

Reinsurance Training

Insurance

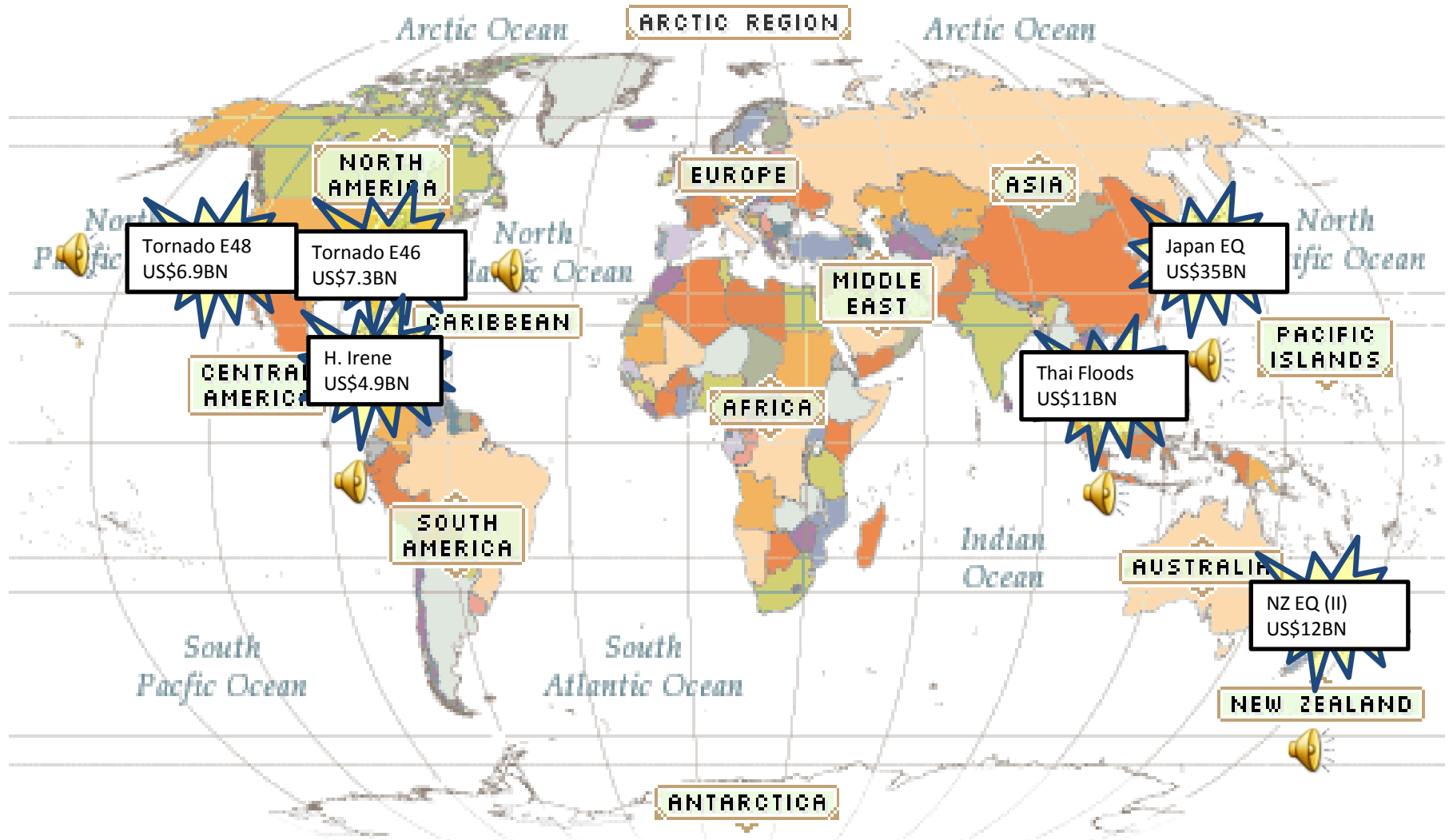
Reinsurance

Retrocession

Q. Why are we buying Reinsurance?

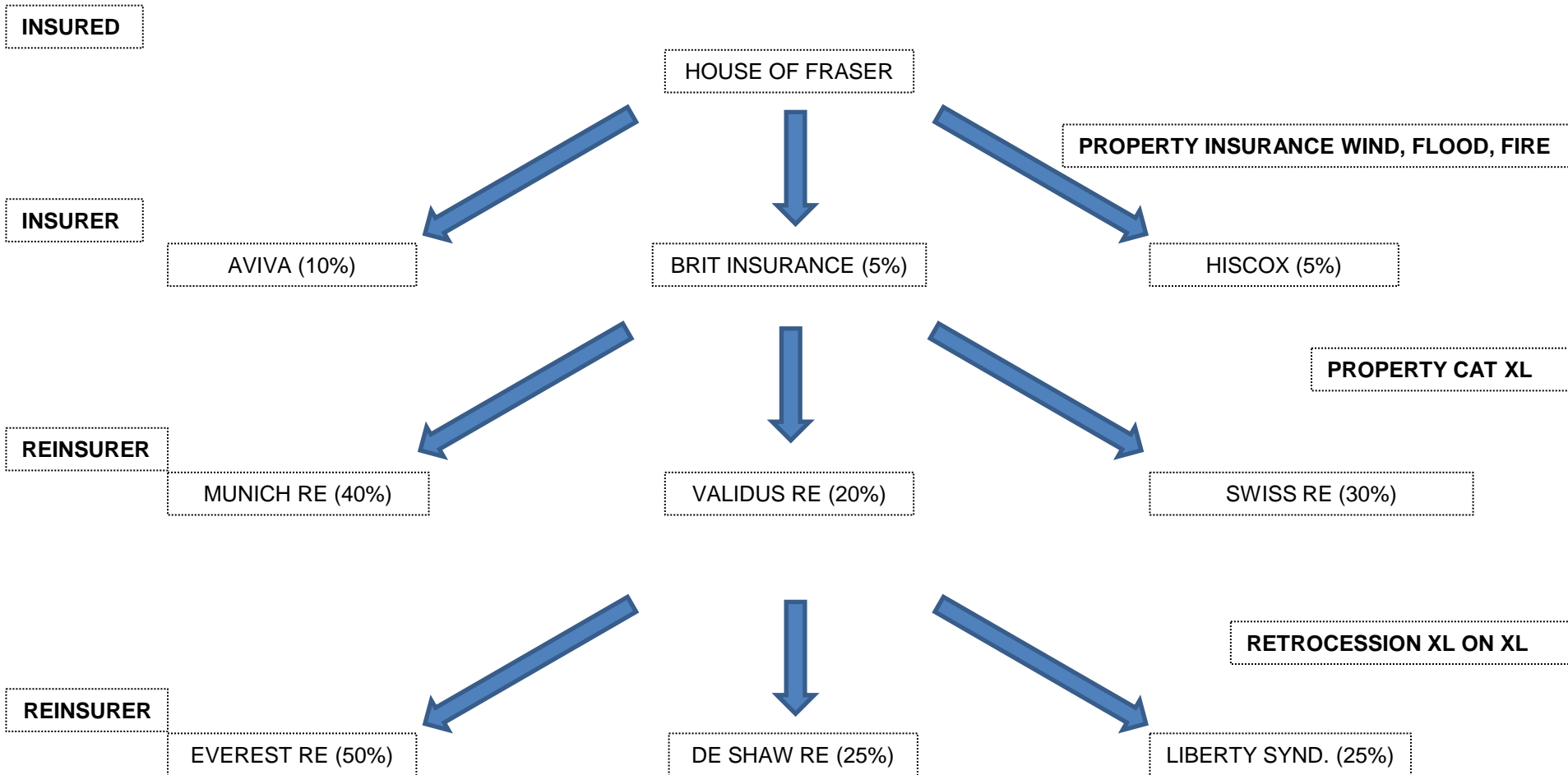
US\$108BN*

A. Estimated Property damage from Industry Losses in 2011 totalled:

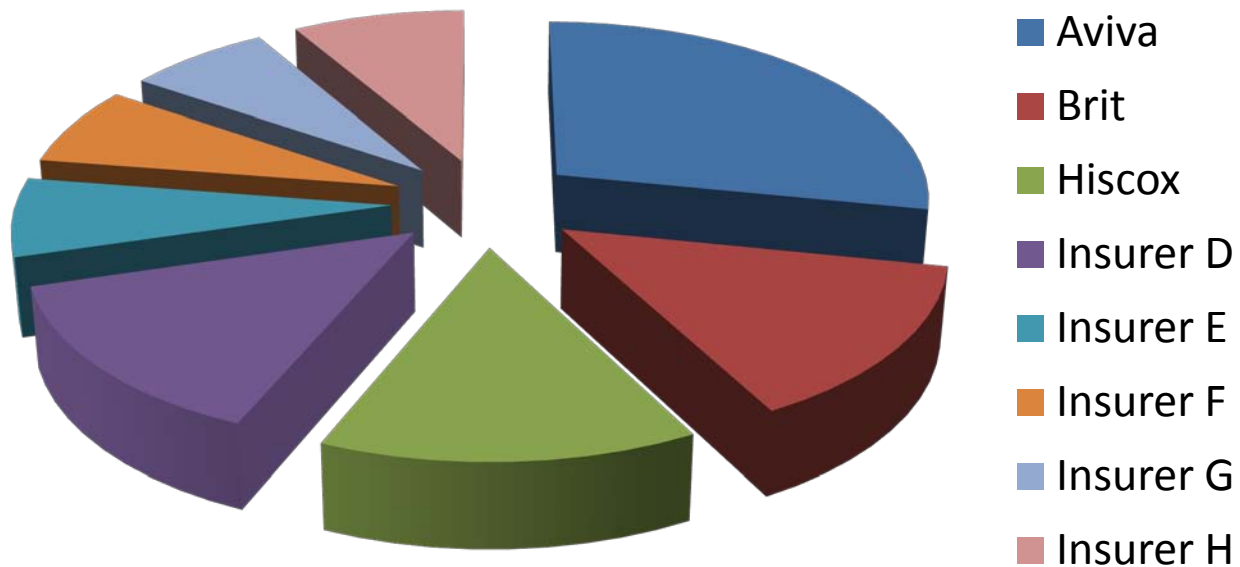


Map View: Robinson Projection

The Reinsurance Chain



