

Morgan Schaeffer

Swiss Insurance Club

Insurance-Linked Securities: Overview

18. September 2008

Agenda

Securitisations in general

Structure & mechanisms

Benefits to insurance companies

Securitisations in general

Definition

Securitisation

- **Process** that involves the **isolation of a pool of assets** or rights to a **set of cash flows**

and

- **the repackaging into securities traded in capital markets.**

Securitisations in general

History and development

70's:

Securitisation of mortgage loans in the US.

80's:

1985: securitisation of other types of assets:

- automobile loans
- credit card receivables
- commercial mortgage loans...

1988: 1st securitisation involving insurer: sales of rights from life policies and annuities

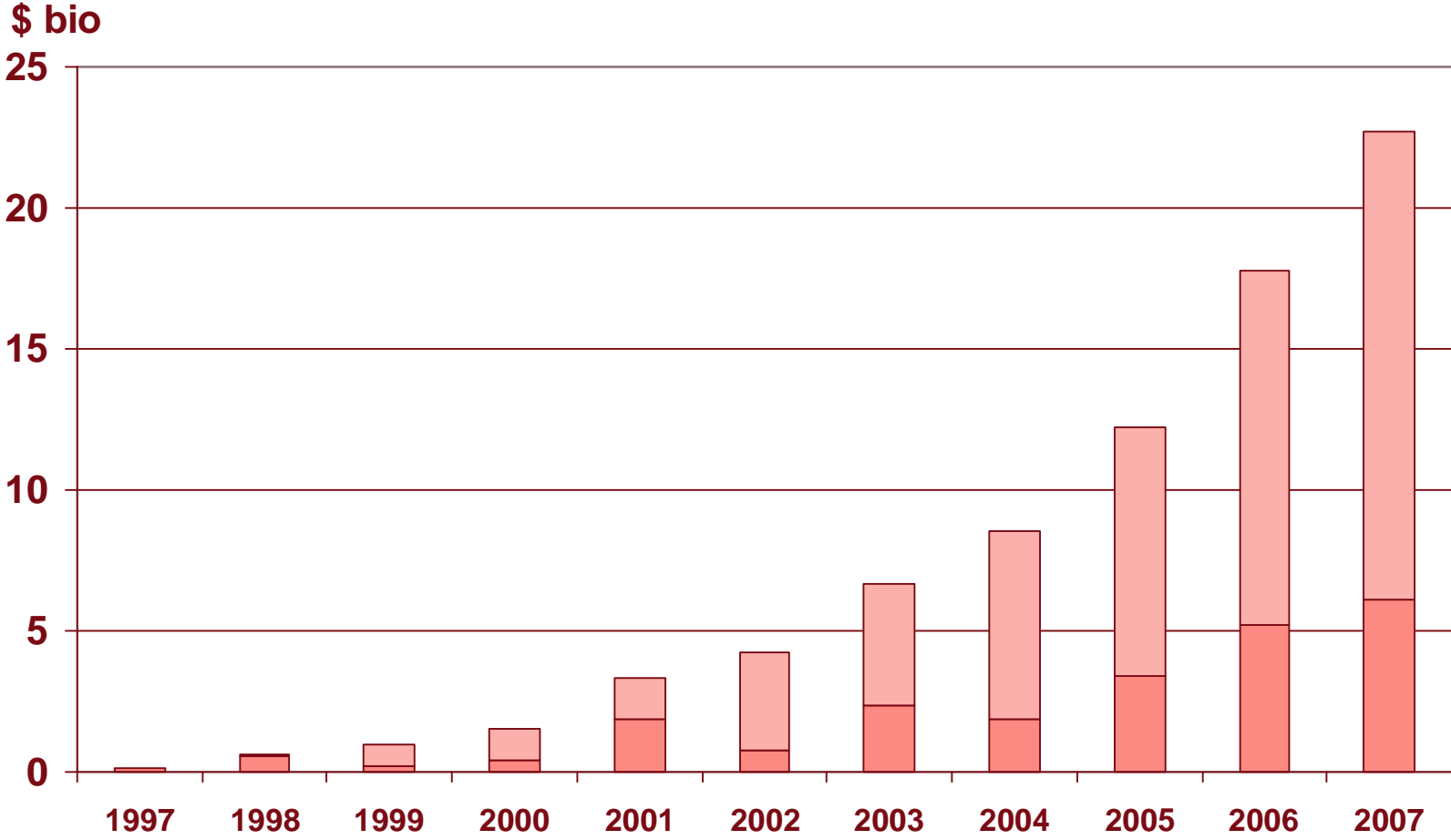
90's - now:

1992 – CBOT: futures contracts securitising property losses from natural catastrophes

Various CAT risk securities

Increasing volume of life insurance and annuities securitisations

ILS Market: life securitisations

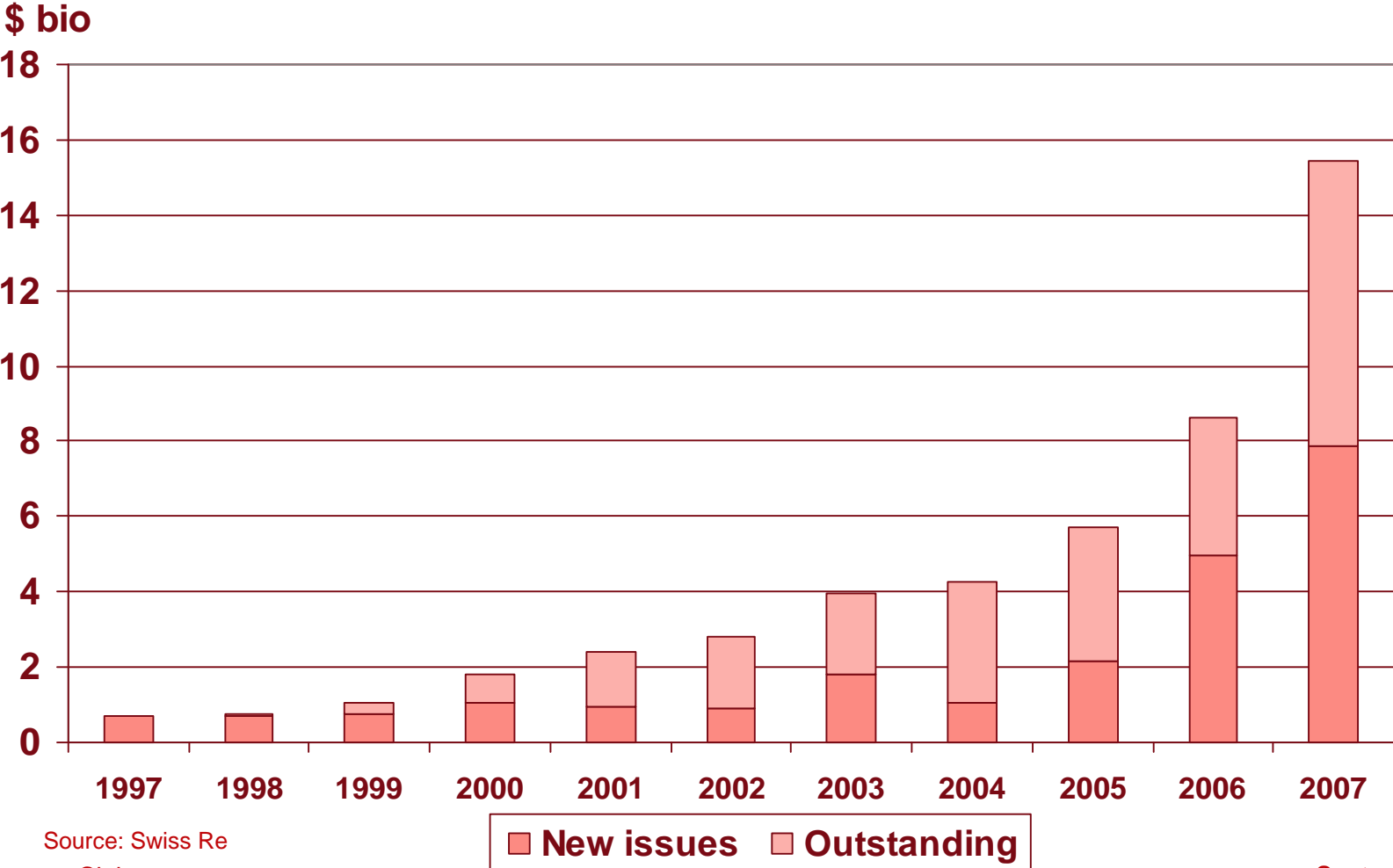


Source: Swiss Re

New issues **Outstanding**

Securitisations in general

ILS Market: non-life securitisations



Source: Swiss Re

Securitisations in general

Examples of securitised risks

Hurricane/Typhoon



Tornado



Earthquake



Mortality/Longevity



Morbidity



Auto Insurance



Flood
Terrorism,
PVFP, DAC

And many others...

