

# Financial Protection of Public Assets Master Class

## Session 3

Engagement with the Private  
Sector: Dealing with the  
Insurance Market

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Disaster Risk Financing  
& Insurance Program



# Learning objectives

## What

is supporting the capital behind an insurance policy

## Who

are the key stakeholders and why you need a strong relationship

## How

to engage and communicate to get the best outcome

## When

to work with the market at different phases of a cycle



# Learning the Jargon!



## Actuary?

Experts that use data and statistics to assess risks and work out what the premium is



## Cedent?

The insurer who underwrites the primary policy and transfers (cedes) a portion to the reinsurer



## Adjuster?

Examines the claim to check if it is covered by the policy and estimates the cost of the loss



## COPE?

Standard industry require underwriting information



## Capacity?

The largest amount of insurance available from an insurance company or the market in general



# Learning the Jargon!



## Deductible?

The amount your insurer doesn't pay when settling your claim amount



## P&C?

Property & Casualty insurance that protects against physical property (building, car or home) and against legal liability resulting from injury or damage of other people's property



## Excess?

The amount you pay before your insurer will start to pay their portion



## Underwriting?

The process the insurer uses to determine what insurance they will offer you and at what cost



## Premium?

The amount you pay the insurance company for insurance coverage



# Market Structure

- Capital structure and how the money flows
- Key participants and where they sit
- Insurance value chain



# Capital flow that support insurance market



Reinsurers rely on capital to support insurers paying claims



Reinsurance capital looks at ROI (Return on Investment) over a long-term timeframe for return e.g., 30 -50 years



Reductions in capital mean insurers pay more for reinsurance and/or have less capacity for customers

## Total reinsurance dedicated capital

Total industry capital decreased by 11 percent

Chart 1: Total reinsurance dedicated capital (USD billions)<sup>10</sup>



# Key stakeholders



Reinsurers



Insurers



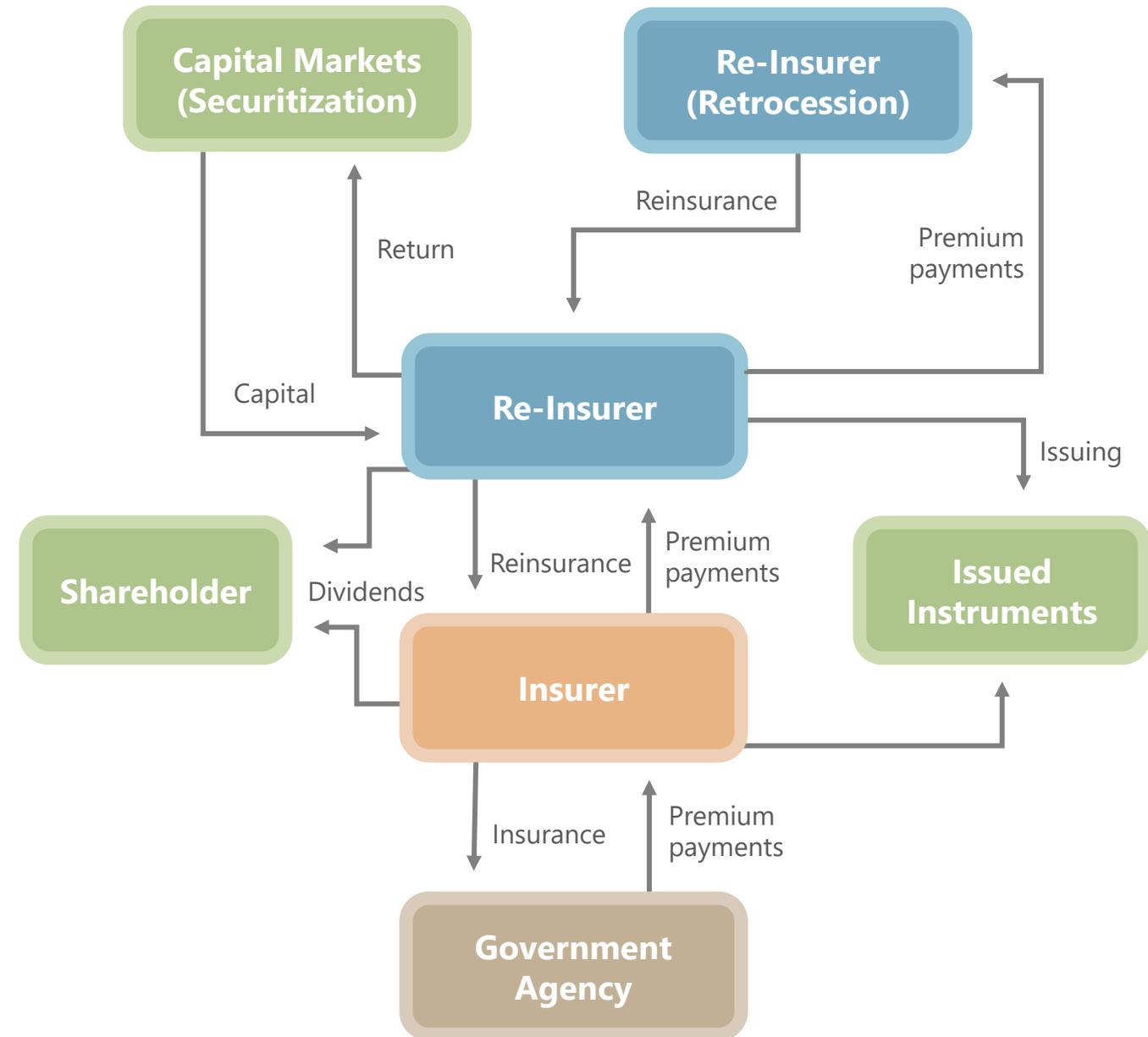
Shareholders  
(Government,  
private and listed)



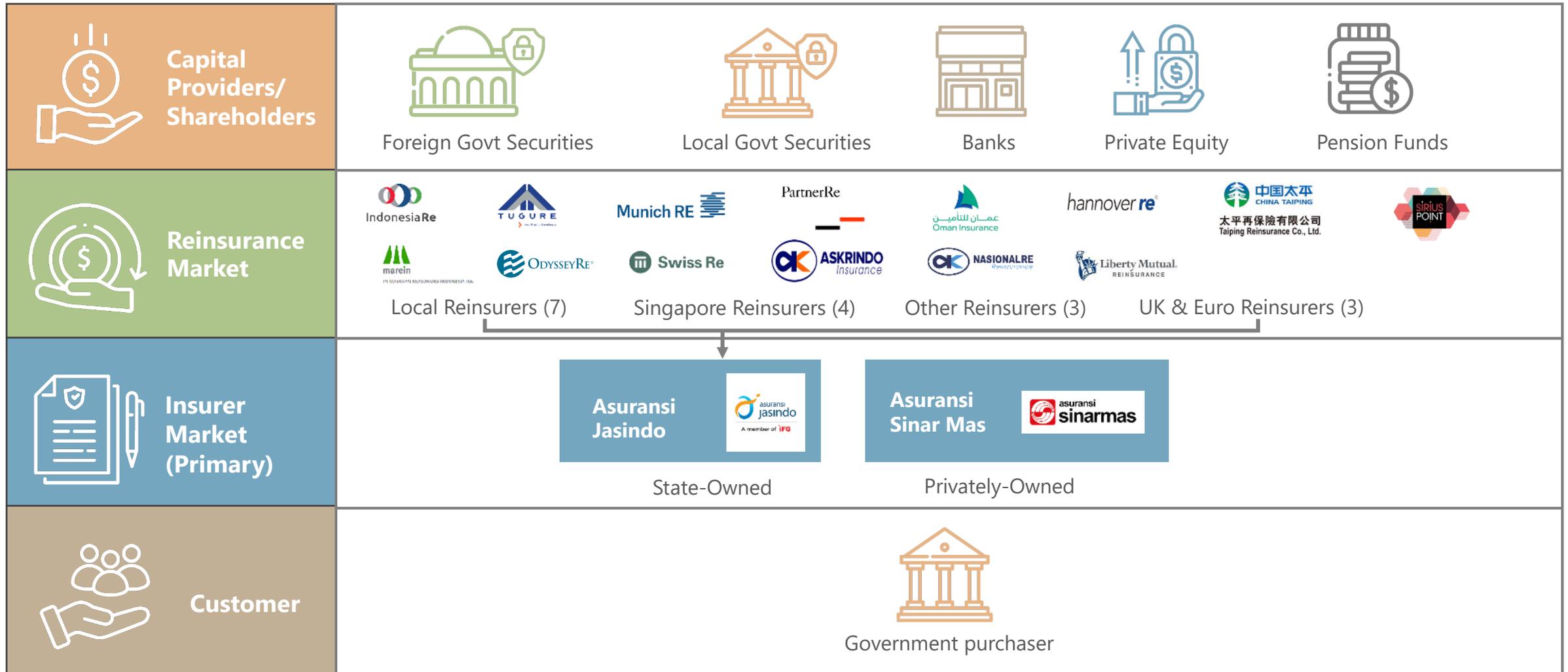
Government  
Agencies



Intermediaries  
(brokers, risk  
modellers and  
actuaries)