House of Fraser Co-Insurance Concept



The Reinsurance Chain

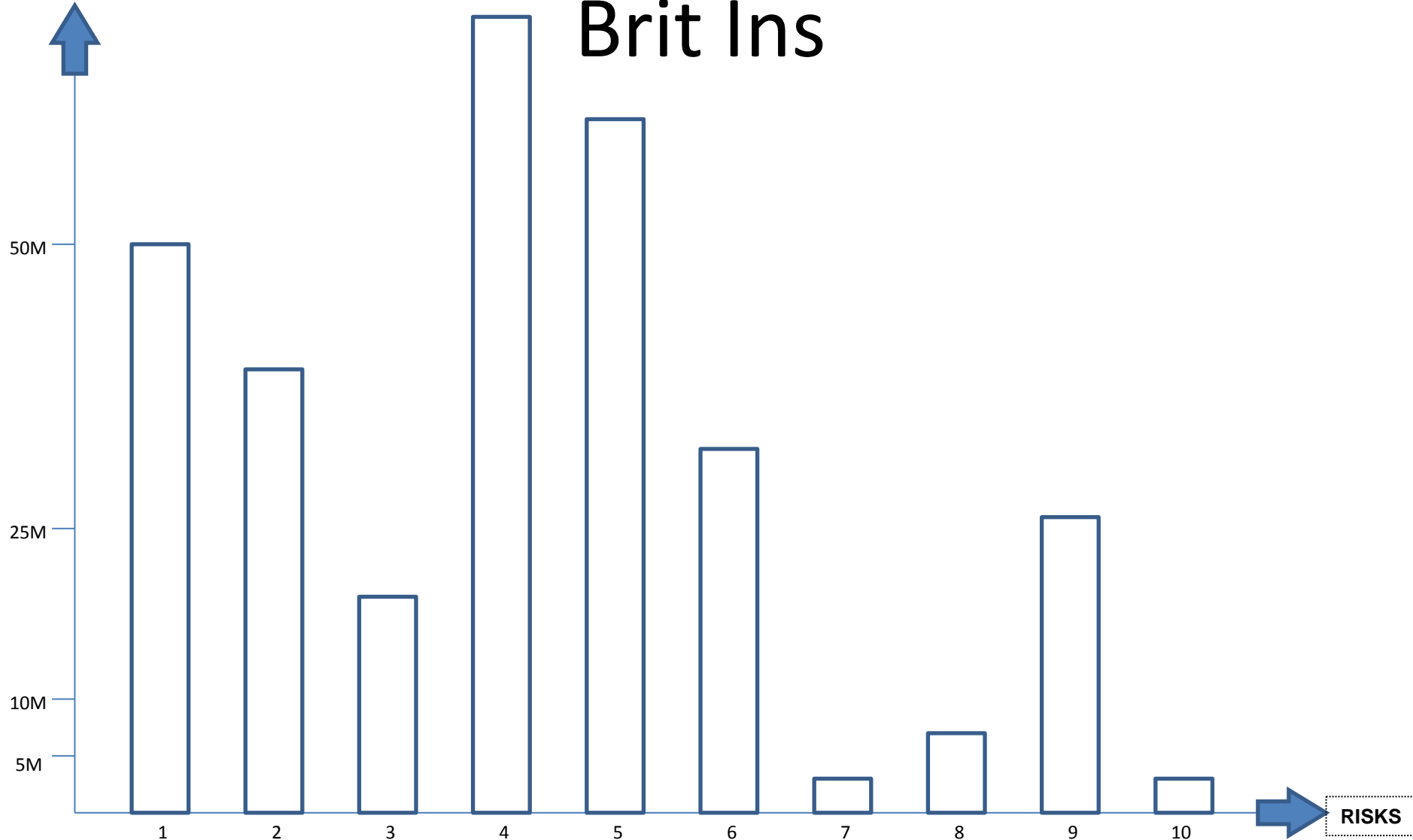
- Insured: House of Fraser
- Primary Insurance: Property Insurance
- Insurer: AVIVA
- Proportional Reinsurance: Property Quota Share
- Reinsurer: Brit Insurance
- Retrocession: Excess of Loss on Reinsurance portfolio
- Reinsurer: Everest Re, USA

