

# Change • Challenge • Opportunity

## Injury & Disability Schemes Seminar

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12 - 14 November 2017 • Sofitel • Brisbane





# Third Party Motor Liability ("MTPL") Catastrophe Bond

James Sullivan



# Agenda

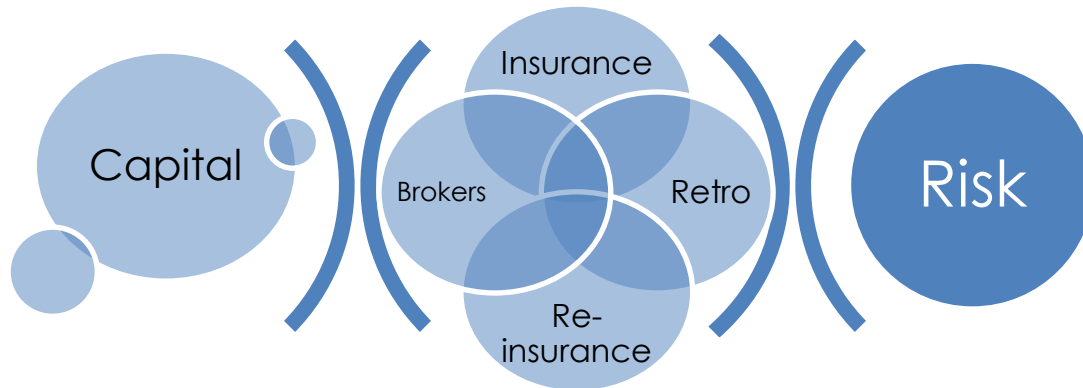
- Risk transfer & Insurance Linked Securities
- Size of the market & emerging risks
- Generali Horse Capital
- Future application



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# **RISK TRANSFER & INSURANCE LINKED SECURITIES**



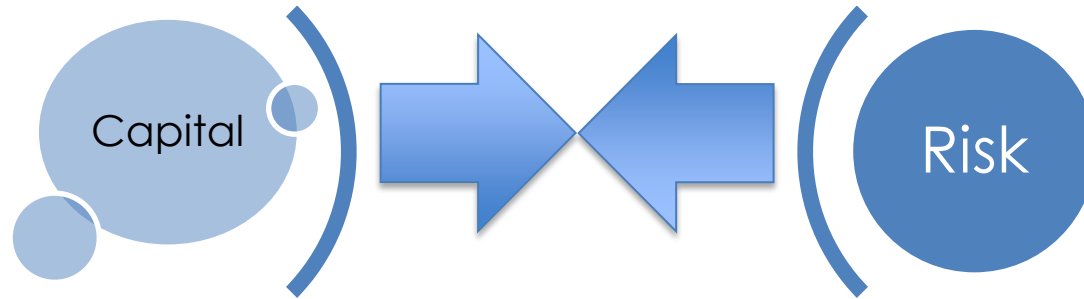
### What do sellers want?

