

Review of the recent reinsurance regulations and its impact on the life industry

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Agenda

- **Size of the Reinsurance Market in India**
- **Back To Basics**
- **Why do companies Reinsure**
- **Review of the proposed draft**
 - **Examples of Group Business**
 - **Example of Health Business**
- **IAIS Principles**
- **Summary**



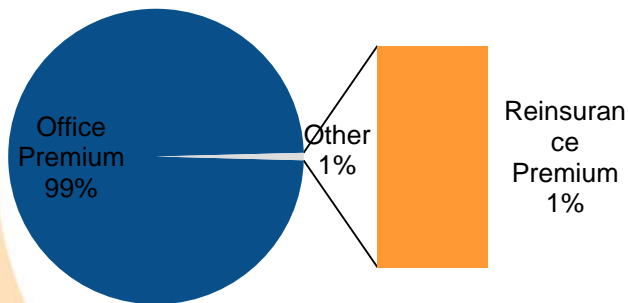


Size of the Market

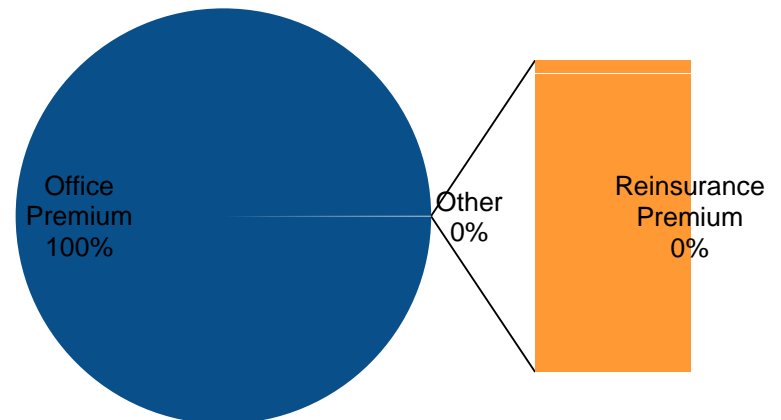


Reinsurance Market Size in India

**Reinsurance Premium
Private Players 2011 -
12**



**Reinsurance Premium LIC
2011 - 12**



(In INR Million)

	Office Premium	Reinsurance Premium	%
LIC	2,028,893	851	0.04%
Private Players	794,319	6,426	0.81%