Insurance Portfolio

EPI: 100m

Brit Ins

EXPOSURE



Reasons to buy Reinsurance

- Volatility Management
- Earnings Protection
- Balance Sheet Protection
- Fee Income
- RDS Management
- Solvency II
- Rating Agencies
- Capital Management

Selected Forms of Reinsurance

- Quota Share
- Excess of Loss
- Facultative Reinsurance
- Aggregate Excess of Loss
- Stop Loss
- Industry Loss Warranty (ILW)
- Insurance Linked Securities (ILS)

Quota Share Reinsurance

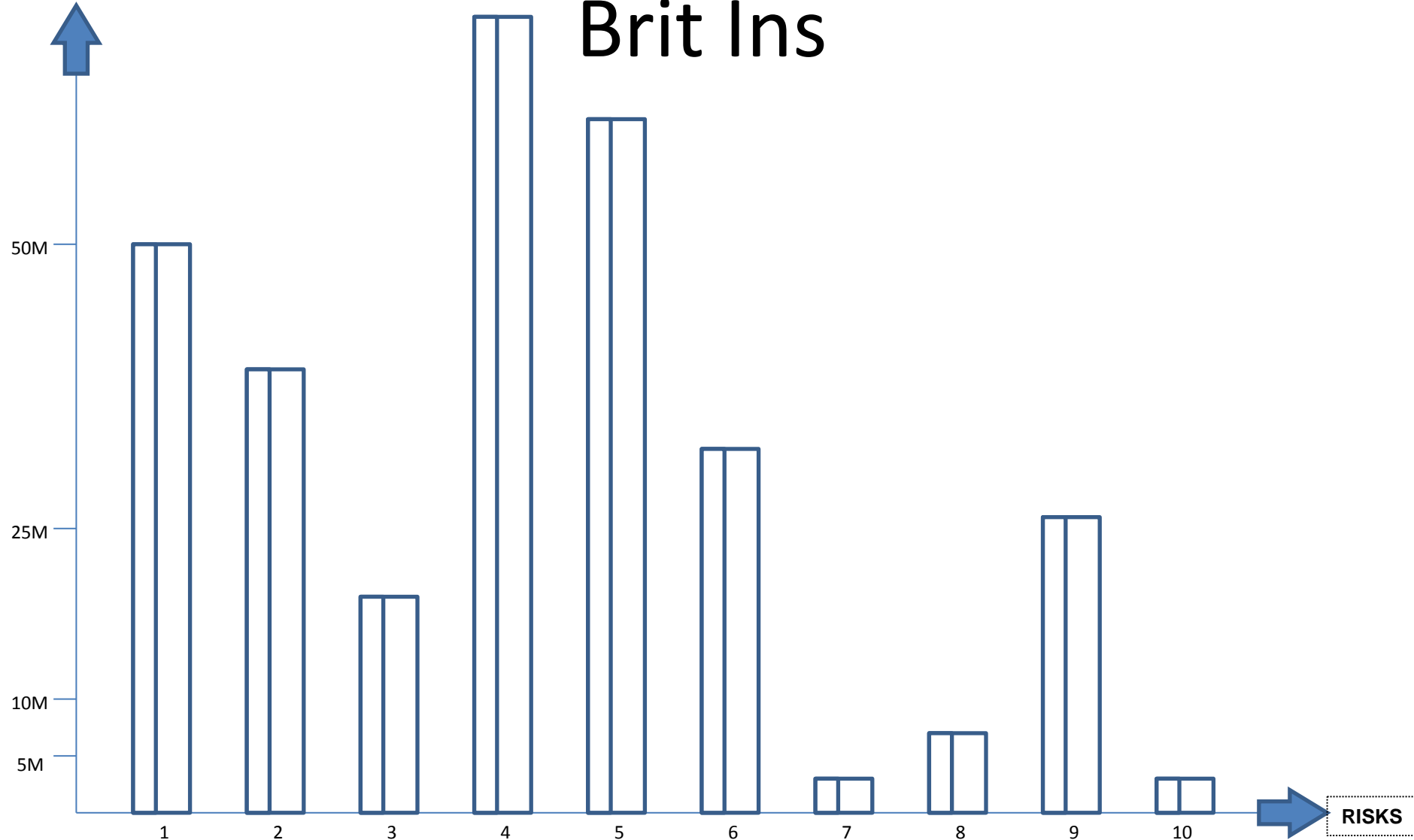
- Proportional Reinsurance
- Obligatory Cession of all premiums and claims
- Solvency requirements
- Long term relationships
- Gives access to regional and highly specified niche accounts
- Commissions generate fee income
- Unlimited cover for the reinsured
- Credit risk requires strong partners

Insurance Portfolio (QS)