# Example: Indonesia Market



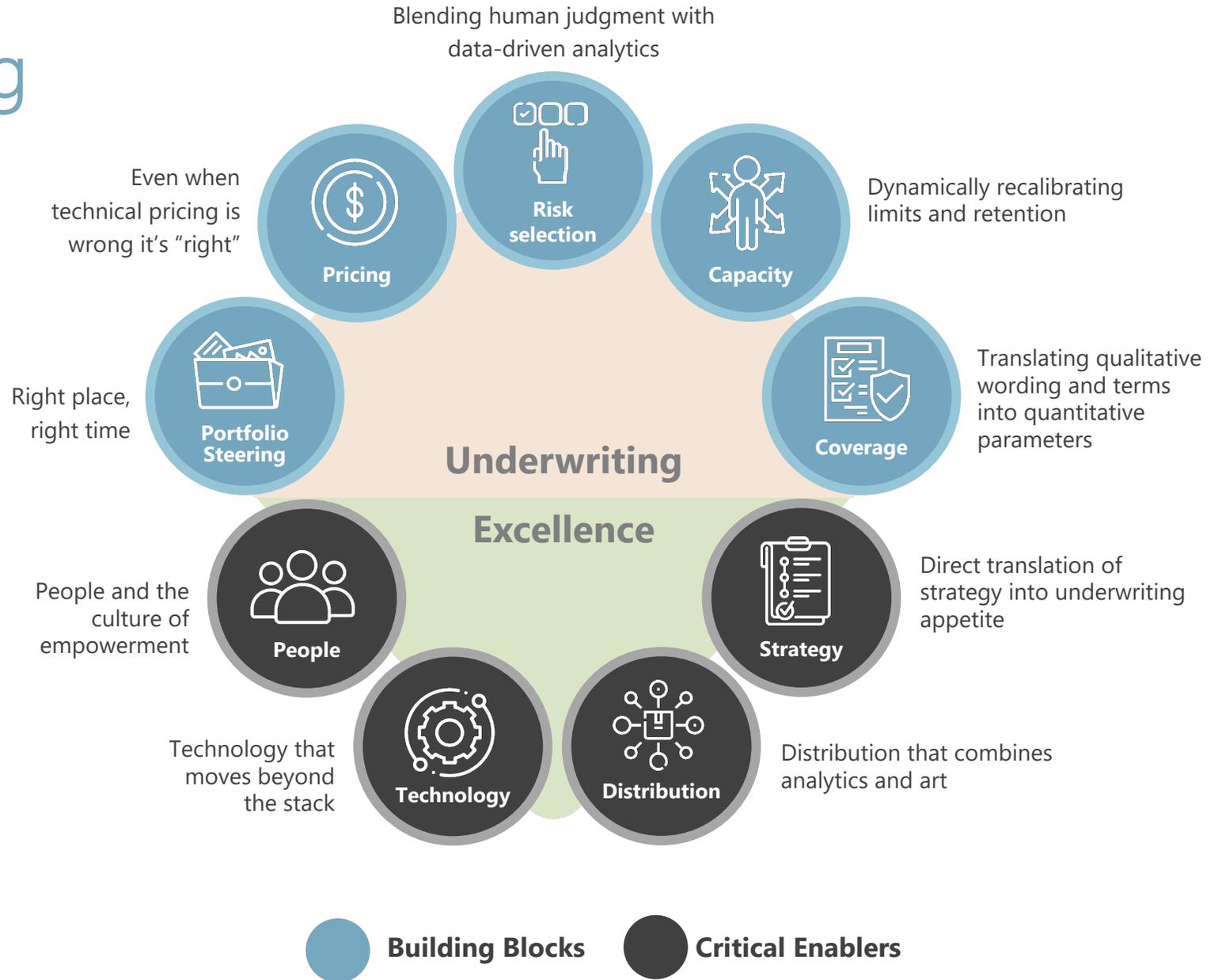
# Insurance underwriting – art & science



Underwriting is a blend of human judgment and data



Data is vital for both qualification and quantification of risk

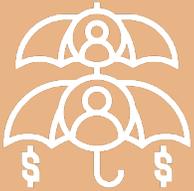


# Market Relationships

- Who are the key stakeholders?
- What is the value of strategic relationships?
- How do you position your risk?

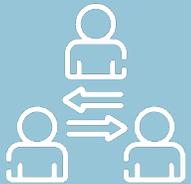


# Key Stakeholders



## Re(Insurers)

- Receive insurance proposals
- Conduct their own analysis and modelling to understand the risk
- Consider what assets they currently insure in the same industry and geography
- Model for aggregations beyond their comfort level
- Offer premiums and negotiate coverage in return for the risk they are taking onto their balance sheets