Source: IRDA Annual Report and Public Disclosures

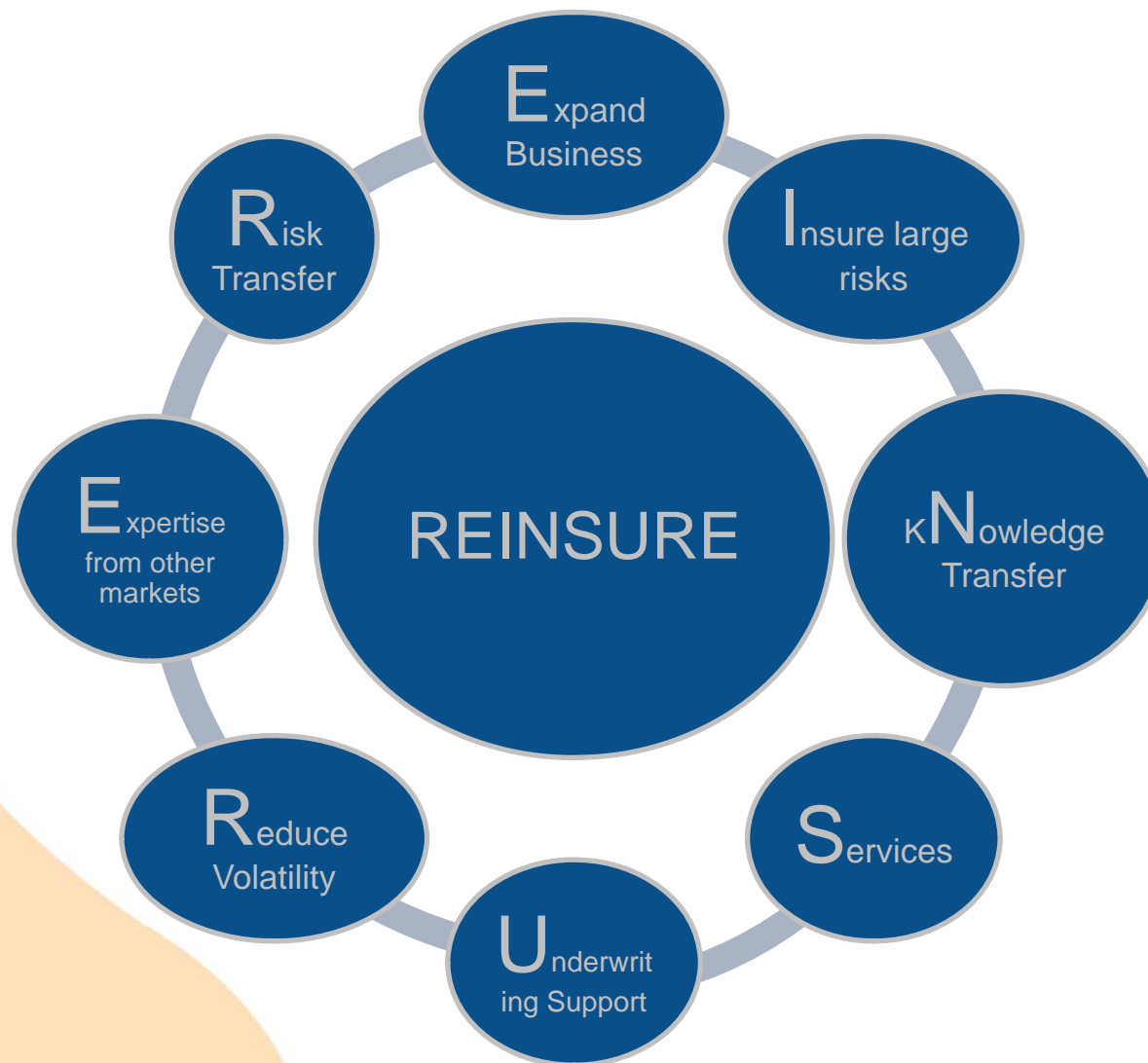




Back to Basics



Back to Basics





Why Reinsure



Why do companies Reinsure

- Can cover risks that may be denied otherwise e.g Diabetics
- Can insure large risks without threatening the results
- New Products e.g Critical Illness
- New Rating Factors e.g Non smokers



Value of Reinsurance

- **Easily Measured**
 - ✓ Reserves
 - ✓ New Products
 - ✓ Large Covers
- **Less Easily Measured**
 - ✓ Risk Management
 - ✓ Knowledge Transfer
 - ✓ Keeping in touch with the market within and outside India
- **Cost of Reinsurance**
 - ✓ All large deals are open tenders
 - ✓ Very Competitive Market





Review of proposed regulations



Draft Regulation Proposals

“Benchmark” Limits

Cap on the reinsurance premium on product level

Only Surplus i.e. No Quota Share

Maximize Premiums within India

Credit ratings



“Benchmark” Limit

- Retention to be based on the age of the Company

Type of the products or riders	Age of the insurer or year in which the risk is introduced			
	0- 3	4 - 7	8 - 11	12- 15
Pure protection products	5 lakhs	10 lakhs	15 lakhs	20 lakhs
Savings products	10 lakhs	20 lakhs	30 lakhs	30 lakhs
Group protection	5 lakhs	10 lakhs	15 lakhs	20 lakhs
Health insurance	1 lakh	3 lakhs	3 lakhs	4 lakhs