EPI: 100m





Brit Ins

EXPOSURE

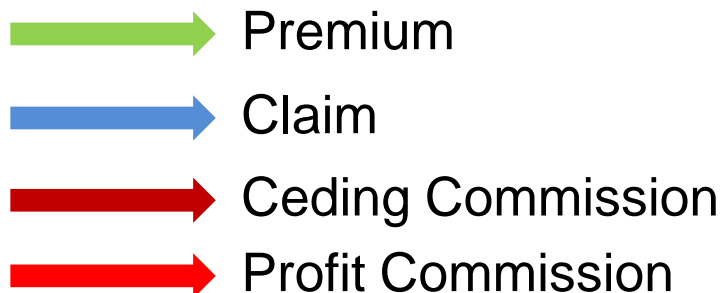
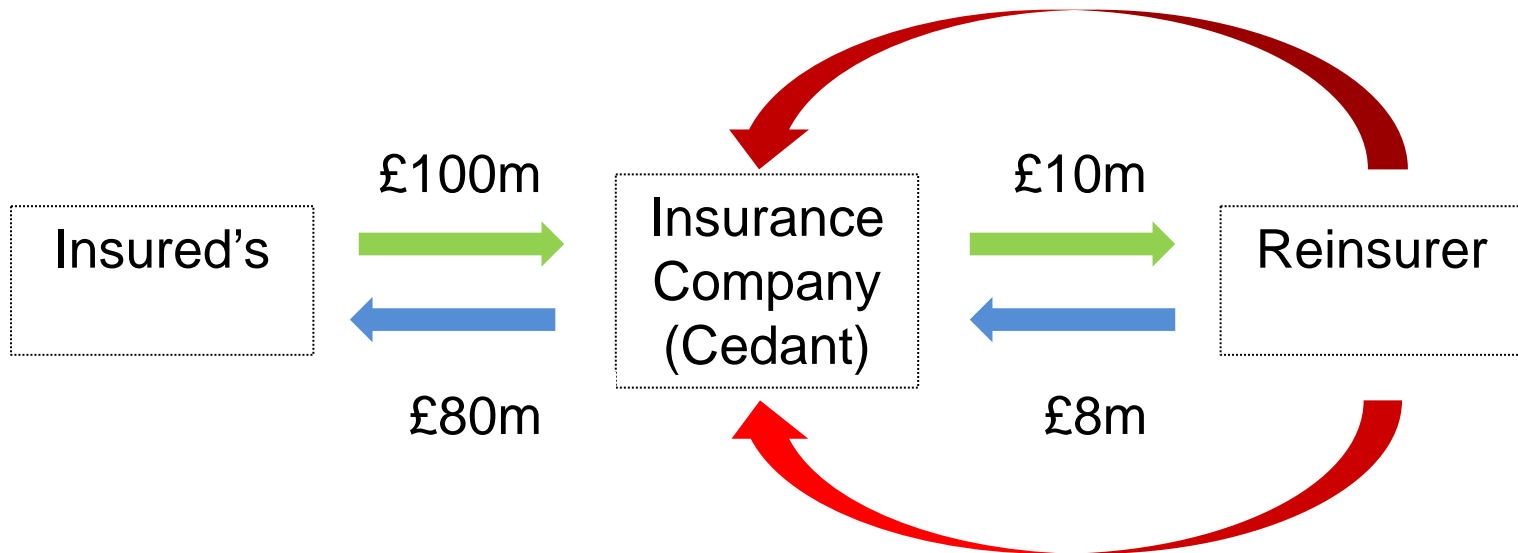


Quota Share Reinsurance Example

INSURER:	AVIVA
REINSURER:	BRIT
SHARE:	10%
COMMISSION:	5%
REINSURERS EXPENSES	10%
PROFIT COMMISSION:	20% on 90%

AVIVA		BRIT
Net Premium: 100m x 10%		+10m
Commission: 5%		-0.5m
Claims: 80m		-8m
Result: 18.5m		+1.5m
Profit Commission: 20% on 90%		-0.27m
Net Result: +18.77m		Net Result: +1.23m

Quota Share – 10%



- Of the £100m underwritten the Cedant company pays £10m to the Reinsurer.
- In exchange the Reinsurer may pay a ceding commission of £0.5m to cover the initial costs incurred by the Insured + Profit Commission

Excess of Loss Reinsurance

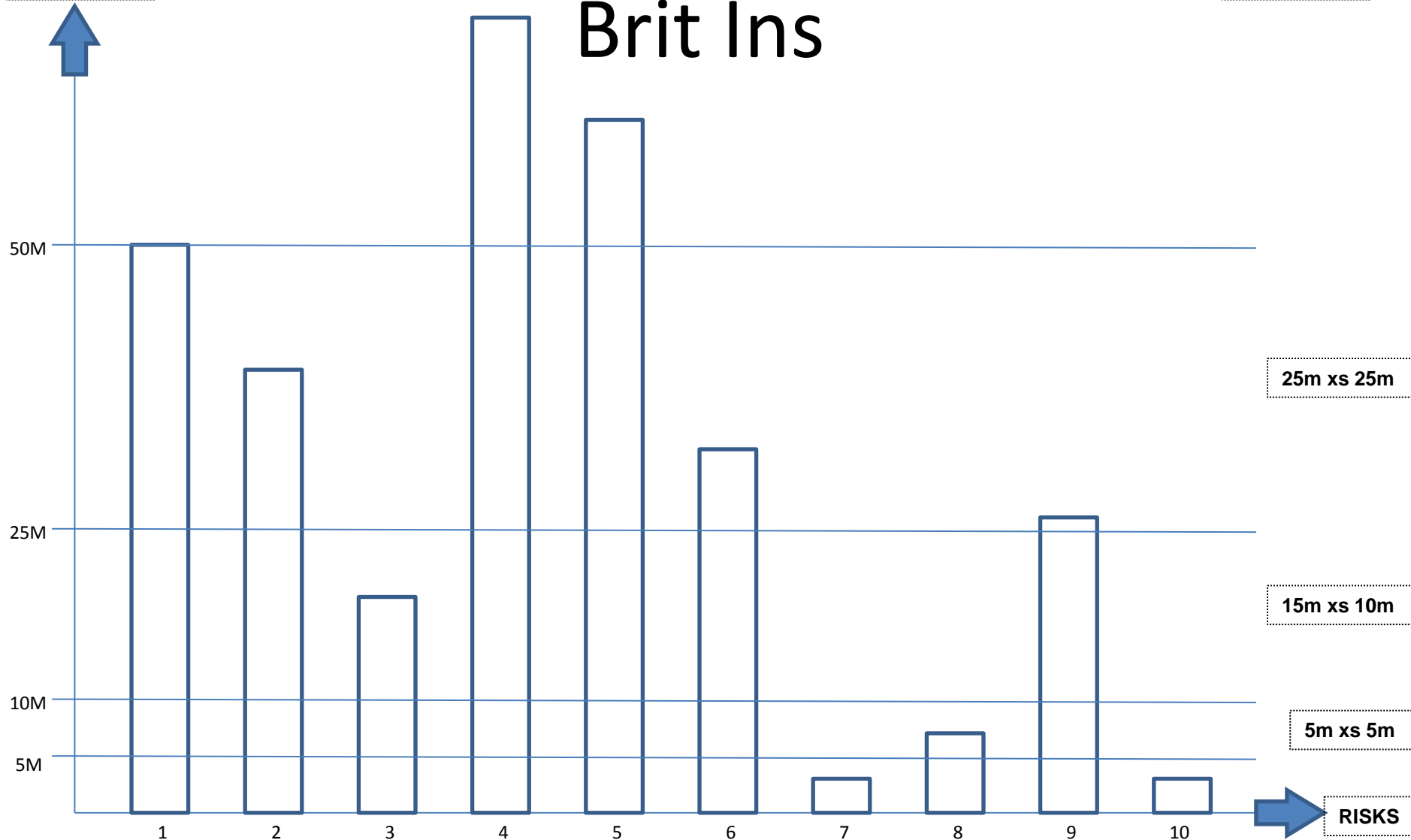
- High Risk Transfer
- Very effective volatility reduction
- Limited vertical and horizontal cover
- Cover has to be reinstated after a loss
- Counterparty risk
- Earnings protection at lower levels
- Balance Sheet cover at the top end