Agenda

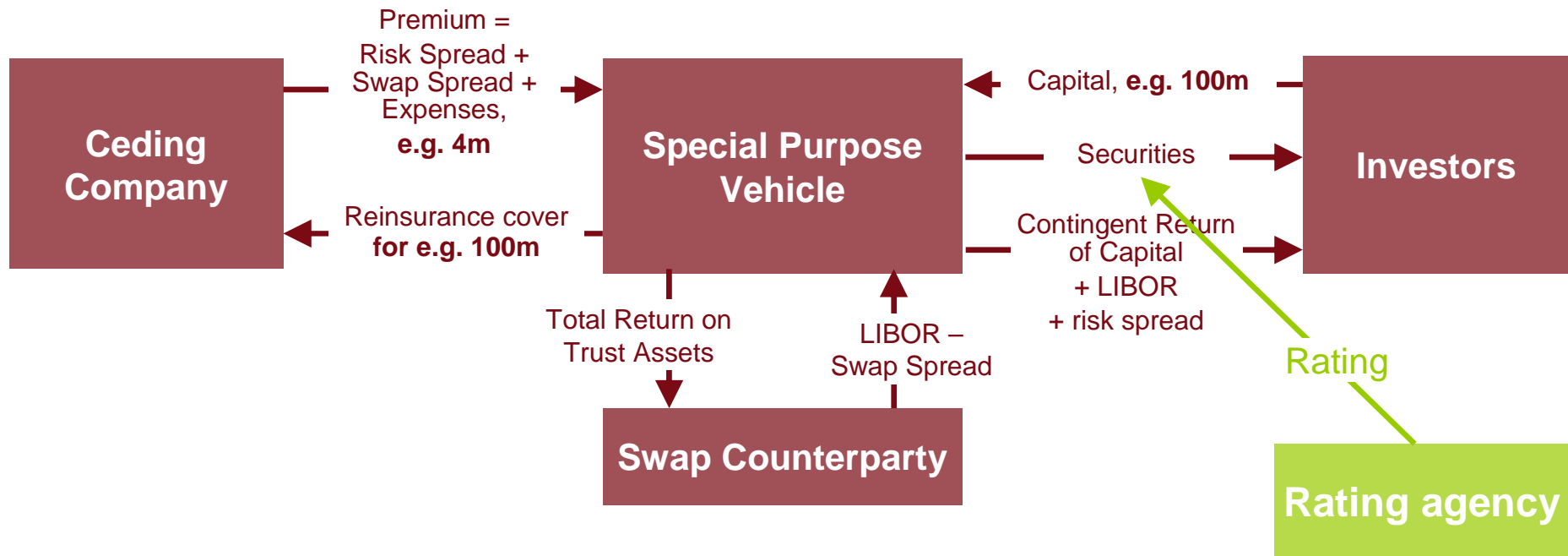
Securitisations in general

Structure & mechanisms

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Structure & mechanisms

Structure and roles



Contingent Return of Capital:

1. No claim to ceding company:

Investors receive **full Capital (100m) + interest**

2. Claim notified by ceding company:

Investors receive **remaining Capital (100m – claim amount) + interest**

Structure & mechanisms

Participants

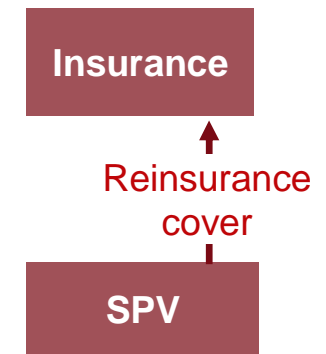
Rating agencies

- Important role for rated transactions

Other participants

- Actuarial consultants
- Underwriters/structuring agents
- Legal counsel

Loss trigger types



Indemnity

- Based on actual claims
- Not very transparent
- Hard to price and most expensive
- Suitable for cedents that must receive coverage exactly matching their portfolio
- Loss development period required

Industry losses – indexed losses

- Popular when concerns about moral hazard or adverse selection
- Most popular for cedents whose portfolio resembles that of the index

Modelled losses

- Claims / recoveries depend on loss output from a third-party model mirroring the issuer's portfolio, given peril's parameters
- Hybrid between indemnity and parametric

Parametric

- Recoveries depend on objective parameters of the events
- Basis risk still exists between actual losses and recoveries from securitisation

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Benefits to insurance companies