“Benchmark” Limit

- Age of the Company – 12 years

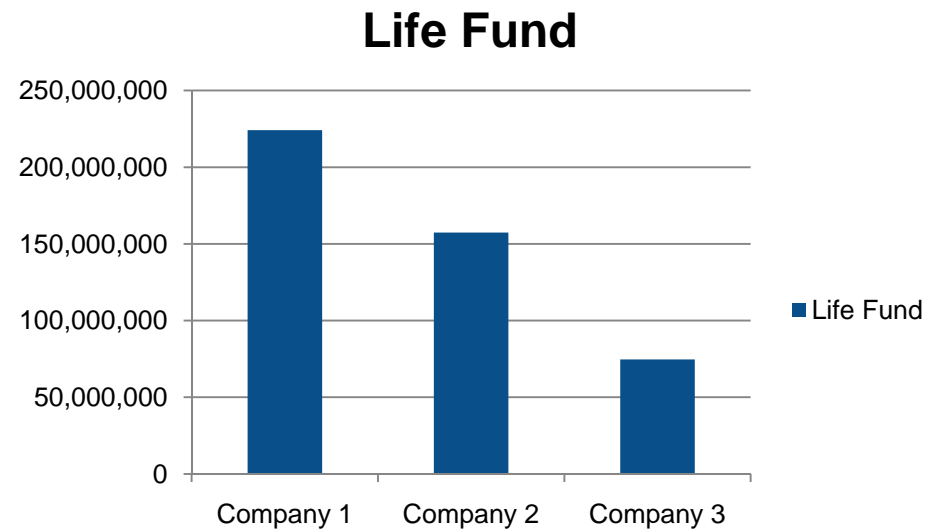


Figure in 000's

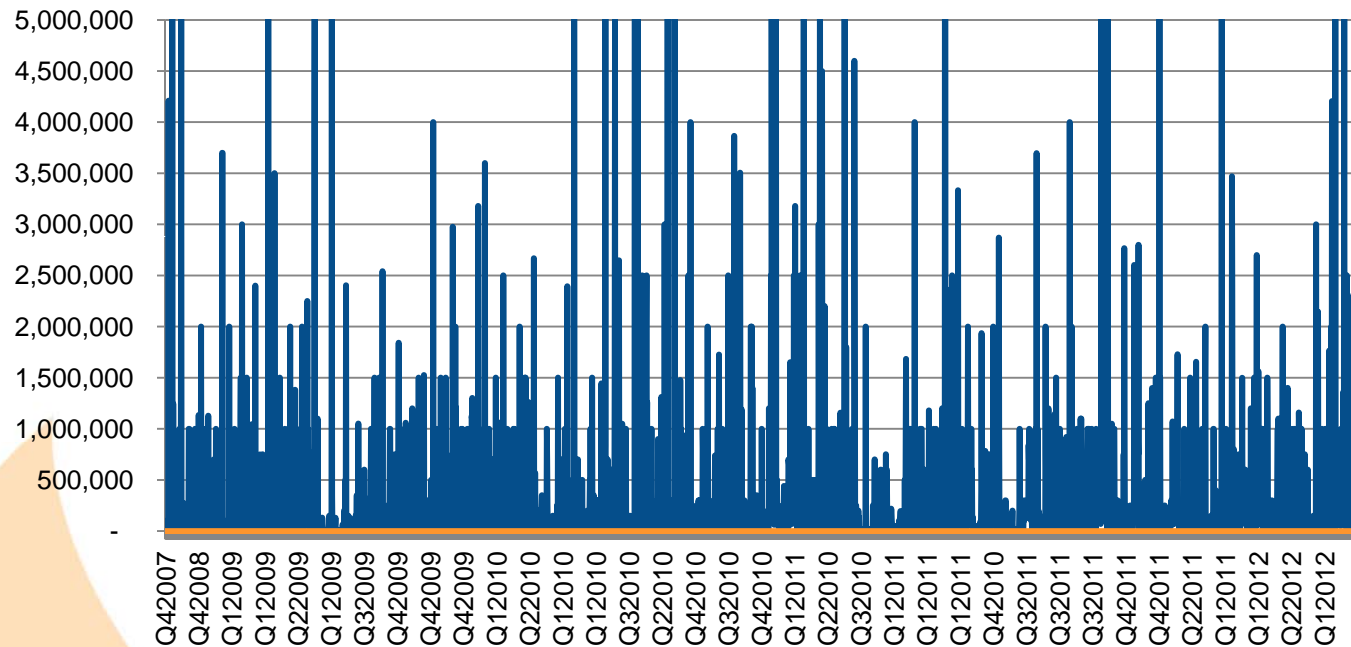




Illustrations



Example of Group Business

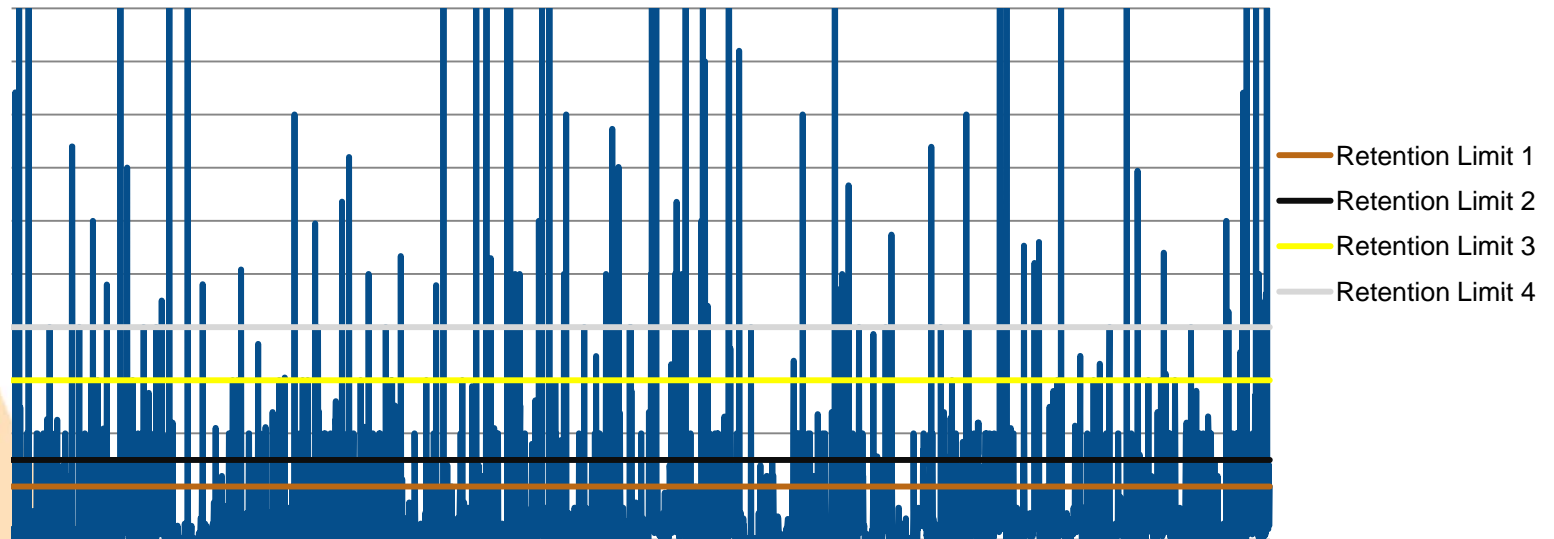


Claims



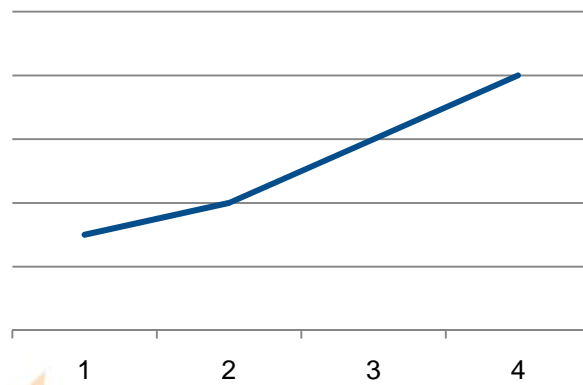
Example of Group Business

Various Retentions