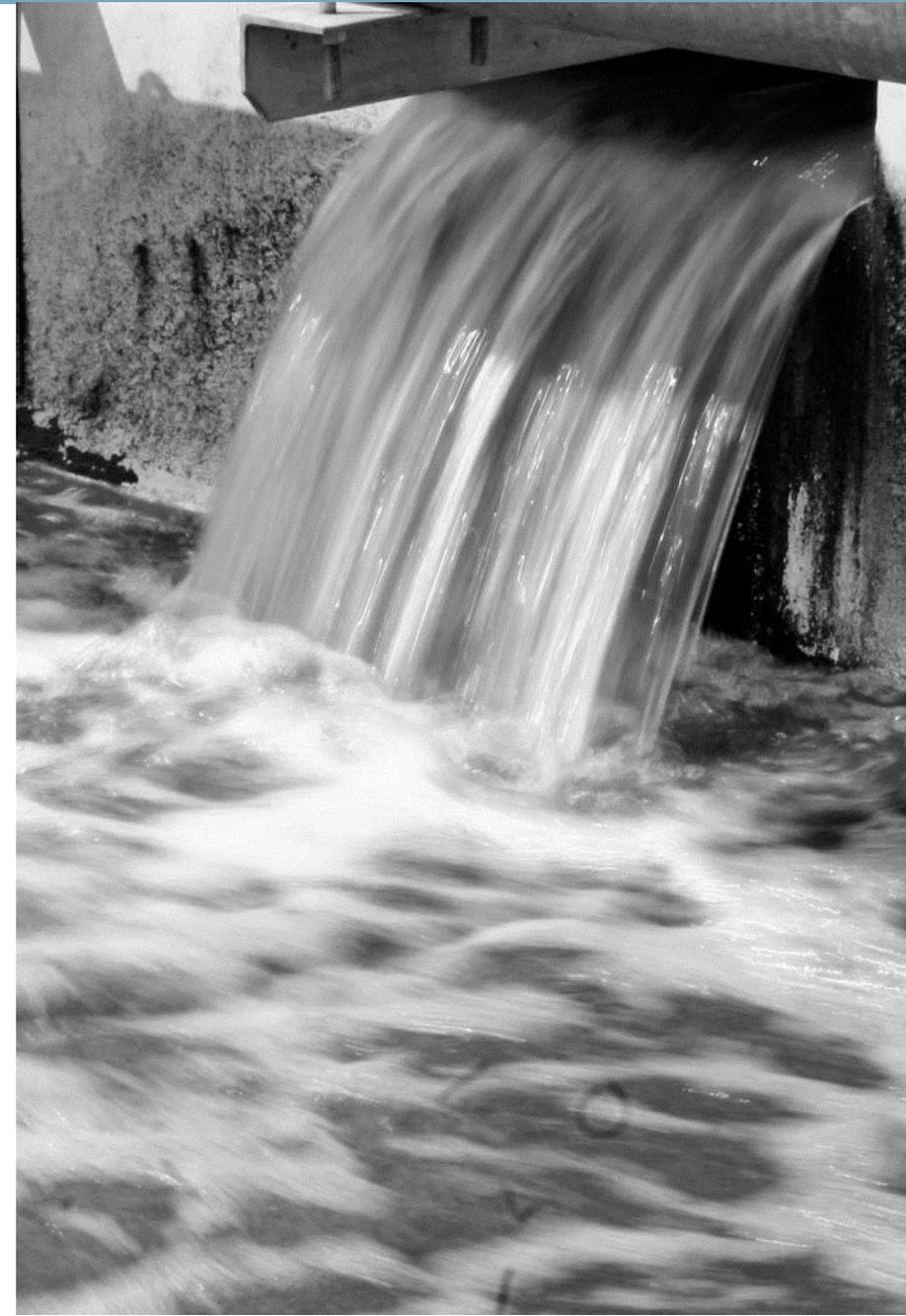
## Intermediaries

- Brokers
- Risk Modellers
- Risk Consultants



## External Advisors

- Insurance Lawyers
- Claims Assessors and Adjustors
- Forensic Accountants



# Role of the broker – Pros and cons



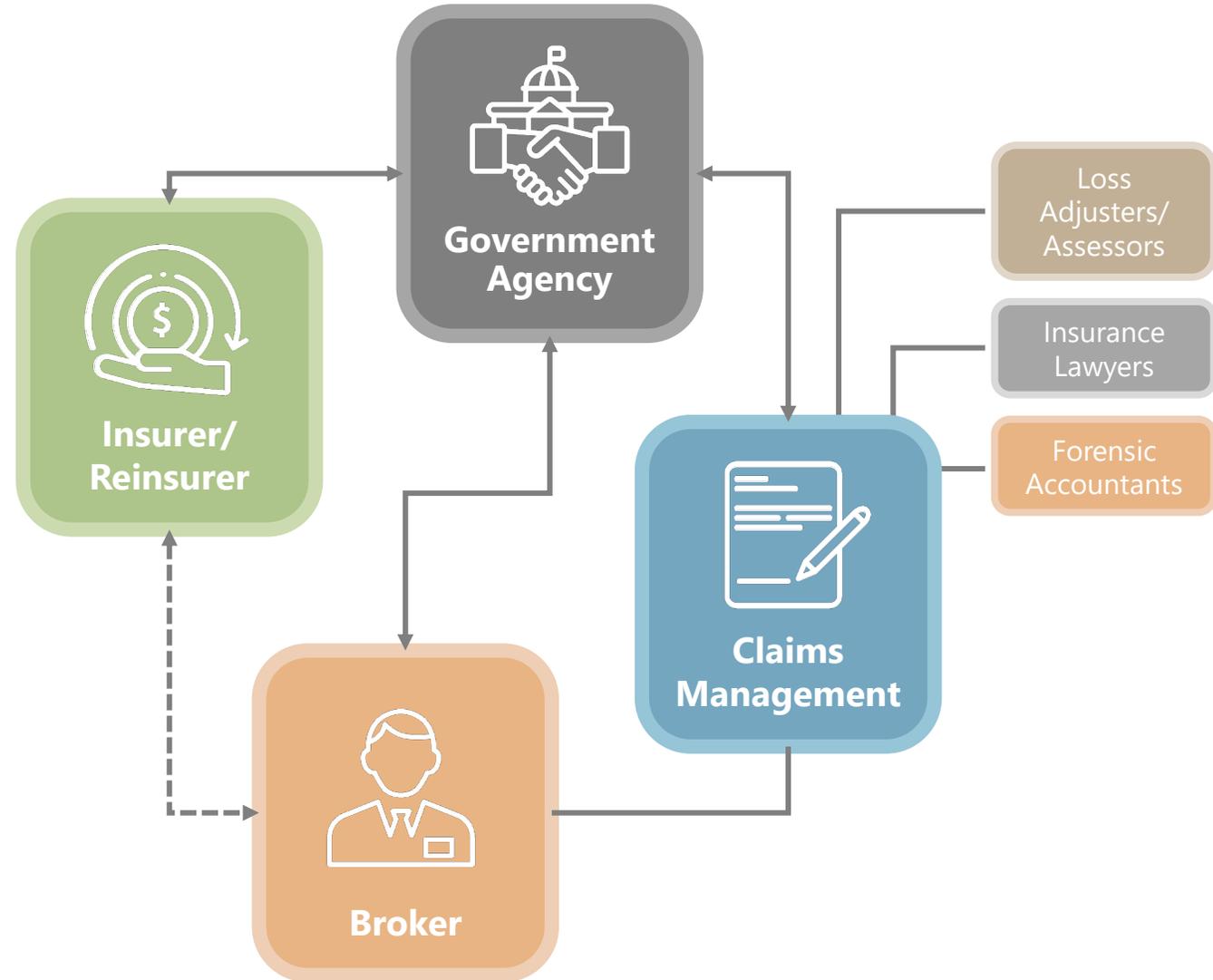
## Pros

- They work for you
- Provide access to a wider market and alternative capital
- Fees are negotiated and on an agreed fee basis
- Provide claims management services and are your advocate in a dispute
- They know the industry and work to negotiate the best terms



## Cons

- Can get too close to the insurers
- Get very busy around common renewal dates
- Need to be actively managed
- May earn other revenue that is not disclosed

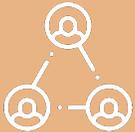


## Benefits of strategic engagement



Positioning your risk for maximum benefit in both a short-term and long-term partnership

- Identify a strong lead insurer
- Only engage with insurers that specialise in your risk/geography
- Beware of 'opportunistic' insurers



Understanding of insurers' expectations from the relationship



Understanding of what variables can be negotiated and what are restricted



Presenting your risk to encourage maximum market attraction and competition

## How to enhance market engagement?



Use objective data to support position



Open and clear communication on objectives



Build trust through sharing full and transparent information in confidence



Seek partnership arrangements with two-way benefits



Sell your credentials as a prudent risk manager (First Line of defence)

# Positioning your risk to the market



## Underwriting Data

Asset location  
 Asset valuation methodology  
 COPE information  
 Asset management  
 Operations & Management

*Data needs to be complete, accurate and easy to understand*



## Risk Modelling

Catastrophe events  
 Maximum Probable Loss (MPL)  
 Limits/deductible  
 Perils covered

*Outline structure of what is being sought, with ability to be flexible if required*



## Strategy & Objectives

Demonstrate an understanding of the overall risk exposure  
 Outline of current and planned risk mitigations and investment  
 Long term objectives and pathway  
*Bring the insurer on your journey and stand-out from other customers*

# Choosing your lead insurer

## Be strategic – choose carefully



Knowledge  
of region



Have an  
appetite to write  
your risk



Demonstrate  
strong claims  
management



Seek references  
of other  
customers

## Items to consider:



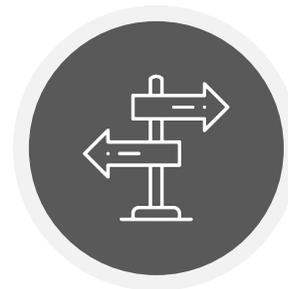
Admitted Insurer  
vs Non-admitted



Claims Paying Ability:  
1. Standard & Poor's rating  
2. Financial security rating