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Reasons for securitising insurance risks – Increase capacity for growth

Provide capacity

- Lack of capacity to provide adequate protection against major events for reinsurance market
- No market for particular risks
- Rise in attachment levels in hard markets

Credit quality

- Credit exposure is to a fully-collateralised reinsurer

Benefits to insurance companies

Reasons for securitising insurance risks –
Reduction in costs of capital

Securitisations as a tool to reduce cost of capital

- **Idea:**

Reinsurance premium to be paid to transfer risk

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Cost of Capital on Capital required to retain risk

- Reduction of needed capital through risk transfer
- Transparency and portfolio selection reduces Cost of Capital

Benefits to insurance companies

Reasons for securitising insurance risks – Accelerate Balance Sheets

Acceleration of the recognition / monetisation of assets:

- Swap PVFP or DAC against immediate cash amount
- Lock in future profits

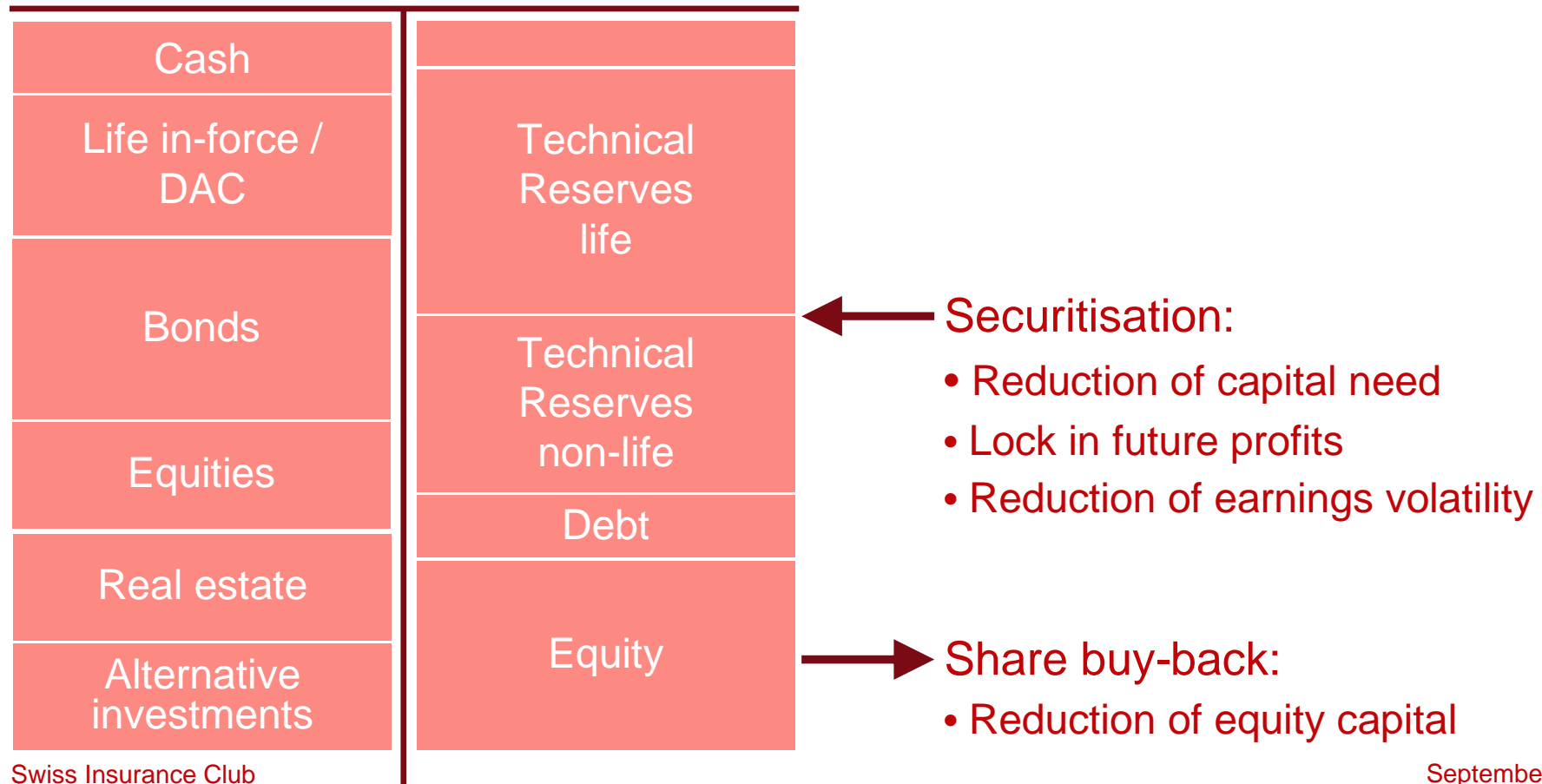
Use cash amount for:

- Acquisition New Business
- Potential rating improvement

Benefits to insurance companies

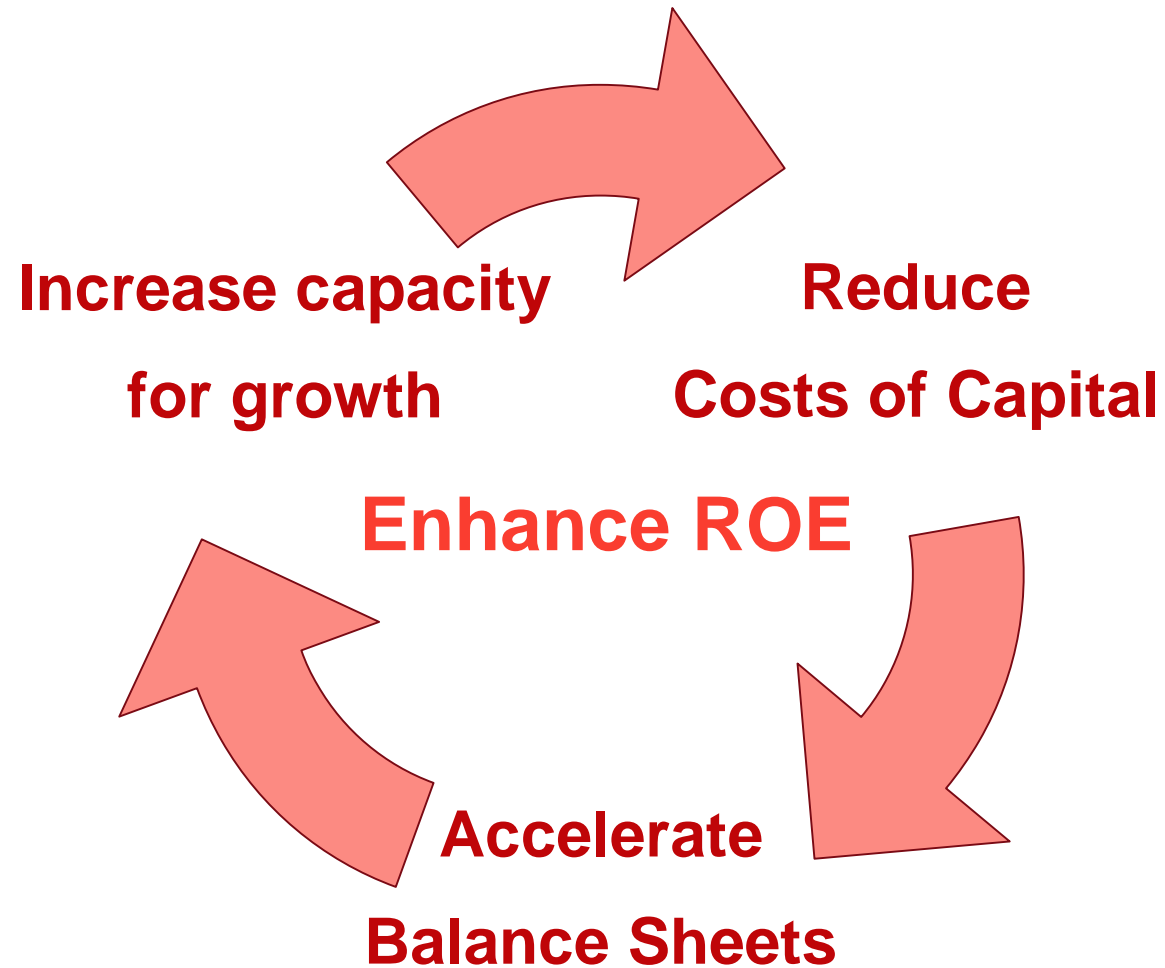
Reasons for securitising insurance risks – ROE Enhancement

ROE Enhancement ($\frac{R}{E}$)



Summary

Summary



Thank you.

Morgan Schaeffer

Tel: +41 58 792 24 27

Mobile: +41 79 422 06 73

Email: Morgan.Schaeffer@ch.pwc.com