Insurance Portfolio (XL)

EPI: 100m

Brit Ins

EXPOSURE



Excess of Loss Example

Limit: \$5m
Deductible: \$5m
M&D Premium: \$1.5m

RoL: 30%
Reinstatement : 2 @ 100%



Losses:

1. Loss: $\$10m - \$5m = \$5m$
2. Loss: $\$8m - \$5m = \$3m$
3. Loss: $\$12m - \$5m = \$7m$ but limit = $\$5m$

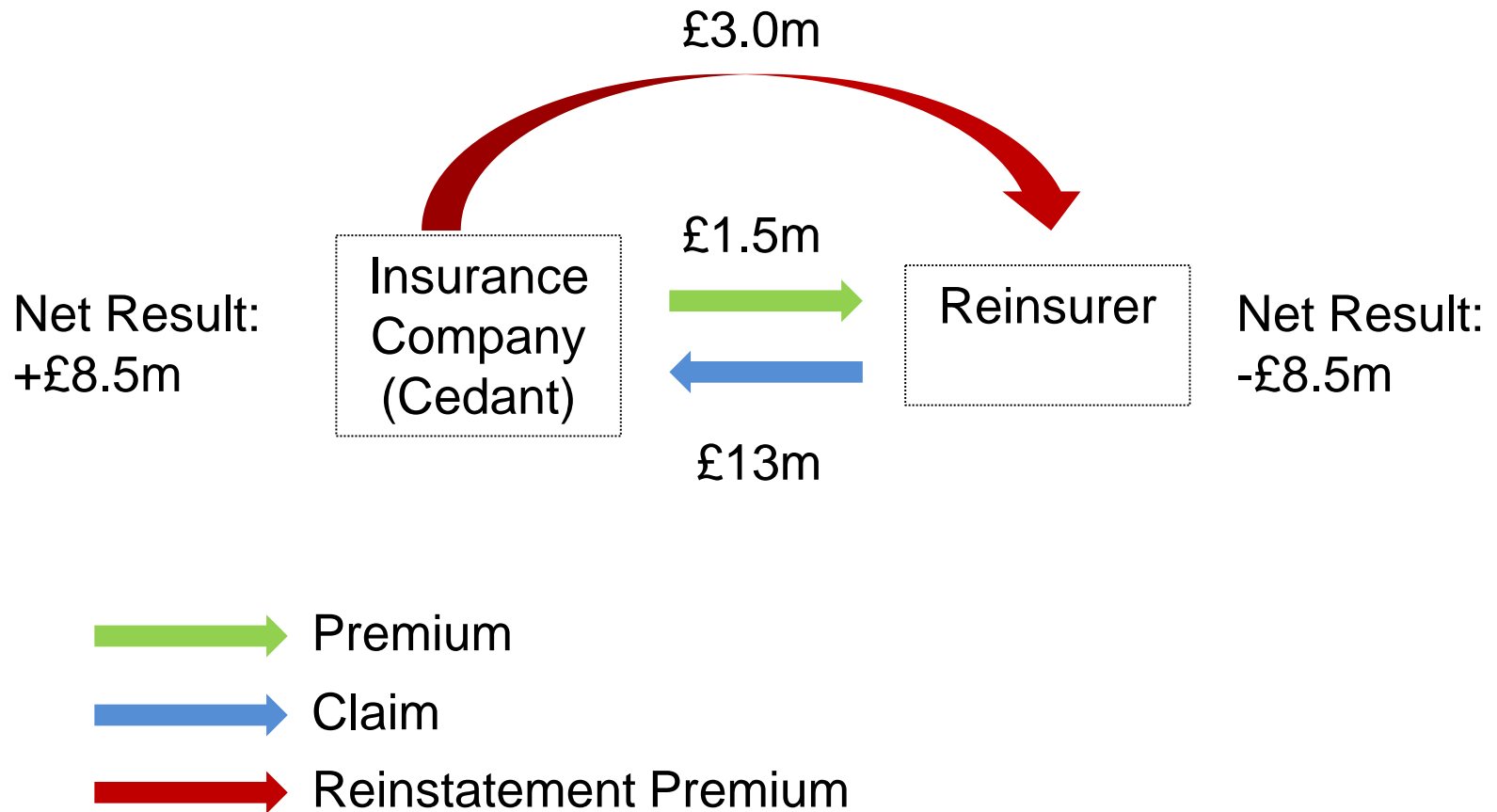
Recoveries:

1. $\$5m - \$1.5m = \$3.5m$
2. $\$3m - \$0.9m = \$2.1m$
3. $\$5m - \$0.6m = \$4.4m$

Totals:

