RIMS 2019

The search for stability in an unpredictable environment
# MARKET ENVIRONMENT

An evolving landscape

## BROKER CONSOLIDATION
- Major Global Broker acquisition and integration
- Material shift in composition of Cluster Groups
- Continued strategic acquisition of smaller, independent broking entities
- Continuing acquisition of strategic and major teams within segments

## REGULATORY & LEGAL ENVIRONMENT
- Hayne Royal Commission and associated regulatory actions reinforcing strong focus on consumer outcomes
- Government/ASIC review to be conducted by 2021 will challenge the traditional broker commission structure
- NIBA has already responded by commissioning a report from Deloitte to provide evidence of the role and value of brokers
- Class Action environment continues

## CHANGES IN BUSINESS PRACTICE
- Increased use of contested Platforms & Facilities
- Increase in market discussions around Captives, Integrated & ART structures
- Retraction of capacity in some areas of Underwriting Agencies outside of niche and very specialist areas
- Insurance market investing in technology to create efficiencies & improve broker / customer experience – SME and Mid Market

## INSURANCE CARRIER INFLUENCE
- Carrier uncertainty remains with remediation of portfolio’s, scaling back of capacity or complete withdrawal from certain lines and markets
- Lloyd’s capacity management structure impacting overseas business and MGA support
- Overall much less focus on top line growth versus return to profit
MARKET DIRECTION
Capacity contracting whilst rates are increasing

<table>
<thead>
<tr>
<th>Rate</th>
<th>Retention</th>
<th>Capacity</th>
<th>Details</th>
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</thead>
<tbody>
<tr>
<td>Property</td>
<td>15-20%</td>
<td>Increasing</td>
<td>Tightening</td>
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<tr>
<td>Casualty</td>
<td>5-10%</td>
<td>Flat</td>
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<tr>
<td>Financial Lines</td>
<td>25%+</td>
<td>Increasing</td>
<td>Tightening</td>
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</table>

- Major brokers have reported rate increases for 10 consecutive quarters in the Pacific region.
- Hardening market conditions expected to continue for 12-24 months.
- Insurers focused on profitability and reducing volatility.
- Restricted Capacity in the London Market.
- Increased scrutiny of underwriting submissions with requirement for more granular data.
- Coverage, terms & conditions more restrictive.
- Capacity & competition remains for non-loss affected / desirable risks.
IN THE MARKET
What factors can an insurance buyer control?

• Retained amount of Working or Attritional losses
• Application of Business Unit deductibles to drive Group Risk Culture
• Operational risk management and capital spend
• Risk Mitigation using Risk Engineering, benchmarking data and claims insights
• Understanding the portfolio view of total cost of risk and exposures
• Consistency of coverage between Local and Master coverages within Global Programmes
• Negotiate Claims Handling and other service-based activities as required
• Potential to leverage scale and purchasing power
MONO LINE ANNUAL TOWERS
Traditional Insurance Programme

- Property
- Casualty
- Professional Indemnity
- Marine
- Crime
Typical Monoline Annual Insurance Programme
Advantages and disadvantages

Advantages

• Allows access to specialist markets and brokers, e.g. Aviation Hull, Cyber and EIL
• Simple structure which is easily understood by businesses
• A good mechanism of risk transfer where Risk Management is harder to control
• Diversity of placement

Disadvantages

• No opportunity to spread retention or limit for non correlating risk
• Annual expectation for full underwriting submission per line, together with market pricing volatility/uncertainty e.g. Property and some Financial Lines currently
• Timing of renewal certainty often out of line with Board or Risk Committee requirements
• Little opportunity to apply a portfolio approach
So what are the alternatives?
Example: A Cross Class Programme including Captive

Captive Layer
Captive retains 100% of an Event Limit and/or Aggregate

Local operating deductibles
Cross Class Captive Programme...
General Benefits of Cross Class

- Makes use of Risk Diversification by exploiting effect of non/low correlating risks
- Efficient use of captive capacity – no long tail/short tail split
- Maximise retention and smooth exposure across a basket of exposures
- Builds up reserves to increase risk-bearing capacity over time within Captive
- Provides direct access to reinsurance markets to provide flexibility within Captive retentions
- All frequency losses still retained
- Reduction in frictional cost
- Risk Transfer for CAT and very large exposures only
- Long term sustainability
- Only one reinsurance agreement and contract is required
Example: A Cross Class Programme – Discretionary Trust...