1. Absolute & diversified returns
2. Well-modelled risk
3. Liquidity
4. Short tail

### What do buyers want?

1. Indemnity & certainty
2. Whole account
3. Efficient capital
4. Multi year

**Sentiment is changing and increased flexibility leads to significantly increased opportunity**



**Disconnecting the value chain while being risk centric**

**Insurance Linked Securities (“ILS”)**

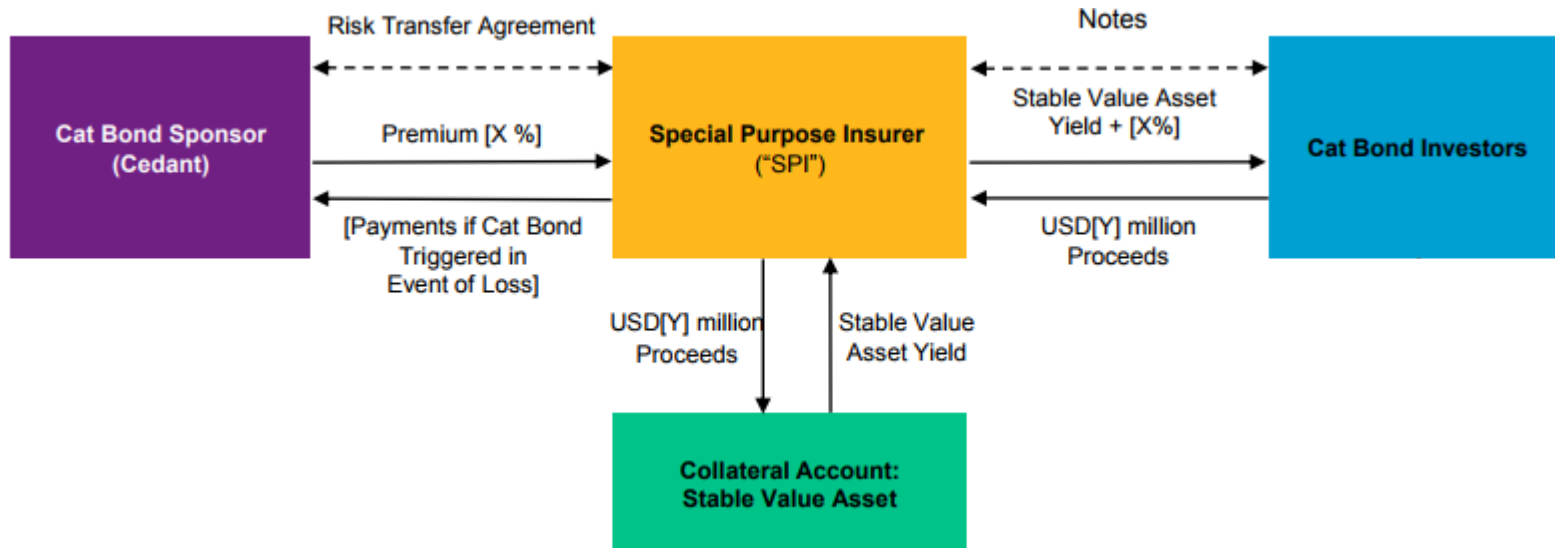
1. Risk versus reward
2. Diversification
3. Measurability
4. Liquidity

**Benefits**

1. Alternative solutions
2. Diversity
3. Cost
4. Multi year

## A typical ILS structure

- The SPI is formed solely to issue Notes and hold proceeds in a trust to collateralize an insurance agreement
- In the event of a claim under the insurance agreement, the Cedant can draw on the collateral
- Investors receive the investment income on the collateral, plus a premium payment from the Cedant





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# SIZE OF THE MARKET & EMERGING RISKS