Losses = $\$30m$
Net Recoveries = $\$10m$
Net Losses = $\$20m$

Excess of Loss Example

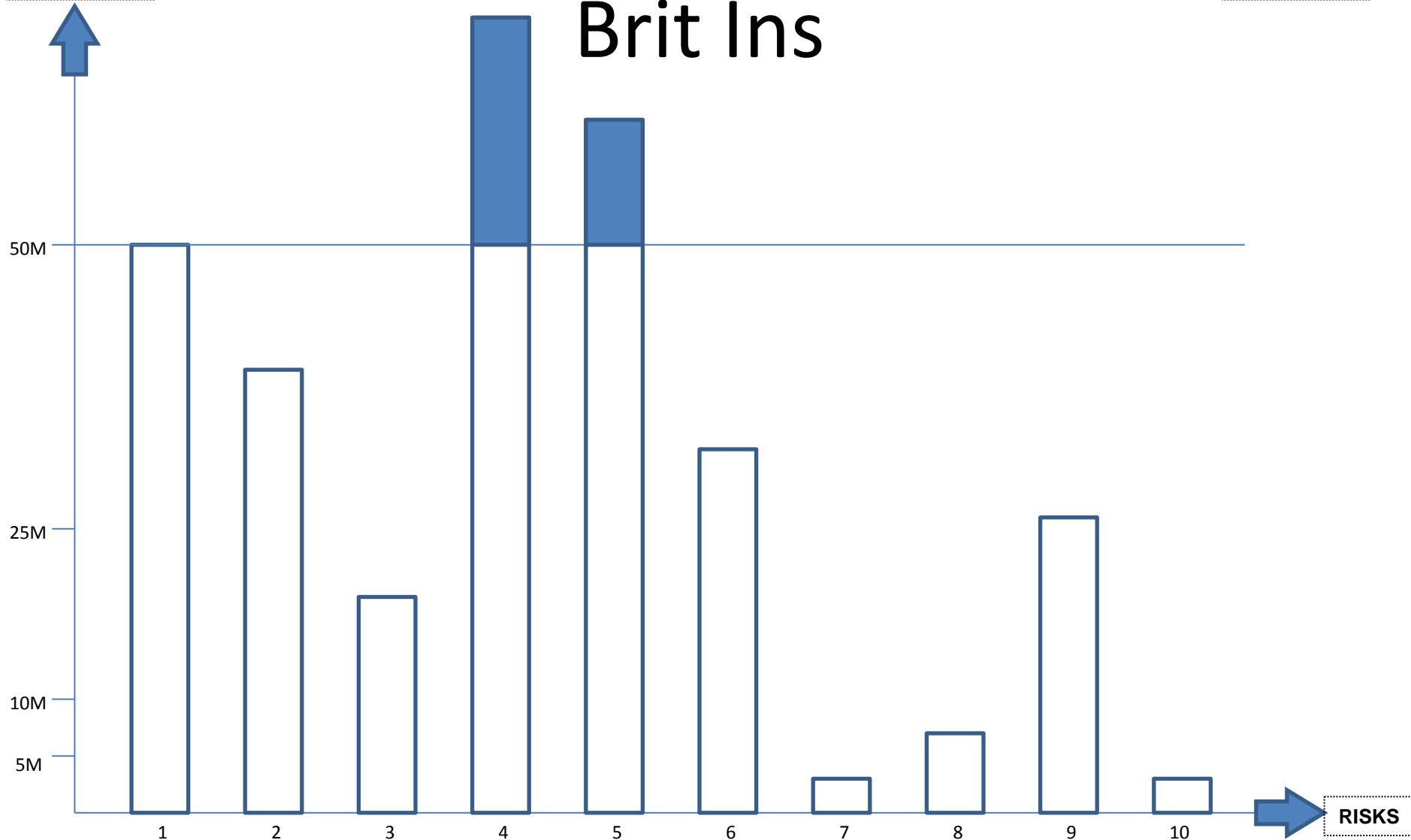


Insurance Portfolio (Fac)

EPI: 100m

Brit Ins

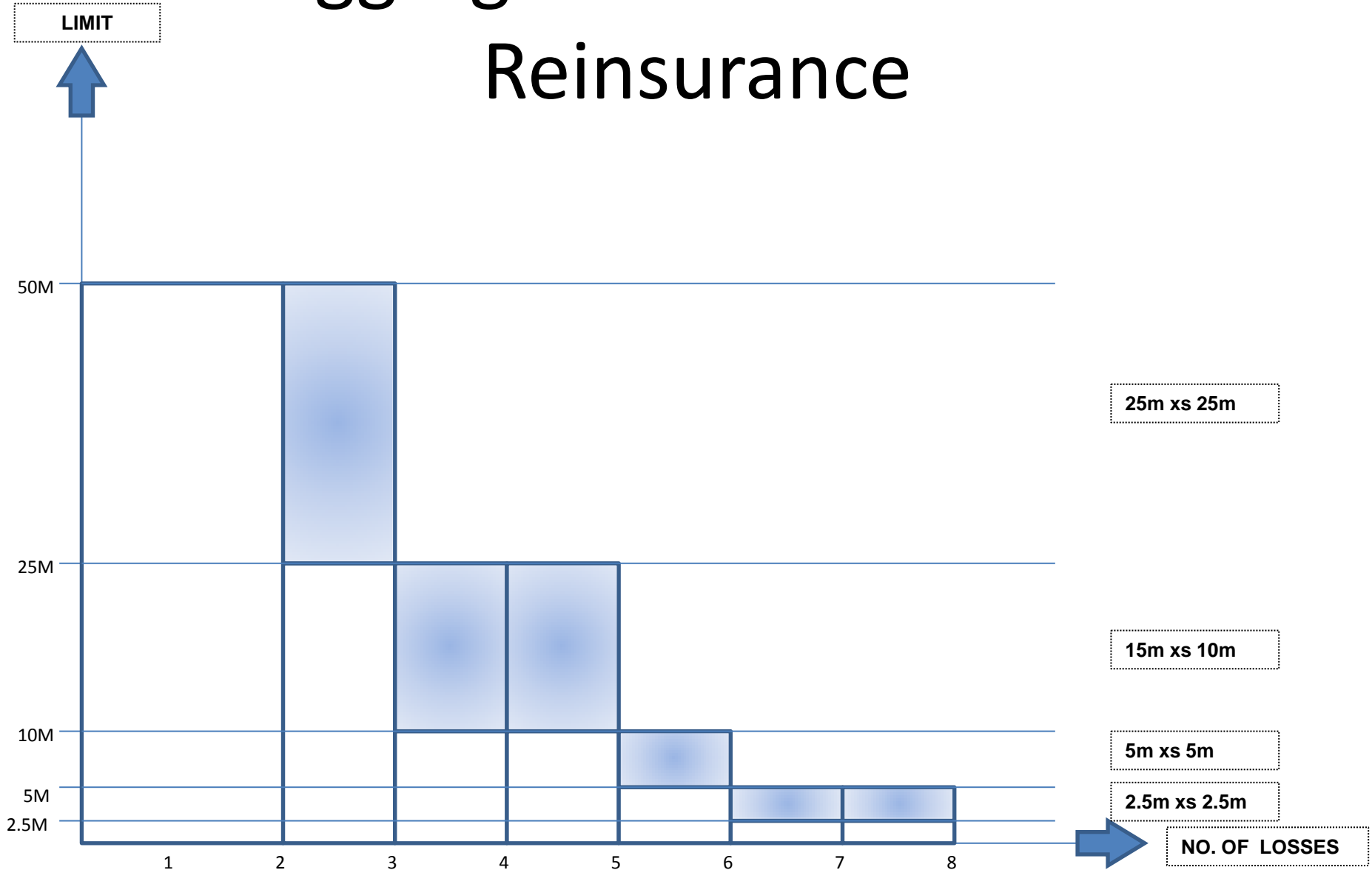
EXPOSURE



Aggregate Excess of Loss Reinsurance

- Protects against severity and high frequency of losses
- Flexible cover
- Earnings Protection