Examples of  
benchmarking



Local decision  
making



Footprint in  
your territory

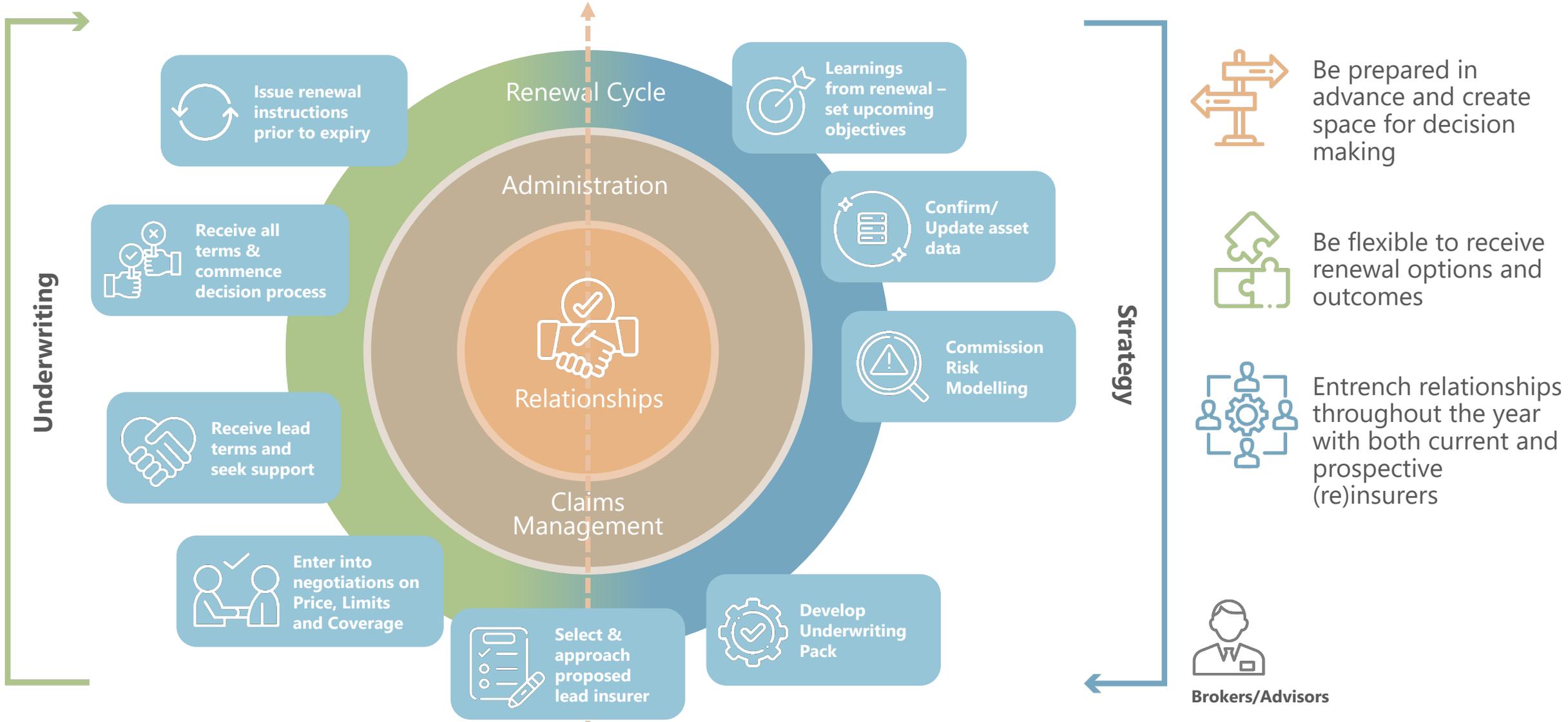


# Market Engagement

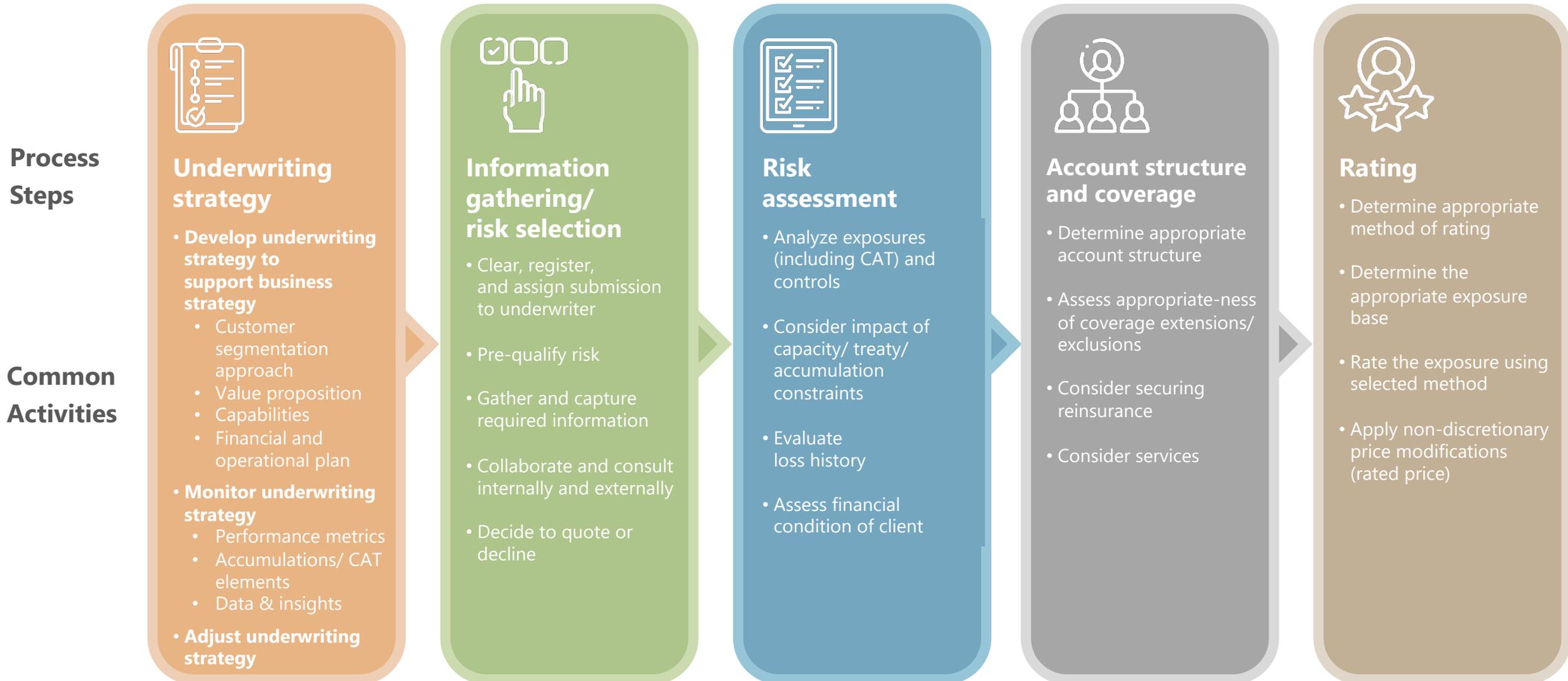
- Procurement practices throughout the year
- Understanding market pricing cycles
- Fronting for placement and claims