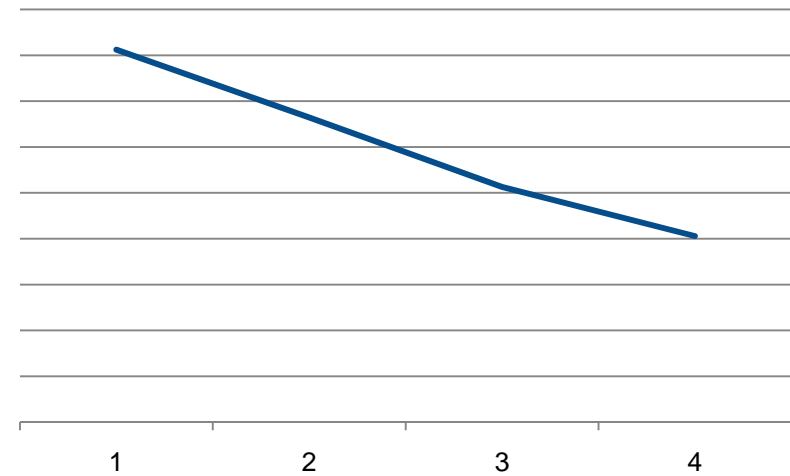


Various Effects

Retention

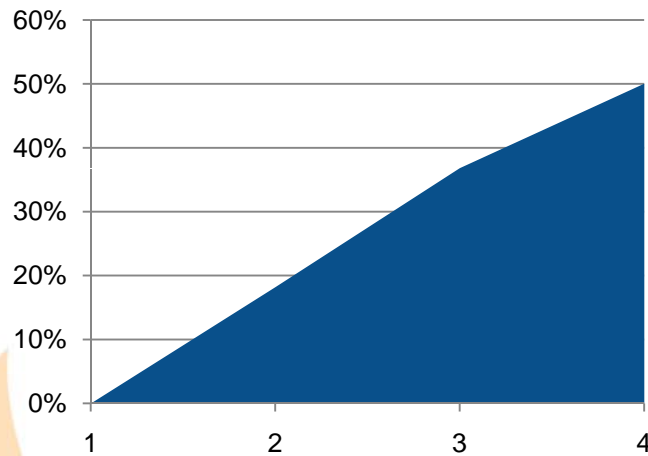


Reinsurance Premium

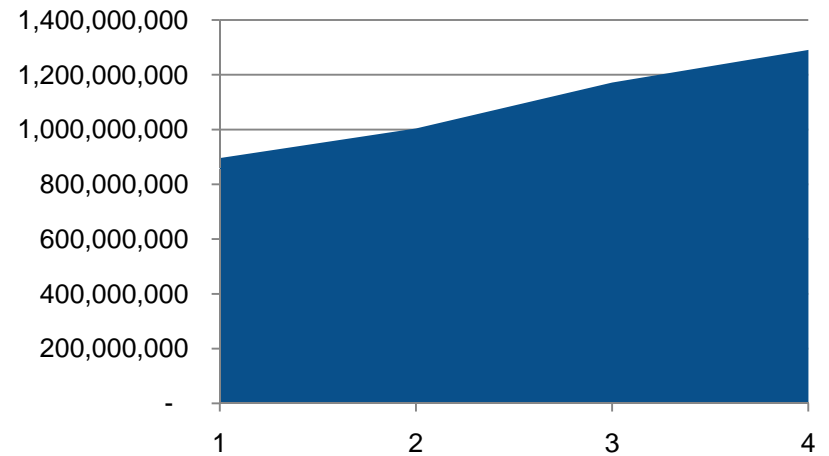


Various Effects

Saving in RI prem

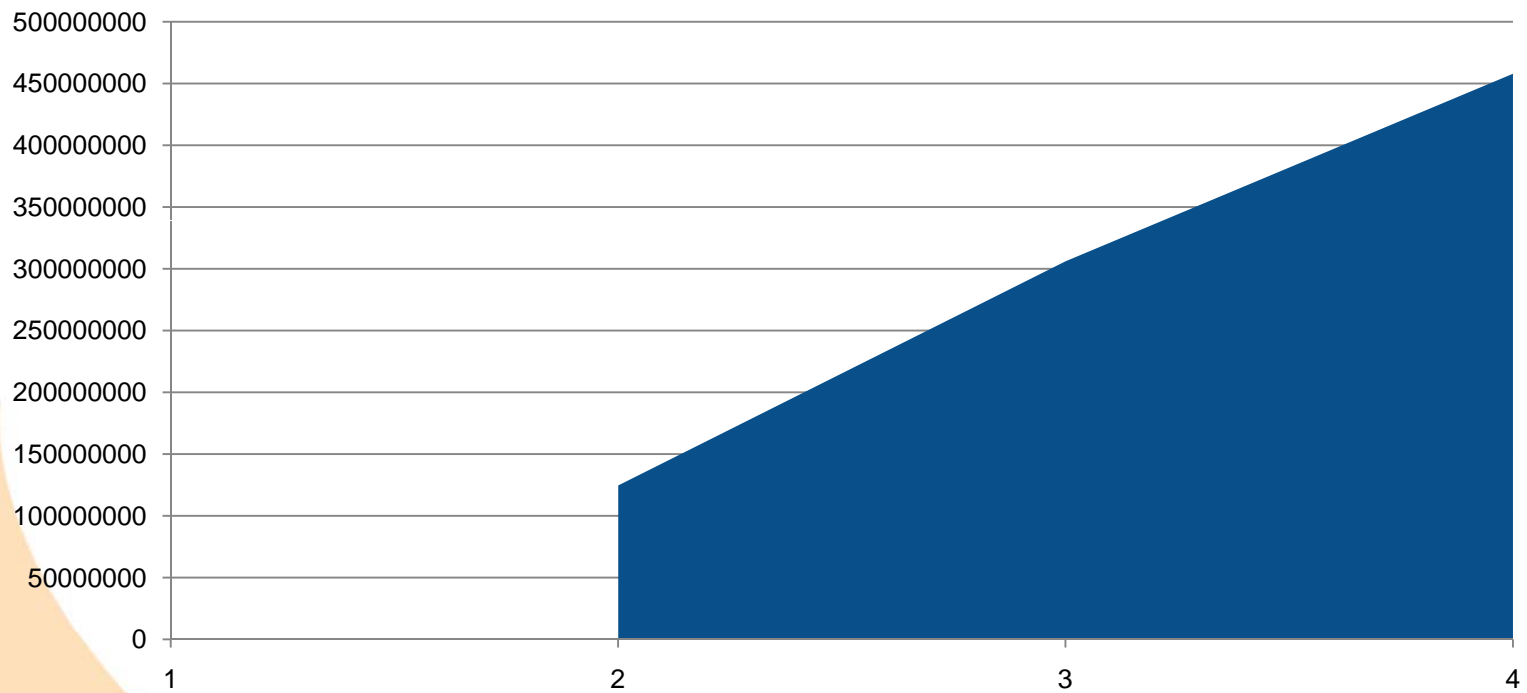


Capital Requirement



Various Effects

Additional Capital



Points to Ponder

- **Why have these?**
- **Are Shareholder's prepared to put this capital?**
- **Are the margins sufficient in this business to substantiate this extra capital?**
- **Will this not mean effective hardening of group rates to end customer?**
- **Are Shareholder's losing an opportunity to access alternative capital sources?**