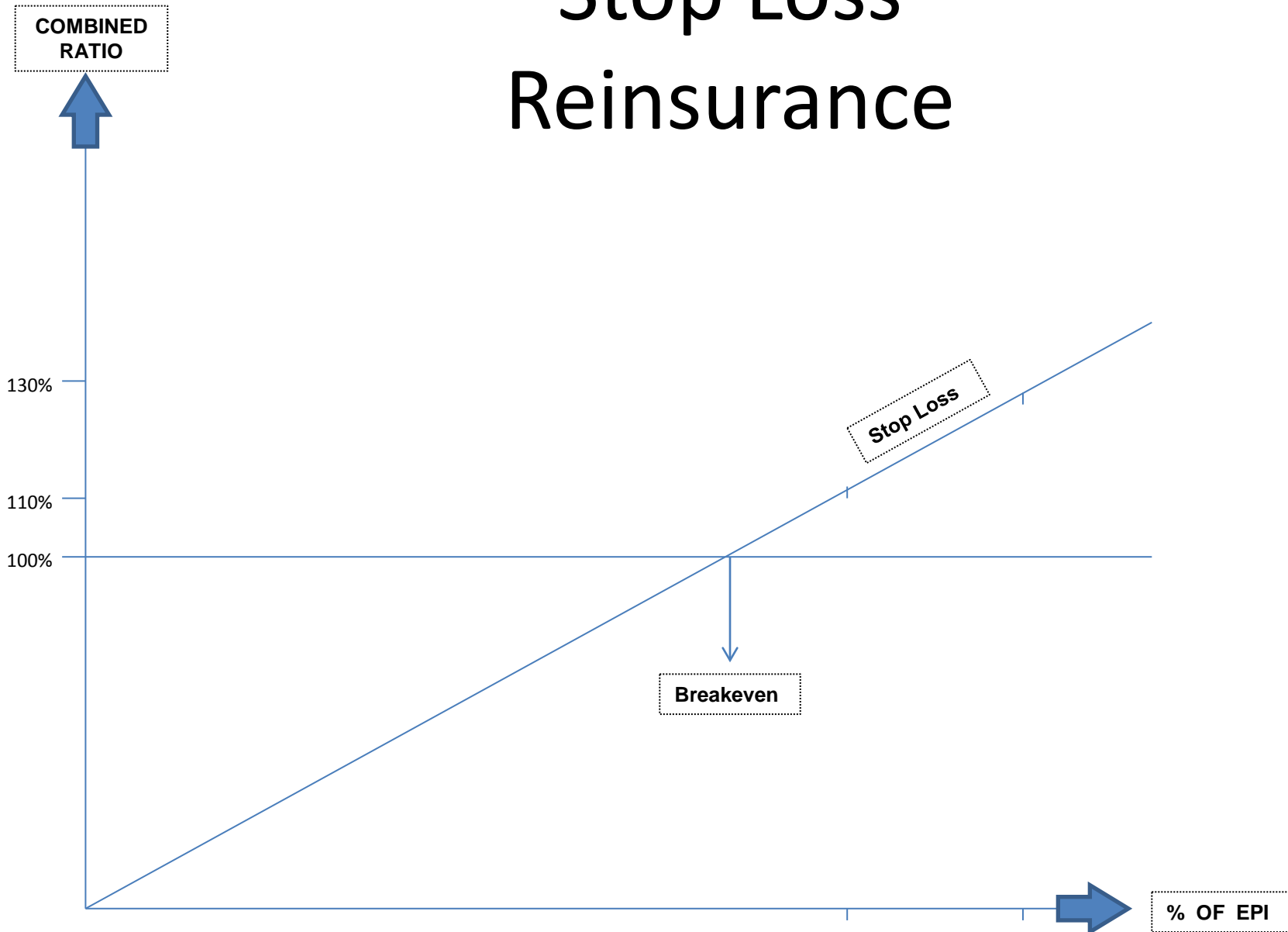
Aggregate Excess of Loss Reinsurance



Stop Loss Reinsurance

- Balance sheet protection
- Gives cover against extreme frequency and severity of losses
- Limited cover in excess of a defined net loss of the reinsured
- 20% in xs 110% combined ratio
- Reinsured runs the tail risk xs 130% combined ratio