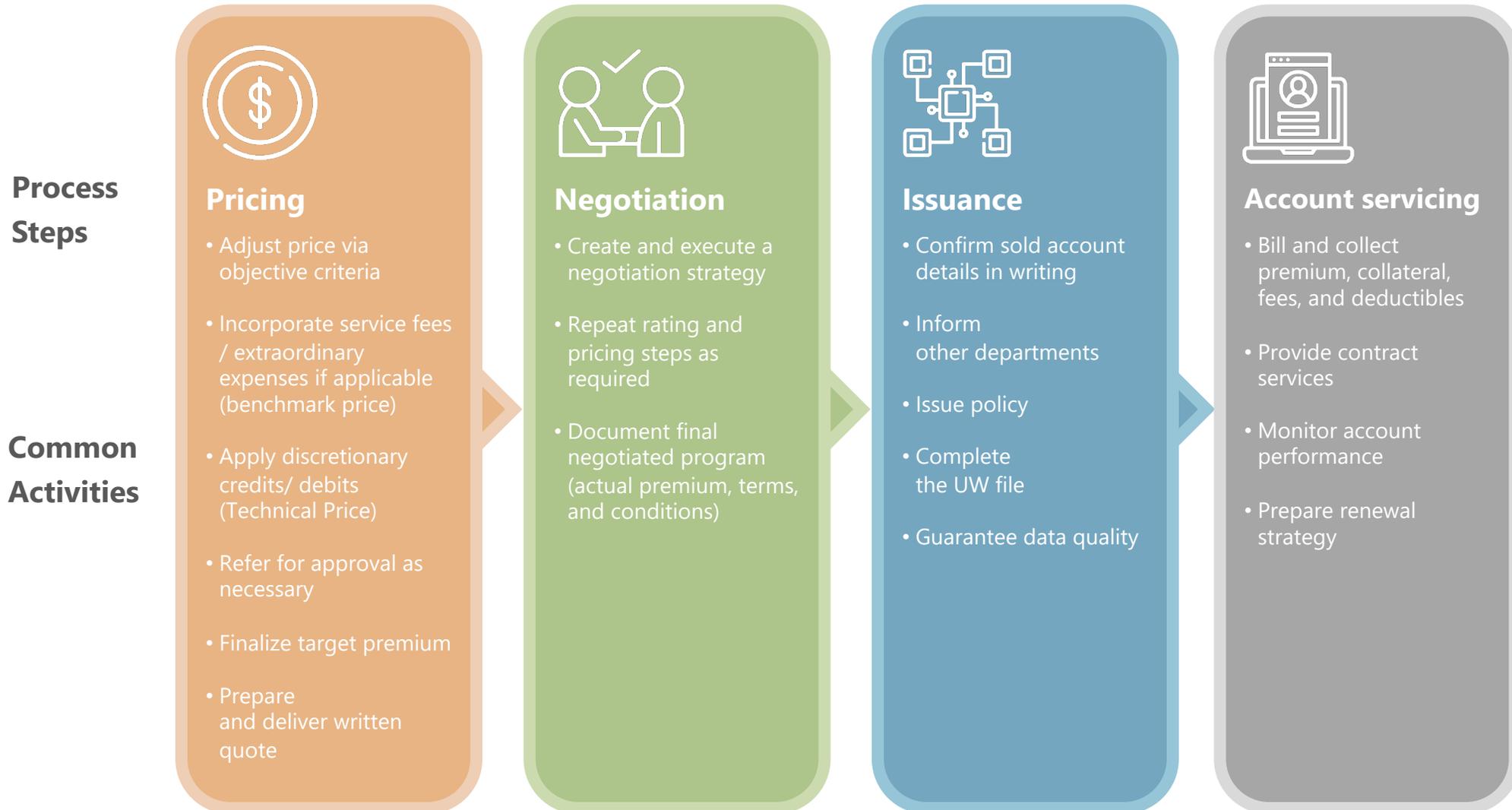
# Insurance Annual Renewal Cycle



# Underwriting Process



# Underwriting Process



# Underwriting decision making



## Capacity

- Underwriters will have a set maximum capacity then can allocate to any one risk – E.g. USD 50m
- Underwriters will also have a set maximum capacity they can allocate to any one natural catastrophe event and/or zone E.g. USD 500m



## Underwriters must understand the risk, assess the risk and make a decision quickly. It is more difficult to do this if information is low and/or presented poorly. For example:

- The Broker or client doesn't know the risk in detail when explaining the risk to the underwriter
- No draft term sheet or contract or expiring wording
- No claims/ loss record or it's incomplete with limited details of cause of loss
- No risk information – Survey, COPE etc
- Values are on PDF and not Excel, or are on multiple Excel workbooks (Underwriter cannot get the data into the pricing model)



## Do I need Reinsurance?

- Reduce the risk of catastrophe exposure
- Help spread risk
- Stabilize loss experience
- Increase capacity
- Capital / surplus relief



# Insurance as a Service



## Claims Management

- Claims notification, tracking and management
- Claims assessment and disputes



## Actuarial Services

- Data and analysis of underlying risk
- Loss ratios, technical risk pricing, return periods



## Risk Engineering/ Risk Assessments

- Objective and independent feedback on risk quality, risk protections and recommendations for improvement



## Policy and Coverage

- Included and excluded perils, conditions, warranties and clauses
- Bespoke wordings vs market standard wordings



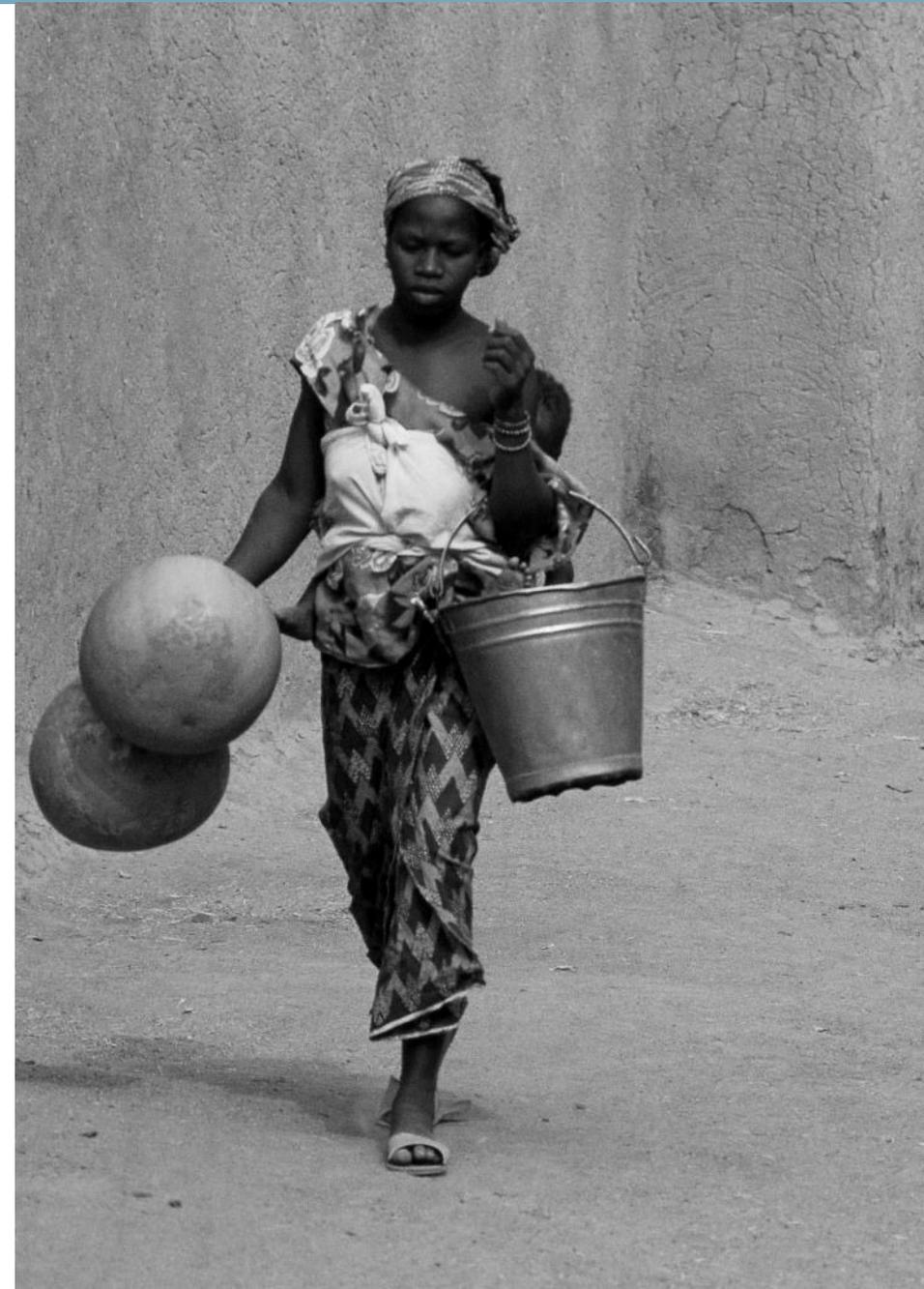
## Relationship Management

- Interaction with market, strategic relationships
- Knowledge and experience



## Industry data sharing (?)

- Benchmarking



# Insurance Market Pricing Cycle



Currently in a Hard Market



More large events are experienced (e.g. Hurricane Ian - ~US\$53-76bn insurable loss)



