ALTERNATIVE RISK TRANSFER

Structured reinsurance solutions

Alternative Risk Transfer (ART) provides bespoke alternative reinsurance solutions to insurance companies for insurance risk exposures that fall outside of traditional reinsurance market scope of products and practices

ART create specific prospective and retrospective structured reinsurance solutions for insurance companies at various stages of their business or life cycle that are designed to provide a more tailor-made method of coverage that is better aligned with the interests of both the Cedant and Reinsurer.

Areas of focus

- Capital Management
- Earnings Protection
- Frequency & severity of loss concerns outside of traditional Reinsurance focus
- Existing Claims Reserve Risk
- New Business Venture
- M&A
- IPO
- Regulatory concerns
- Financial Accounting/Rating Agency issues
- Optimization of Reinsurance Programs
- Traditional Reinsurance coverage gaps
- Unrecognized improvements in underwriting process by traditional Reinsurance Markets
- High Growth Portfolios
- Alignment with Company Business Plan
- Solvency Capital concerns
- Clash Coverage
- Combine per risk & event coverage
- Exit a line of business segment

Prospective reinsurance solutions

Structured Quota Share

There are a number of reasons, why companies are looking at structured quota share solutions, for example a new business segment or venture is being launched for which there is no historical experience or exposure to and is subsequently outside of the traditional reinsurance market risk appetite zone. Or a Company has made drastic improvements to overall risk rating, claims risk management and/or the overall underwriting process and not getting credit for it from traditional reinsurance markets. Another example would be a situation where a suddenly tightened regulatory environment (RBC II, Solvency II, IFRS) is producing higher cost of capital (S&P, BCAR) requirements that creates the potential need for an additional capital infusion in order to maintain a risk neutral capital position and no detrimental rating agency impacts.

Standard & Poor's

AA

A.M. Best

A+

Other motivations could be insufficient capital to write new business or highly leveraged policyholder surplus positions. Structural features include:

- Per Risk LoB Loss Ratio Sub-limits
- 1st, 2nd, 3rd Event Coverage potential below traditional reinsurance program
- Per Occurrence/Annual/Term Aggregate Loss Ratio Limit
- Material Change in Loss Exposure Mix of Business Adjustment Premium Adjustment
- Cancel/Re-write option
- Swing-rated/Deferred Ceding Commissions
- Minimum Reinsurer Margin
- Profit Commission

Prospective reinsurance solutions

Multi-Year, Multi-Line Aggregate Excess-Of-Loss

These type of solutions offer help in scenarios, where a company is not getting credit for good years or a fundamental material positive change in underwriting results and seeks a structured alternative that will allow for a sharing of the profits. Another example is a material shift in increased frequency and/or severity of loss at working layer levels that has made the price for increased traditional reinsurance coverage cost prohibitive and the company seeks a more suitable less expensive bespoke structured risk alternative solution reinsurance cost structure. Whilst every deal is unique, some challenges are best met with ART structures to create optimal efficiencies, for instance in cases where the company has performed internal DFA modeling risk optimization schemes and is looking to optimize their reinsurance program by converting their entire Property and/or Casualty program to a multi-year Whole Account Excess of Loss basis and in the process get more vertical or sideways protection at a better price. Finally these solutions are useful for gaps in reinsurance coverage due to clash coverage issues or traditional reinsurance market's inability or unwillingness to provide coverage due to regulatory risk, event risk, market shocks or changes to the insurance operations and underwriting process that have materially affected the risk profile of the company. Structured features include:

- Variable Attachment Point & Limit by line of business
- Commutation Triggers
- Overall Annual/Term Aggregate Loss Limit
- Per Risk/Event Max Loss
- Annual Aggregate Deductible
- Franchise Deductible
- Drop Down & Floating Retention
- Loss Corridor/Co-reinsurance
- Initial Deposit Premium/Additional Premium/Return Premium ('Swing')
- Minimum Reinsurer Margin
- Experience Account
- Nominal Interest Credit
- Funds Withheld vs Funds Transferred
- Cancel/Re-write option
- Maintenance Fees
- Profit Commission

Aggregate Stop Loss

These solutions are very popular in cases where a customer seeks to stabilize earnings at the net retained line level, protect their earnings position due to ongoing or eminent solvency capital concerns, or wants to procure the company's overall net target or planned combined ratio and strategically align the overall business plan with their reinsurance program. Another example is a net retained line coverage designed to protect the Cedant from unexpected or unforeseen loss risk that falls outside the scope or risk appetite level of the traditional reinsurance market. Structural features are manyfold and can include:

- Net Retained Line Coverage
- Net Loss Ratio attachment basis
- Last-to-pay - all other reinsurance coverage insures to the benefit of the aggregate stop loss
- Company target combined ratio attachment point potential
- Prioritization of ceded loss
- Drop down/Floating Retention
- Loss Corridor
- Co-reinsurance
- Initial Deposit Premium
- Deficit Premium
- Minimum Reinsurer Margin
- Experience Account Balance
- Stated Nominal Interest Credit

Retrospective reinsurance solutions

Loss Portfolio Transfer

This solution focuses on scenarios where a customer wants to improve their excess surplus capital position or their fair value assessment in an M&A situation, exit a line of business or remove highly problematic claims reserve liabilities. Structural features include:

- Transfer of current and future loss reserve liablities on existing claims
- Reinsurance premium consists of a charge for the time value of money associated with the loss reserves plus a reserve volatility charge plus a profit and expense load.
- Aggregate Ceded Loss Limit
- Maintenance Fees
- Special Commutation Triggers

Adverse Development Cover

There are a number of benefits these type of covers can offer. Adverse development covers can provide immediate capital relief for reserve liabilities associated with onerous regulatory cost of capital requirements. They can protect future earnings from further or unexpected reserve deterioration or acceleration of reserve settlements for medium to long-tail lines of business and they can create a safety margin and improve a company's security rating and shareholder value by transfering future claims reserve liablity risk to the reinsurer. Structural features include:

- Transfer of future loss reserve liablities on existing claims
- Attaches at, above or below carried loss reserves
- Reinsurance premium reflects the potential for adverse development of loss and consists of a charge for the expected loss ceded plus a reserve volatility charge plus a profit and expense load.
- Maximum Ceded Loss Limit
- Maintenance Fees
- Special Commutation Triggers

About Allianz

Allianz Commercial is the Allianz center of expertise and global carrier for insuring mid-sized businesses, large enterprises and specialist risks. Powered by the people, financial strength, and network of the world's leading insurance brand, we help our customers prepare for what's ahead.

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