Stop Loss Reinsurance



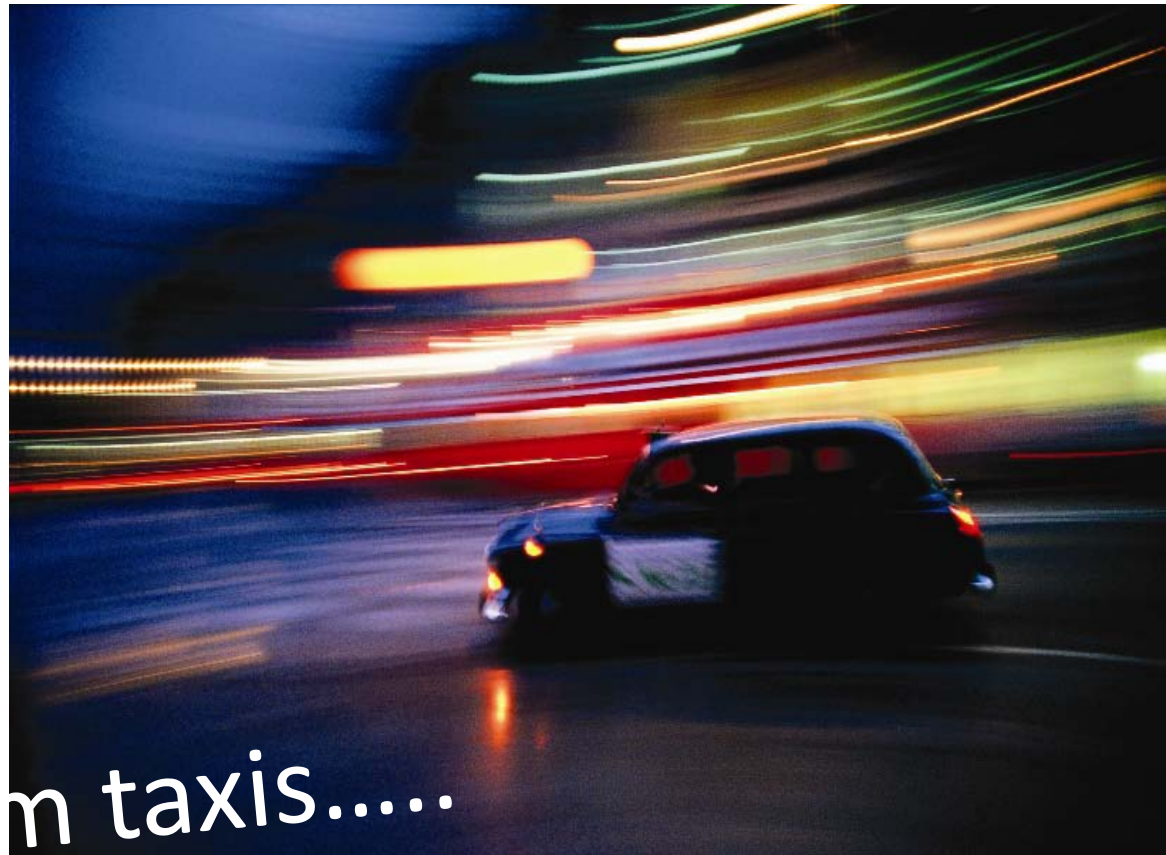
Brit Insurance Group

Brit Insurance is a general insurance and reinsurance group specialising in commercial insurance

- 2010 Gross written premium £1.53billion
- 2010 Profit before tax £119million
- Group reorganised in 2009 with new holding company, Brit Insurance Holdings B.V. in the Netherlands
- Present UK , USA, Japan and Australia

Scope

- Specialists in commercial insurance
- Distribution through brokers, intermediaries and electronic channels – no direct business



.... and organisation

Business written through two platforms:

Brit Insurance Limited - rated A (Strong) by Fitch and A (Excellent) by AM Best- under review with negative implications*

Brit Syndicates Limited which manages Brit Syndicate 2987 at Lloyd's. Benefits from Lloyd's market ratings.

Two strategic business units (SBUs) which reflect how and where our customers trade:

Global Specialty;

UK



* As at October 2010

Business philosophy

- High value put on building strong relationships, working with integrity and adopting a common-sense approach
- Innovative and flexible to satisfy client needs
- Decentralised decision-making process, by empowering our underwriters to take ownership and accountability
- Provide exceptional standards of customer service through world-class execution
- Top quality claims service at home and abroad
- Maintain broad spread of business

Global Markets

- 2010 gross written premium: £778.3million
- Based in London and Chicago
- Specialist, niche and worldwide business written through Lloyd's, London market, worldwide coverholders
- 82% of business via Brit Syndicate 2987 reflecting international nature of business
- Top markets: USA & Canada; UK; Europe ; Australasia; Asia
- Clients range from small and medium-sized enterprises to large multinationals



Global Markets

- Accident & Health
- Aerospace
- Marine
- Professional Lines
- Property, including War & Terrorism
- Specialty Lines



Global Markets

- 73 underwriters with an average of over 15 years' experience
- Lead insurer and price-influencer: led over 56% of its business in 2010;
- Well diversified and balanced portfolio in short tail and long tail risks, and by geography and currency
- Brit Insurance Services USA, Inc. supports US business locally

Reinsurance

- 2010 gross written premium: £309.6million
- Diverse, multi-territory, multi-class portfolio of mainly excess of loss treaty reinsurance
- Clients in Lloyd's, the UK, Continental Europe, North America, Australasia and Asia Pacific
- Aim to achieve steady growth by focusing on bottom line profitability



Reinsurance classes of business

- North American Property
- International Property
- North American Casualty
- International Casualty
- Agriculture



UK overview

- 2010 gross written premium: £441.2million
- UK domiciled commercial, small business and personal lines
- Focus on UK small and mid-market enterprises with turnover up to £300million
- 9 regional underwriting centres provide face to face service to carefully selected panel of brokers
- Increasing amount of small business conducted through Britbord, our browser-based trading platform available to selected brokers, as well as through panels of a small number of e-trading partners



Belfast	Birmingham	Bristol
Darlington	Glasgow	Leeds
London	Manchester	Reading

UK classes of business

- Property/Packages
- Commercial Motor
- Liability
- Financial lines
- Personal lines
- Small business (electronically traded via Britbord and small number of e-trading partners)



UK

- Business built on traditional values of strong empowered underwriting, valued relationships and world-class claims and service delivery
- Over 70 underwriters with an average of over 16 years' experience who can trade with high levels of autonomy
- National relationships managed consistently and effectively, with local expertise and execution
- Multi-class capability
- E-trading particularly for small business is growing strongly

Why work with Brit Insurance

- Access to our underwriters
- Speed of decisions we take
- Ability to lead programmes
- Proven expertise and innovative skills
- Responsiveness to claims and claims management
- Understanding of risk
- Security of our balance sheet

Industry Loss Warranty Reinsurance (ILW)

- Double Trigger Reinsurance
- Industry Loss $>$ \$20bn insured losses from EQ in Japan
- Reinsured needs to have a net loss
- High risk transfer as only single limit cover without reinstatement
- Basis risk for the cedant as he may have a big net loss but the Industry Loss is $<$ \$20bn in Japan.

Insurance Linked Securities

Cat Bonds

- Access to Capital Markets
- Parametric triggers like wind speed or seismic data for Earthquakes
- Sponsor runs basis risk
- Requires highly analytical modelling to optimise the correlation of the parametric triggers with the Insurance or Reinsurance portfolio
- No credit risk as capital is paid up

Reinsurance Jargon

- XL = XOL = Excess of Loss
- QS = Quota Share = Proportional Reinsurance
- Net premium = Premium paid by Insureds – acquisition costs
- Loss ratio = losses/net premium
- Combined ratio = losses/net premium + acquisition costs
- Fac RI = Facultative Reinsurance
- ROL = Rate on Line = premium/limit
- Retrocession = Reinsurance of a Reinsurance portfolio (Retro)
- RDS = Realistic Disaster Scenario
- Solvency II = EU regulation for minimum capital requirements and risk management requirements
- ILW = Industry Loss Warranty
- ILS = Insurance Linked Securities