**Investment returns are poor –**

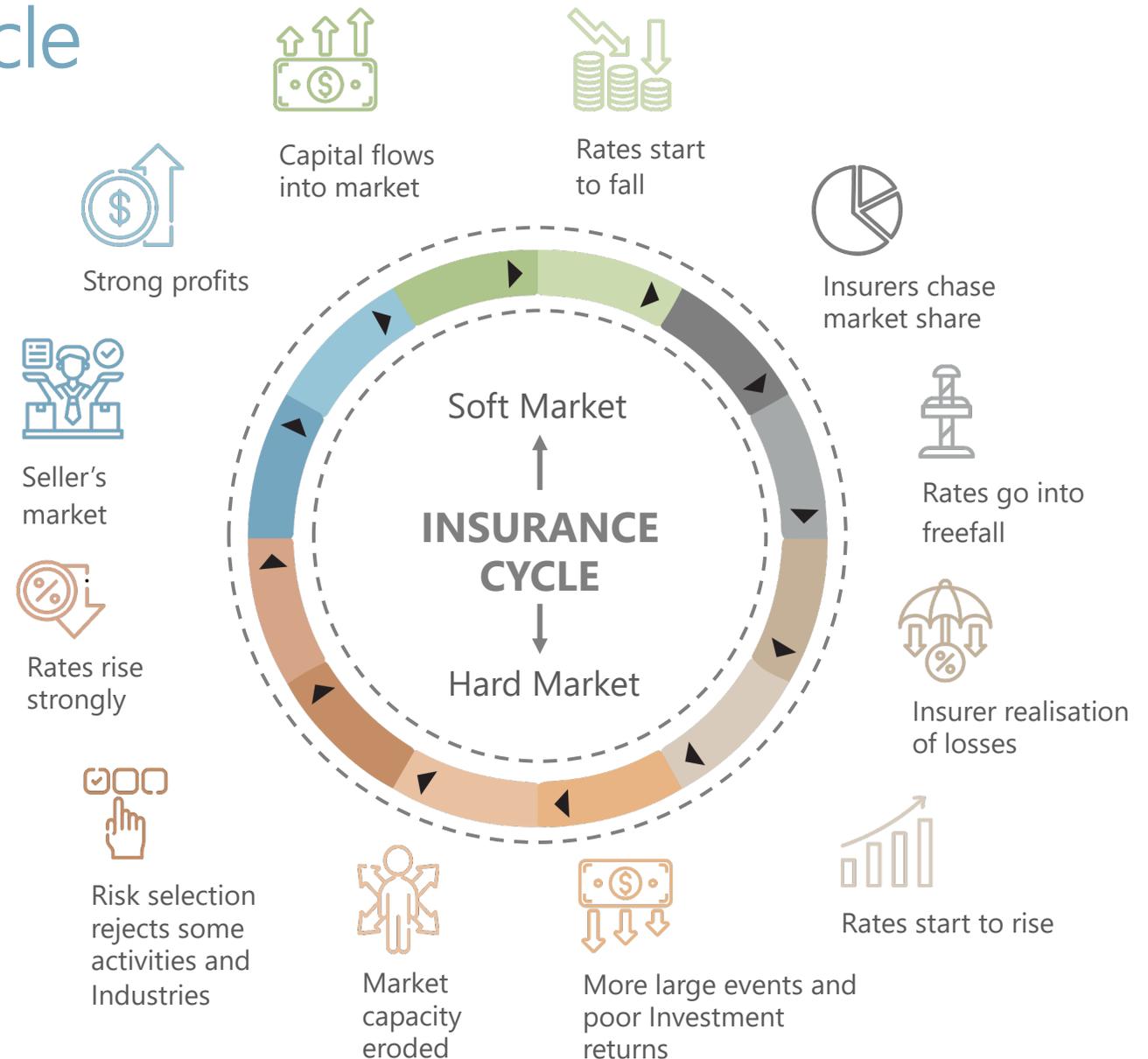
- Global recession
- Inflation
- Supply Chain issues



Signs of capacity eroding in high risk perils



No upward levers available in the near term



# Key Takeaways

What have we covered



# Key Takeaways



Insurers are supported by reinsurance capital that changes with the different global economic cycles



Key stakeholders are people – not companies, and it is important that you seek to build a long-term relationship with them through trust and two-way communication



You will get the best outcome when you understand your risk profile, know your objectives and provide a clear and data-driven presentation to the market



There are different activities that need to be undertaken throughout the whole renewal cycle each year that support the best outcome

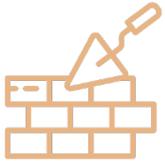


# Annex



# Reference – COPE explained

## Property All Risks COPE data:



**Construction** (e.g., frame, masonry, masonry veneer, superior construction, mixed-masonry/frame);



**Occupancy** (how the building is being used for commercial property and whether it is owner-occupant or renter-occupied for homeowners and the number of families for which the building is designed);



**Protection** (e.g., quality of the responding fire department including whether it is paid or volunteer, adequacy of water pressure and water supply in the community, distance of the structure to the nearest fire station, quality of the fire hydrant, and the distance of the structure to the nearest hydrant); and



**Exposure** (risks of loss posed by neighbouring property or the surrounding area, taking into consideration what is located near the property, such as an office building, a subdivision, or a fireworks factory).



# Location of Risk Rule

**Legal, regulatory, licensing and Insurance Premium Tax (IPT) requirements in many cases attach to:**

- The location of insured risk, or
- The place of the insurer's insurance activity

## Master Policy Country



Insurer

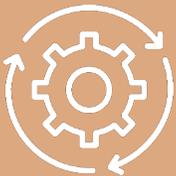


Policyholder

Worldwide cover -  
naming of local risk  
located in all foreign  
jurisdictions as co-  
insured



## Local Policy Country



Local Operation

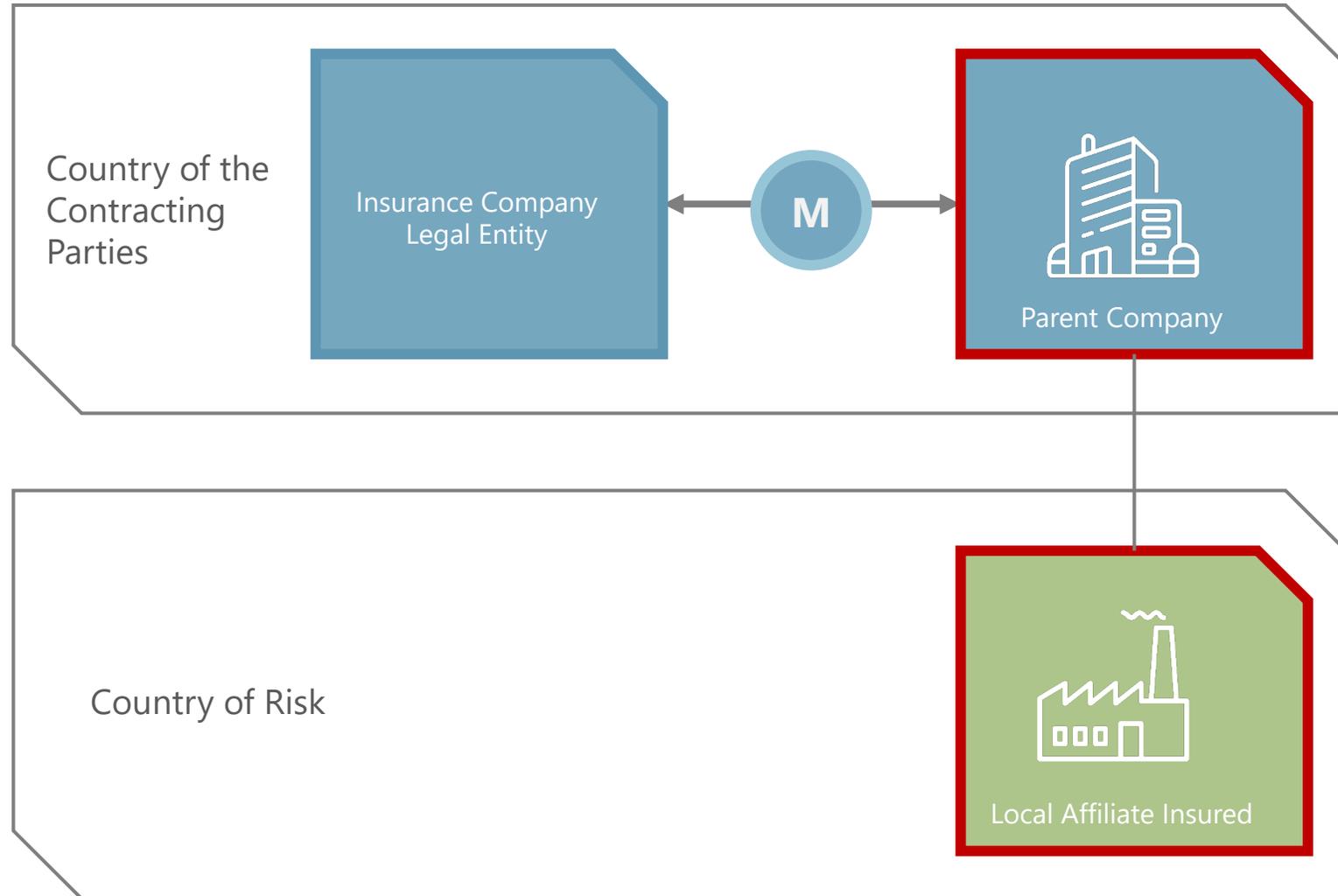


Risk



# Scenario 1: Non-admitted Cover Ground-Up

## Insurance Transactions



The Parent Company is the policyholder and the Local Affiliate Insured (in the Country of Risk) is not a contracting party to the Master.