Recommendation → Should be Determined by Board/Actuary





Cap on the reinsurance premium on product level



Cap on Premium ceded

➤ **Proposal to Cap the premium ceded**

- **Savings Products – 2%**
- **Risk Products – 30%**



Points to Ponder

- Are these serving any purpose?
- How is this going to be monitored?
- Under Reinsurance is often more dangerous than over reinsurance

Recommendation → Allow greater freedom to insurer



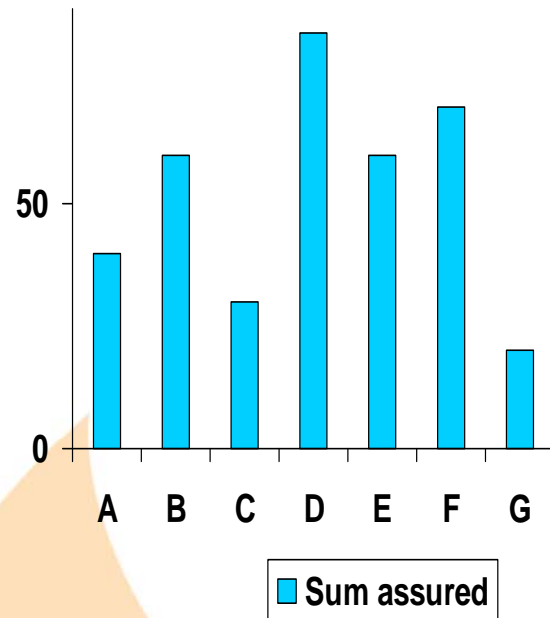


Quota Share

