar FARHAT, Senior Underwriter, Paris
nfarhat@scor.com

Cyril NEYME, Senior Underwriter, New-York
cneyme@scor.com

Ji Sun PARK, Senior Underwriter, Singapore
jipark@scor.com

Thomas RENGGLI, Senior Underwriter, Zurich
trenggli@scor.com

Stève UDRIOT, Senior Underwriter, Zurich
sudriot@scor.com