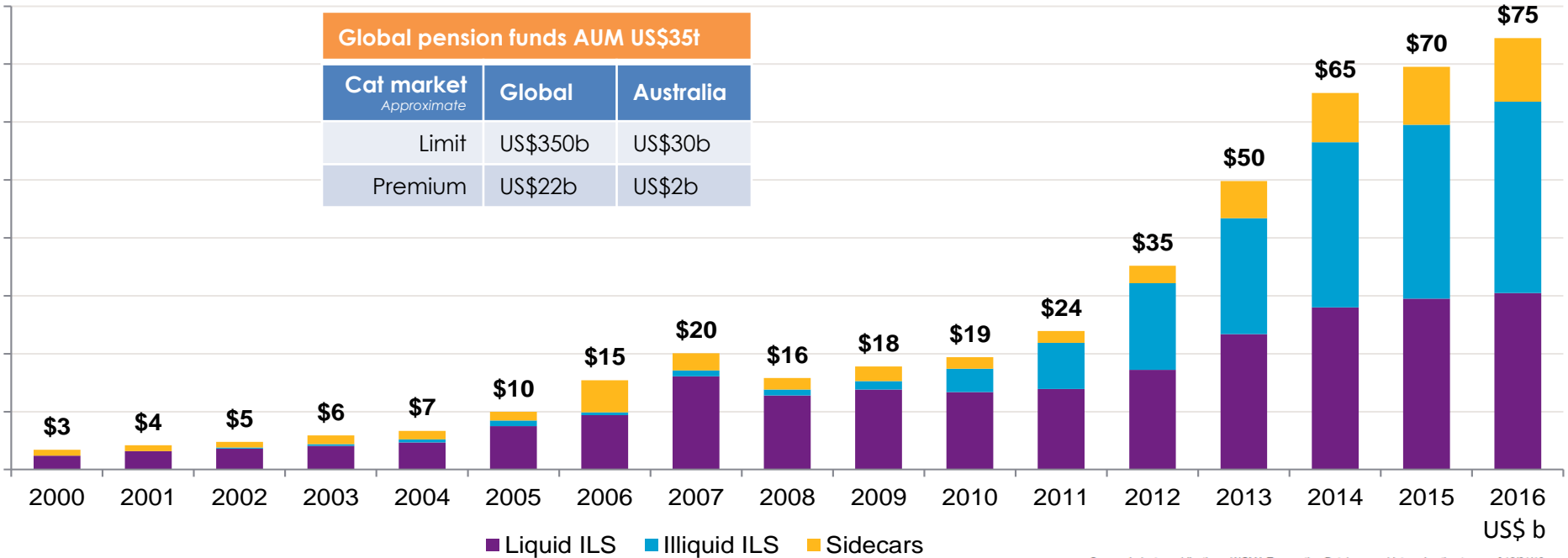
# Changing ILS landscape

Development Phase

Fast Money Growth

Strategic Investor Growth

Global pension funds AUM US\$35t		
Cat market <i>Approximate</i>	Global	Australia
Limit	US\$350b	US\$30b
Premium	US\$22b	US\$2b



Source: Industry publications, WCMA Transaction Database and internal estimates as of 12/31/16.



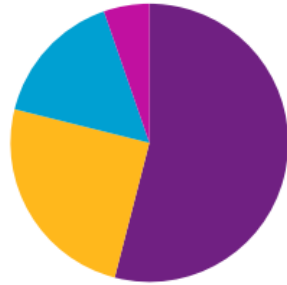
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Market size

Assets by Selected Investor Class



\$128 Trillion

- High Net Worth
- Pension Funds
- Family Offices
- Sovereign Wealth

Global Bond Market



\$99 Trillion

- Government
- Financial Institutions
- Other Corporates

Global Equity Market (Market Cap)