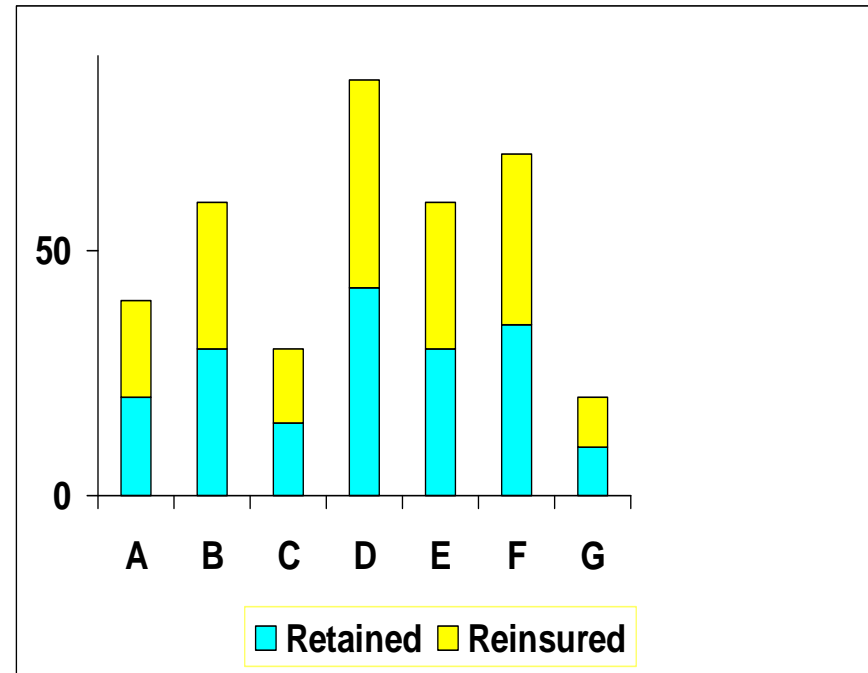


Quota share

Insurer's portfolio



Quota share reinsurance

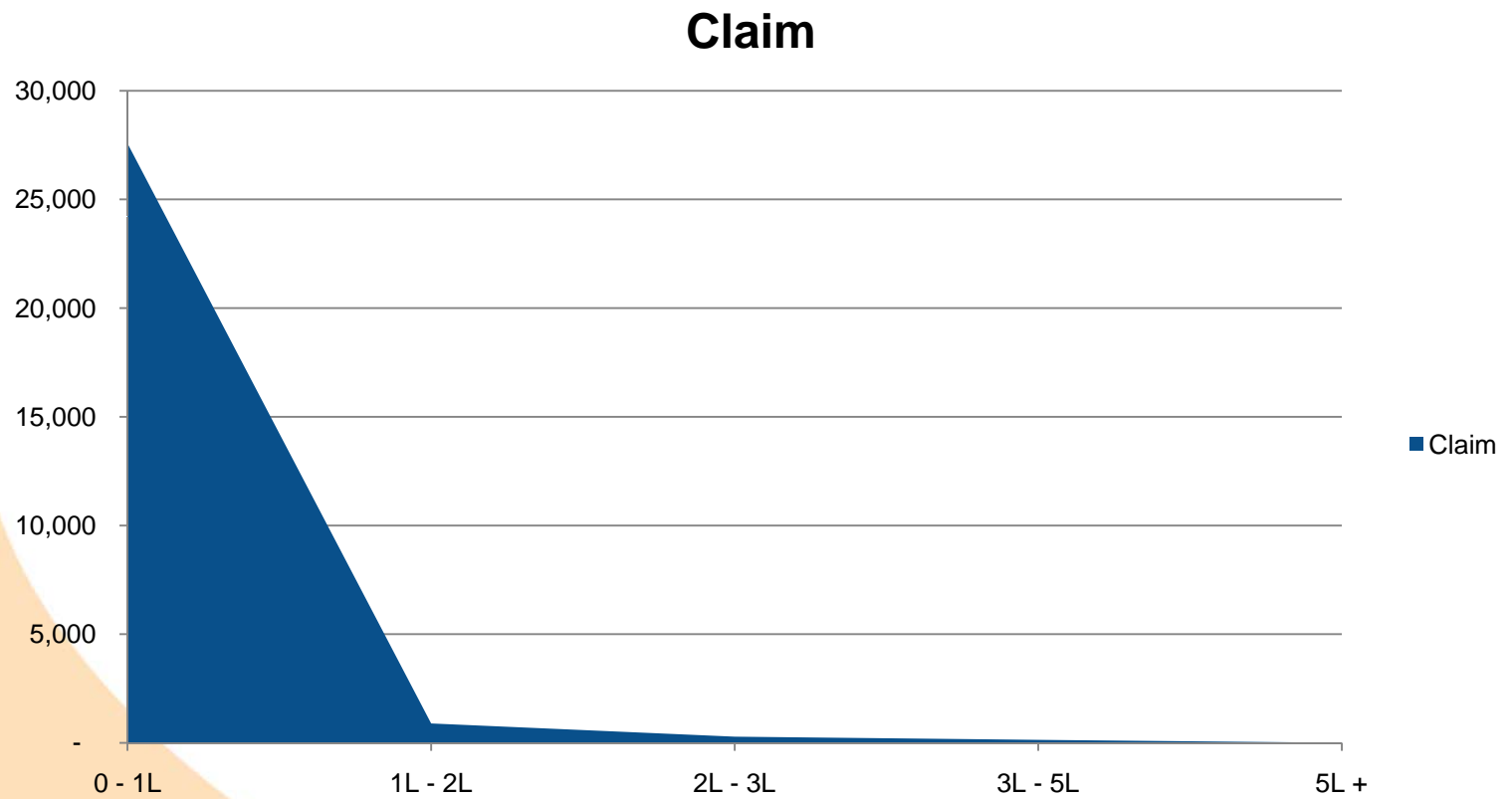


Quota Share

Protection against:	<i>More</i>	<i>Less</i>
	<i>appropriate</i>	<i>appropriate</i>
Risk of error	✓	
Risk of random fluctuation		✓
Risk of catastrophe		✓
Risk of change	✓	



Health Business



Points to Ponder

- **Widely accepted way of reinsuring e.g. U.K Market**
- **New Products**
- **Different Underwriting Practices**
- **Reinsurer's to have skin in the game**