However, both are insureds under the Master policy.



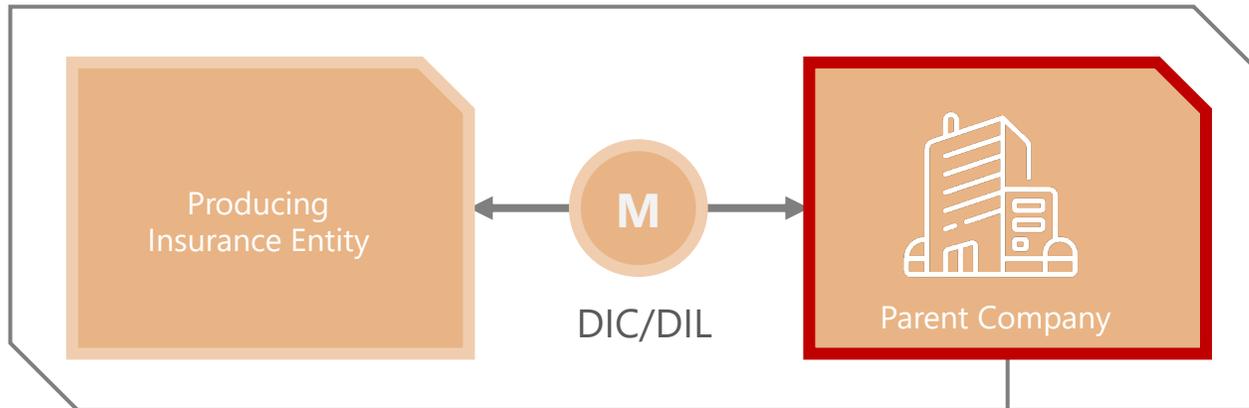
Insurance transactions take place outside the Country of Risk of the local affiliate insured.



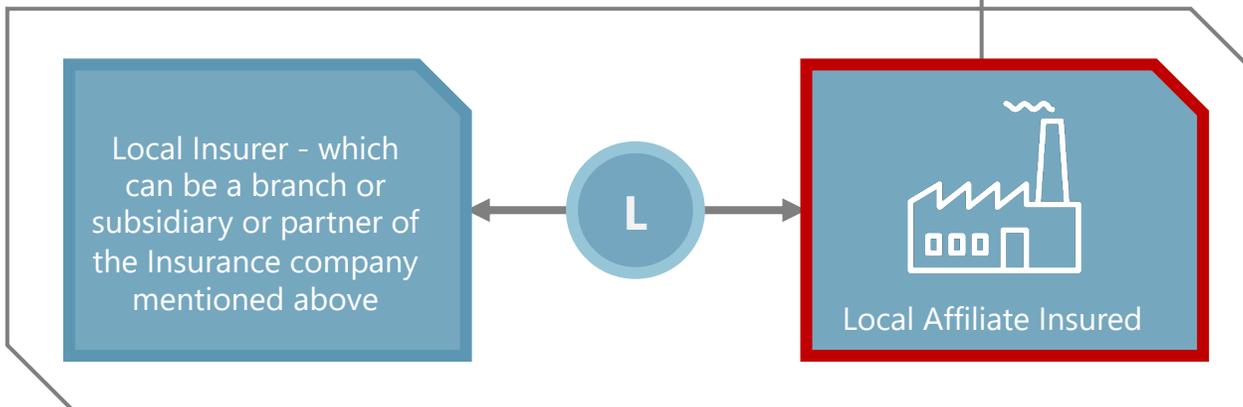
The Master policy is negotiated and entered in the country of domicile of the parent company.

## Scenario 2: Non-admitted 'Difference in Conditions' (DIC) / 'Difference in Limits' (DIL) over Local Ground-Up Insurance

### Country of the Contracting Parties



### Country of Risk



The Local Affiliate Insured has a local policy issued by a Local Insurer (can be Insurer or a Partner).



The Parent Company is the policyholder and the Local Affiliate Insured is not a contracting party to the DIC/DIL Master.



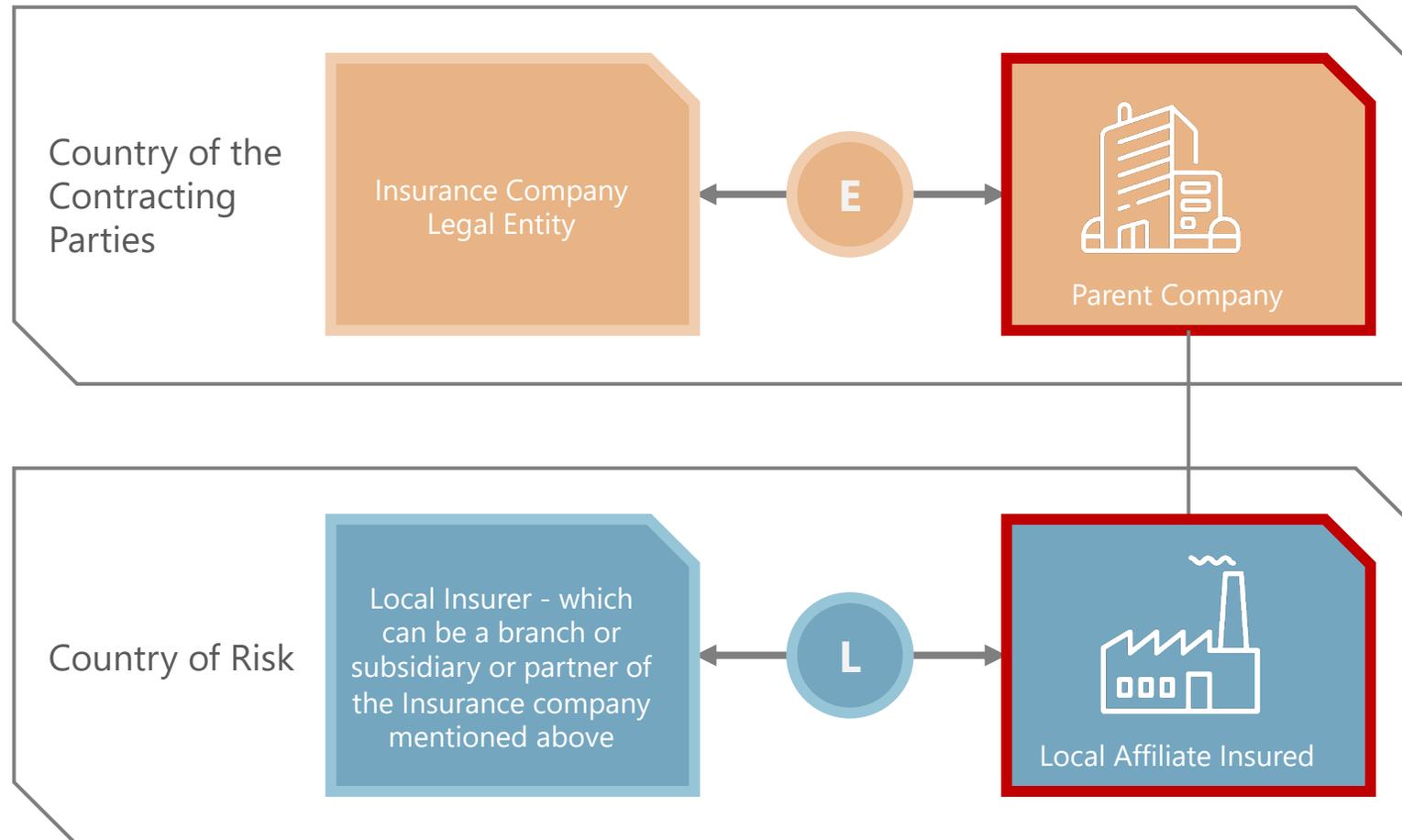
The Parent Company and Local Affiliate Insured are insureds under the DIC/DIL Master policy.