\$69 Trillion

- Americas
- Asia-Pacific
- All Other

Global Asset-backed Market



\$15 Trillion

- U.S. MBS
- U.S. ABS
- All Other

3<sup>rd</sup> Party Capital

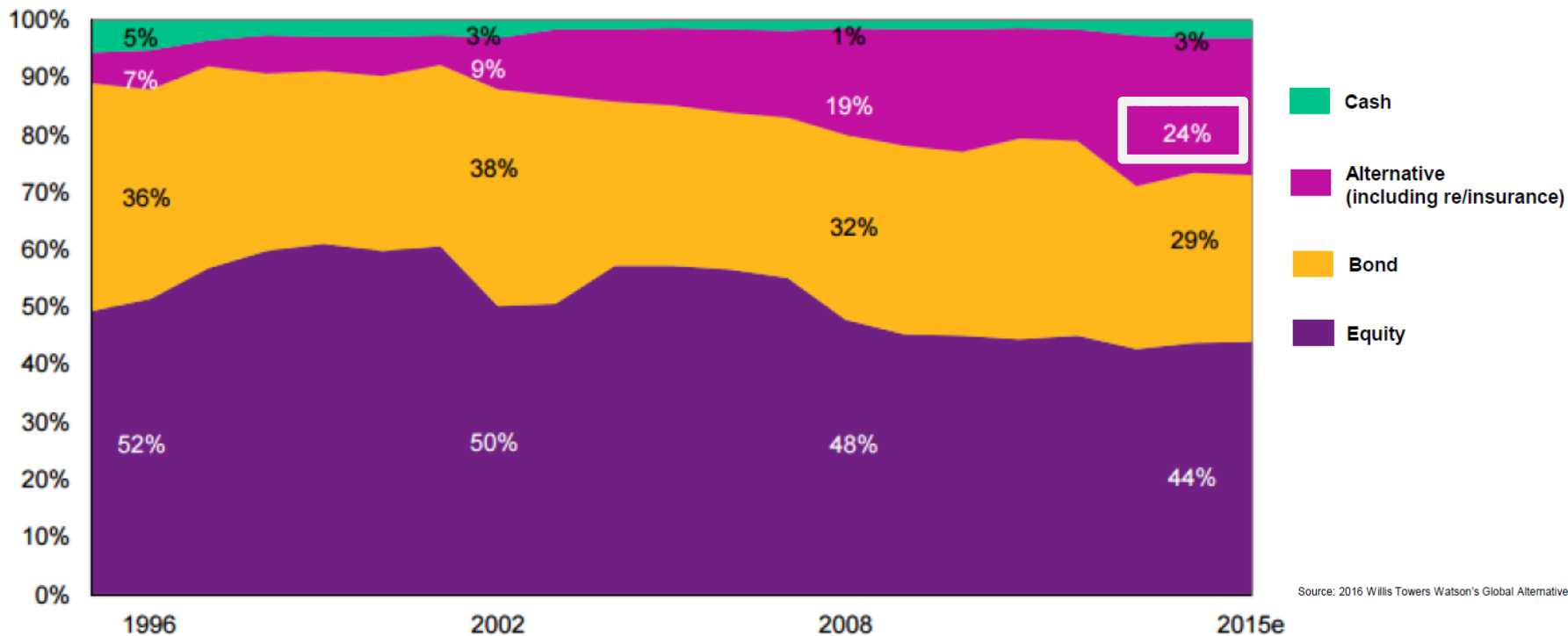


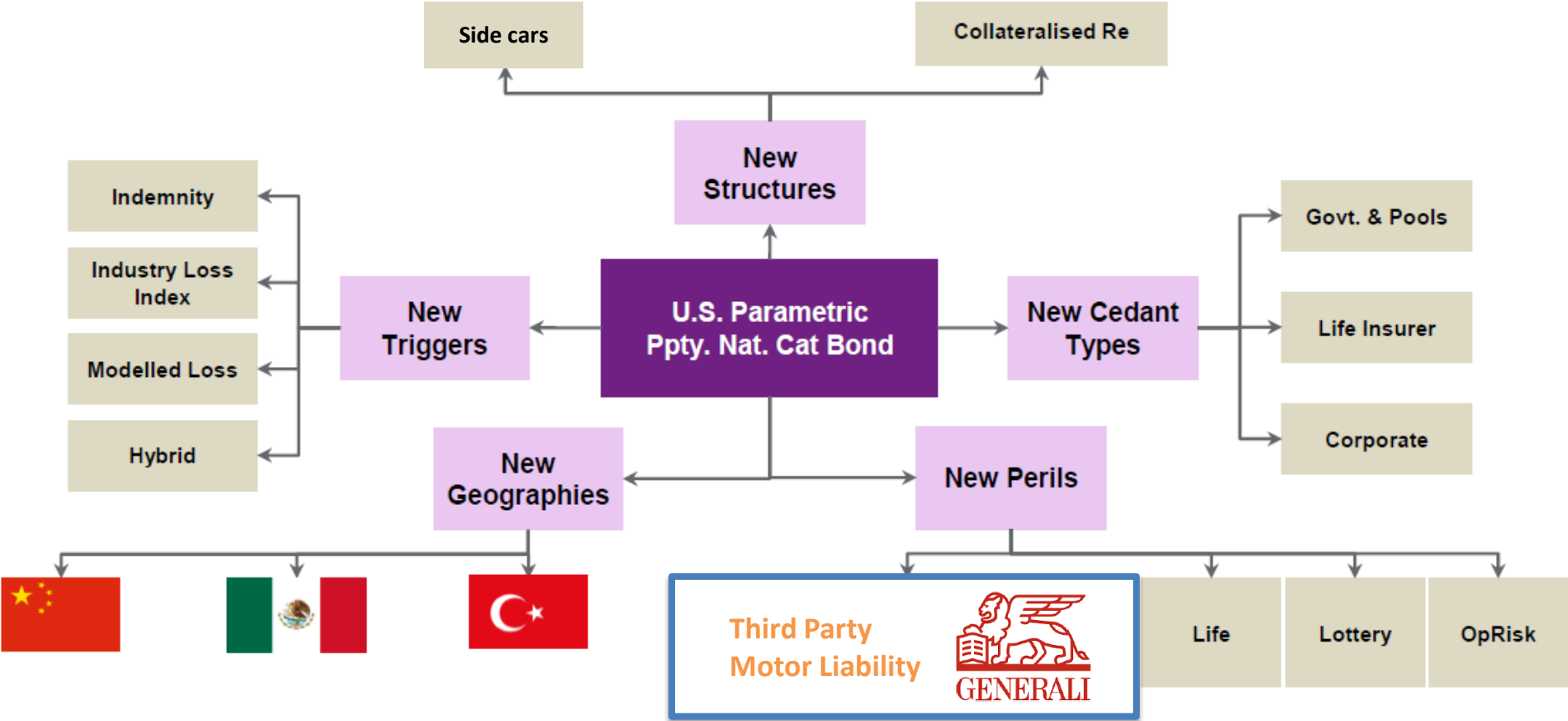
\$75 Billion

Relative to:	
Bond	0.08%
Equity	0.11%
ABS	0.50%
Pension	0.20%



Pension Funds are an example of increasing diversification of asset allocation  
“Alternative” including Reinsurance part of a growing trend