- Property
- Marine
- Crime
- Motor
- Liability

**Trust Insured Layer**
Trust retains an Annual Cross Class Aggregate

**Local operating deductibles**
Cross Class Programme – Discretionary Trust...

General Benefits of Discretionary Trust

- Broad cover specific to each industry protecting risks beyond the scope of traditional cover
- Fund is built using contributions, not premiums
- Discretionary claims decisions
- Members may share in surplus profits
- Rewards for good risk management
- Ability to retain risk without the regulation attached to Captive Insurance solutions
## An Integrated Insurance Programme

The component parts of an Integrated Programme

<table>
<thead>
<tr>
<th>Excess Capacity</th>
<th><em>Excess coverage above traditional insurance layers and any underlying integrated programme to add any additional capacity still required</em></th>
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</thead>
<tbody>
<tr>
<td>Integrated Programme</td>
<td><em>Single contract issued for up to a three-year term with variable limits and ability to cover multiple lines within one structure</em></td>
</tr>
<tr>
<td>Traditional Insurance</td>
<td><em>Variety of traditional coverages</em></td>
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<tr>
<td>Self Insured and/or Captive Retention</td>
<td><em>Ground up retentions or deductibles which apply as part of risk management programme or first dollar coverage primary policies</em></td>
</tr>
</tbody>
</table>
Example: An Integrated Insurance Programme
Defined Event Limit with Annual and Term Aggregates

Multi-year program that allows customers to spread a single block of coverage across multiple lines of business. This example includes a Basket Aggregate Protection for the various retentions.

Integrarated Limit Example:-
A$ 50m Any One Event
A$ 50m Any One Period
A$ 75m Term Aggregate
Example: An Integrated Insurance Programme
Defined Event Limit with Annual and Term Aggregates

Multi-year program that allows customers to spread a single block of coverage across multiple lines of business. This example sits excess of self insured or Captive coverage only.

Integrated Limit Example:
- A$ 50m Any One Event
- A$ 50m Any One Period
- A$ 100m Term Aggregate
Integrated Insurance Programme

General Benefits of Integrated Deals

• Program Annual & Term Aggregate Limit Structure
  - Applies to the entire program
  - Each LOB will have a separate limits structure subject to the program’s Aggregates
  - Relationship between the limit structures are a key component

• Multiple Year Term
  - Extended typically over a three-year term, which provides the insured the ability to manage cost over time

• More efficient use of insurance capacity – benefits of non-correlated risks
• Program design entirely linked to your business risk appetite
• Catastrophic limits spread across multiple lines
• Coverage for a myriad of exposures in a single solution – Minimum 2 lines of business required
• Administrative efficiencies
• Optimisation of retentions
• Option to create a Basket Aggregate Protection which helps control the level of customer retained loss in a given period
Which customers would suit a Cross Class or Integrated style deal?

- Long term outlook on Total Cost of Risk
- Strong focus on risk management culture and understanding of risk volatility
- Has a portfolio of non/low correlating risks
- Has critical mass of premium/claims
- Wants to exercise greater control over risk financing and allocation of capacity
- Wants more control on how to place insurance as prices fluctuate during the market cycle
- Defined and clear risk appetite
Cross Class and Integrated insurance programmes are fully bespoke multi-line, multi-year risk transfer solutions best suited to organisations with a sustainable and long-term approach to optimising total cost of risk.

They represent a highly customised offering, providing protection for various levels and attachment of risk:

- Tripartite relationship programme design and application of insurance capacity
- Deliberate use of traditional products to create and preserve market stability
- Achieve cost benefits through risk financing, retention and transfer to best manage insurance risk over time
- Fully compliant with all accounting and regulatory requirements
Questions?