The Master policy provides DIC/DIL cover over the limits and cover provided by the local policy.

# Scenario 3: Non-admitted Excess Insurance over Primary Layer and/or Local Policy

## Insurance Transactions



The Local Affiliate Insured has a local policy issued by a Local Insurer (can be Insurer or a Partner).



The Parent Company is the policyholder and the Local Affiliate Insured is not a contracting party to the Excess policy.

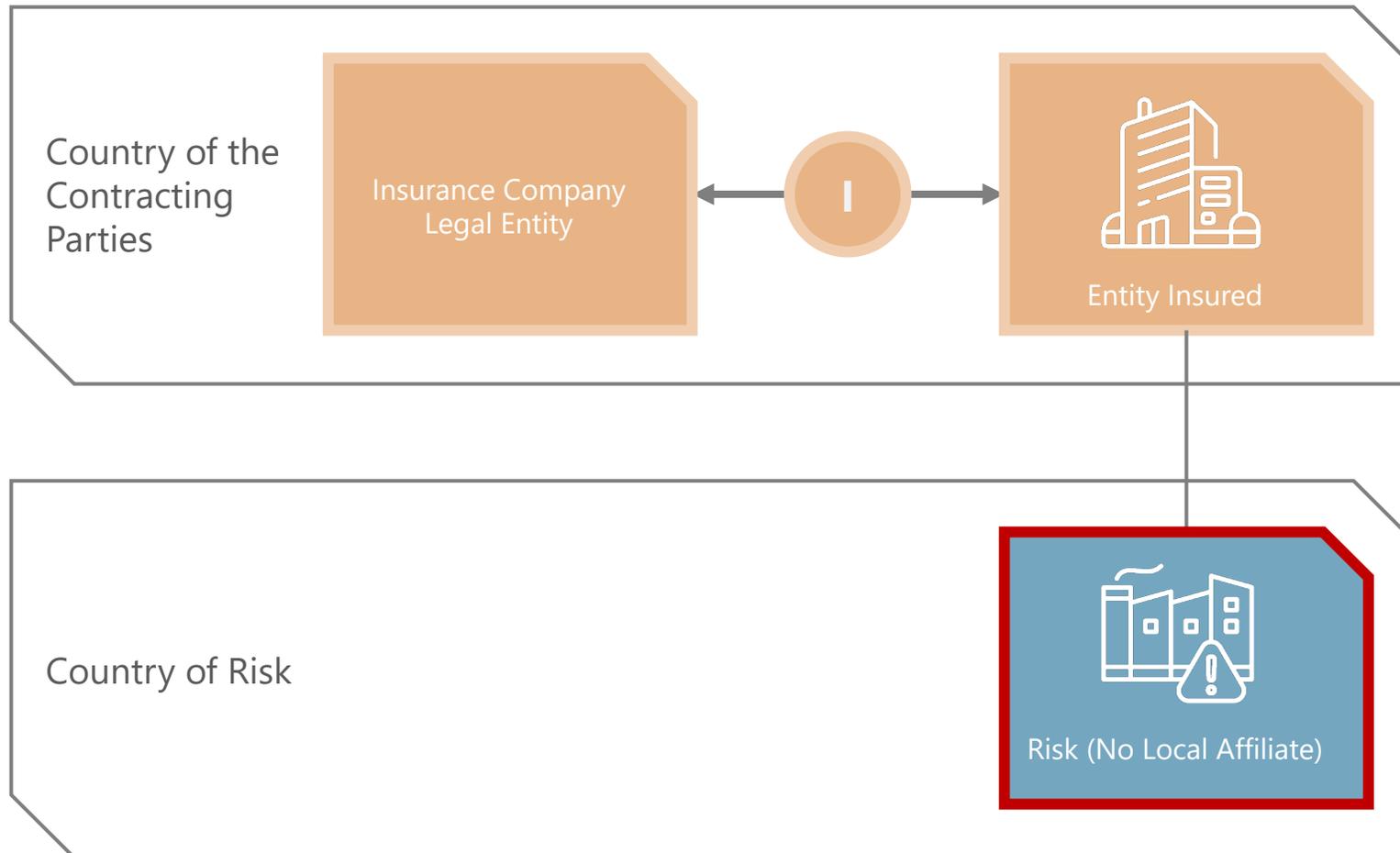


The Parent Company and Local Affiliate Insured are insureds under the Excess policy.



The Excess Layer policy is negotiated and entered in the country of domicile of the Parent Company.

# Scenario 4: Non-admitted Insurer covering Risk in another Country



The contracting parties to the insurance policy are the Producing Insurance Entity and the Entity Insured.



The Entity Insured does not have a Local Affiliate in the Country of Risk.

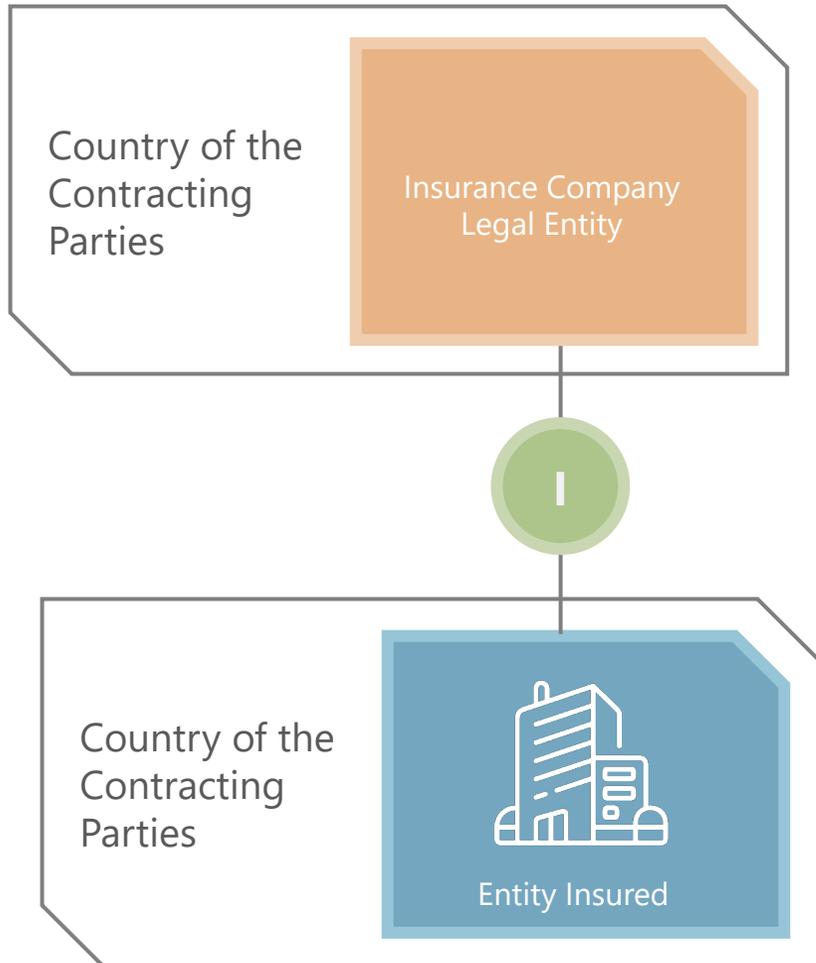


The risk covered in the insurance policy relates to assets owned by the Entity Insured.



The insurance policy is negotiated and entered, the premium is invoiced and paid and the claims are paid in the country of the contracting parties.

## Scenario 5: Non-admitted Insurer concluding policy with Entity located in another Country



The contracting parties to the insurance policy are the Producing Insurance Entity and the Entity Insured.



The contracting are located in **different countries**.



Insurance transactions take place in the country of risk.



Claims payments are made to the entity insured.