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# HORSE CAPITAL



€255 million

December 2016



**GENERALI**

### Horse Capital I DAC

€85,000,000 Class A Notes

€85,000,000 Class B Notes

€85,000,000 Class C Notes

Principal-at-Risk Variable Rate Notes

Due June 15, 2020

**THE FIRST BOND FOR THE  
PROTECTION OF MOTOR  
THIRD PARTY LIABILITY  
PORTFOLIO'S LOSS RATIO**

## Highlights

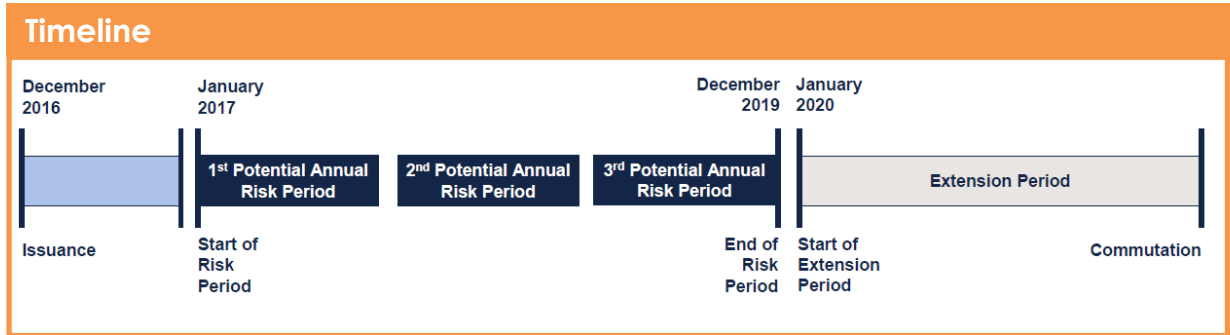
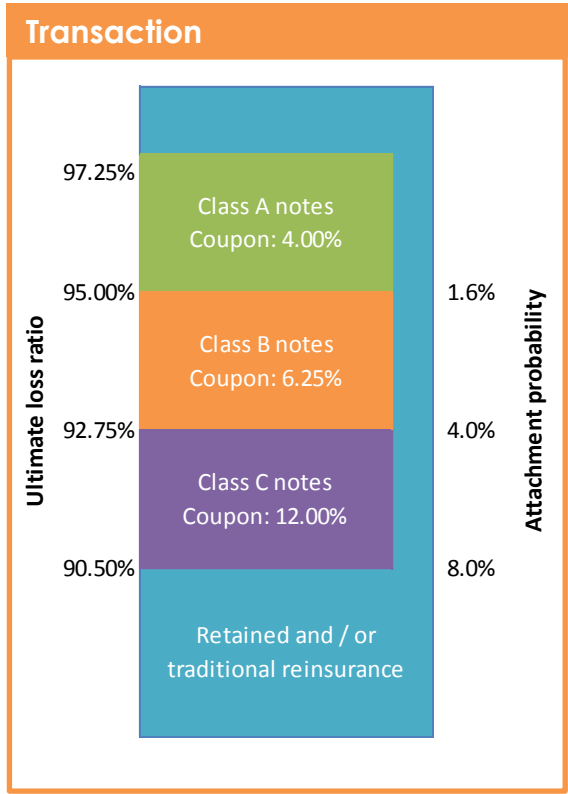
- Sponsor of a €255 million ILS
- Horse Capital I DAC is an Irish domiciled company
- Structure to mitigate a deterioration of MTPL loss ratio
- Dampens the volatility of the loss ratio and solvency ratio

## Transaction

- Covers Italy, Germany, France, Austria, Spain, Czech & Germany
- Indemnity trigger, annual aggregate, multi year with drop down feature
- Protecting 6.75% points of loss ratio deterioration
- Three classes of notes, each attaching at different ultimate loss ratio levels
- Three notes paying 4% Class A, 6.25% Class B & 12% Class C
- Investor demand increased transaction size by 40%

## Structuring

- Extensive data gathering and analysis
- Motivation to devise a new structure
- Third party modelling created bespoke model meeting investor requirements
- Educational roadshow



**Innovative approach**

**Whole account group cover**

**Profit & loss protection**

**Capital relief**



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# FUTURE APPLICATION





## Rationale for engaging with ILS markets

### Reinsurance Panel Diversification

- M&A activity may have reduced the number of acceptable traditional reinsurance counterparties
- Access to capacity with different capital structure and usually high security thanks to collateralised structure
- Diversification mitigates counterparty credit risk
- Minimize impact of post-loss change in reinsurer appetite

### Cost Effectiveness

- Cheaper cost in some cases – peak risks, potential loss such as MTPL, capital-intensive products/territories and products such as Extreme Mortality
- ILS presence introduces further pricing competition on traditional reinsurers by potentially reducing the placement order and squeezing capacity

### Preferential Terms & Structures

- ILS markets have a different capital structure which is reflected in their particular appetites for certain specific perils and coverage
- Flexibility in terms of structuring and product offering
- Back to back cover for non-standard primary products e.g. Parametric Nat Cat protections

### Injury & Disability Schemes

- CTP
- Long term care
- Workers compensation

### Drivers

- Injury & age profile
- Claim size
- Claim frequency
- Inflation & super imposed inflation
- Discounting

### Triggers

- Parametric
- Indemnity
- Industry loss