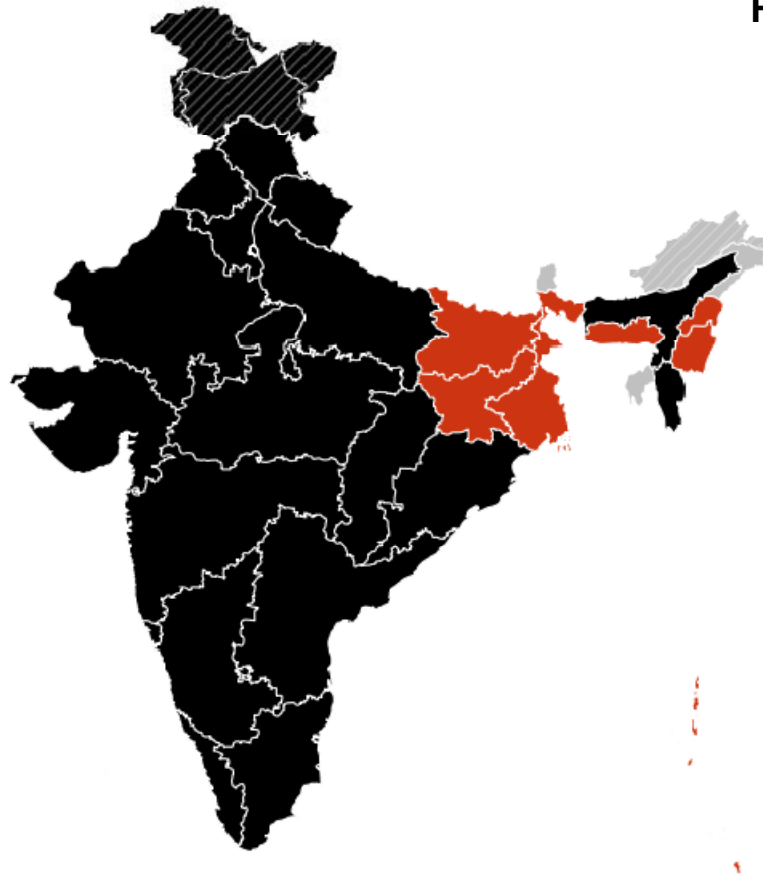


Maximize Premiums within India



Maximize Premium within India

H1N1 India Map



Points to Ponder

- **Global Market**
- **Diversification of risk is a fundamental function**
- **Risk Premium YRT reinsurance not significant**
- **Conflicts with best possible protection for the reinsurance costs incurred**





Credit Rating



Credit Ratings

Warren says



Cheap” reinsurance is a fool’s bargain: When an insurer lays out money today in exchange for a reinsurer’s promise to pay a decade or two later, it’s dangerous – and possibly life-threatening – for the insurer to deal with any but the strongest reinsurer around.



Points to Ponder

- **Merit on dealing with strong Reinsurer's**
- **Long term Perspective and not cheapest quote**
- **Solvency Regime which links to the credit rating of Reinsurer's**



IAIS Principles on Reinsurance

**INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS**



**INSURANCE CORE PRINCIPLES,
STANDARDS, GUIDANCE AND ASSESSMENT
METHODOLOGY**

**1 OCTOBER 2011
AS AMENDED 12 OCTOBER 2012 (WITH NEW ICP 9)**



IAIS Principles on Reinsurance

- 13.0.6 Use of reinsurance by cedants should be looked at as part of an overall risk assessment of the cedant and not merely with reference to a single type of risk and whether that risk has increased or decreased.
- 13.0.8 The supervisory focus should be on expectations of the Board and Senior Management of the cedant, discussions with them about their approach and an assessment of that approach and how it is executed. This focus does not preclude other activities which supervisors should undertake, both as part of the initial licensing process (where applicable) and as part of ongoing supervision.



IAIS Principles on Reinsurance

13.0.15 The objective of reinsurance is to reduce volatility, and thus the uncertainty of the cedants pricing risks, by pooling. This is done to increase the probability of survival of the cedant over a given time. In purchasing reinsurance, cedants seek to stabilise their financial performance and to improve their security through the pooling of risk. Normally the purpose of reinsurance is associated with the following functions, and it is important for supervisors to understand the commercial rationale behind a reinsurance programme as part of making their assessment of its suitability.

13.0.16 Reinsurance provides flexibility for insurers in the size and types of risk and the volume of business they can reasonably underwrite. It can allow the insurer to enter into new business, expand or withdraw from a class or line of business and/or geographical area within a short period.



IAIS Principles on Reinsurance

- 13.0.17 Properly structured reinsurance programmes will assist insurers by limiting wide fluctuations in underwriting results. As a consequence, the limited risk spread will allow the insurers to reduce the required amount of their own funds at risk and hence improve the insurer's solvency margin.
- 13.1 The supervisor requires that cedants have reinsurance and risk transfer strategies appropriate to the nature, scale and complexity of their business, and which are part of their wider underwriting and risk and capital management strategies. The supervisor also requires that cedants have systems and procedures for ensuring that such strategies are implemented and complied with, and that cedants have in place appropriate systems and controls over their risk transfer transactions.





Summary



Likely Impact

- **Increased Volatility**
- **Increased Capital Requirement**
- **Launch of innovative products more difficult**
- **Reinsurer's shrinking**



Eco System

To halt the decline of an ecosystem, it is necessary to think like an ecosystem





Thank You

Disclaimer:- Views expressed are mine and may not necessarily reflect that of my organization

