Risk Management in Non-Life Reinsurance

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Non-life Reinsurance Landscape

Reinsurance Capacity Providers - India

GIC Re – PSU Reinsurer Mkt Share ~ 55-60%	10 Foreign Reinsurance Branches (FRBs) Mkt Share ~ 15-20%	Cross-Border Reinsurers (CBRs) mainly large risks Mkt Share ~ 20-30% (residual)

Challenges

- intense competition fueled by new sources of reinsurance capacity;
- changing and constantly evolving considerations around catastrophe events;
- challenging economic and financial market conditions (interest rates, inflation etc.); and
- growing primary market need for customized reinsurance solutions of increasing complexity.

Trends/Opportunities

- regulatory developments
- policy driven growth in risk pools
- digitization of distribution channels and customer acquisition.
- increasing technology adoption

Risk Management Process

Risk management in reinsurance is about anticipating, identifying, assessing, modelling and controlling risks.

- enable conscious and transparent risk-taking
- proactively partnering with and constructively challenging stakeholders
- achieve "better" decision making by taking a realistic and informed view of risks

Key Principles

- ✓ Controlled risk taking
- ✓ Clear accountability
- ✓ Independent risk controlling
- ✓ Open risk culture
- ✓ Strong control framework

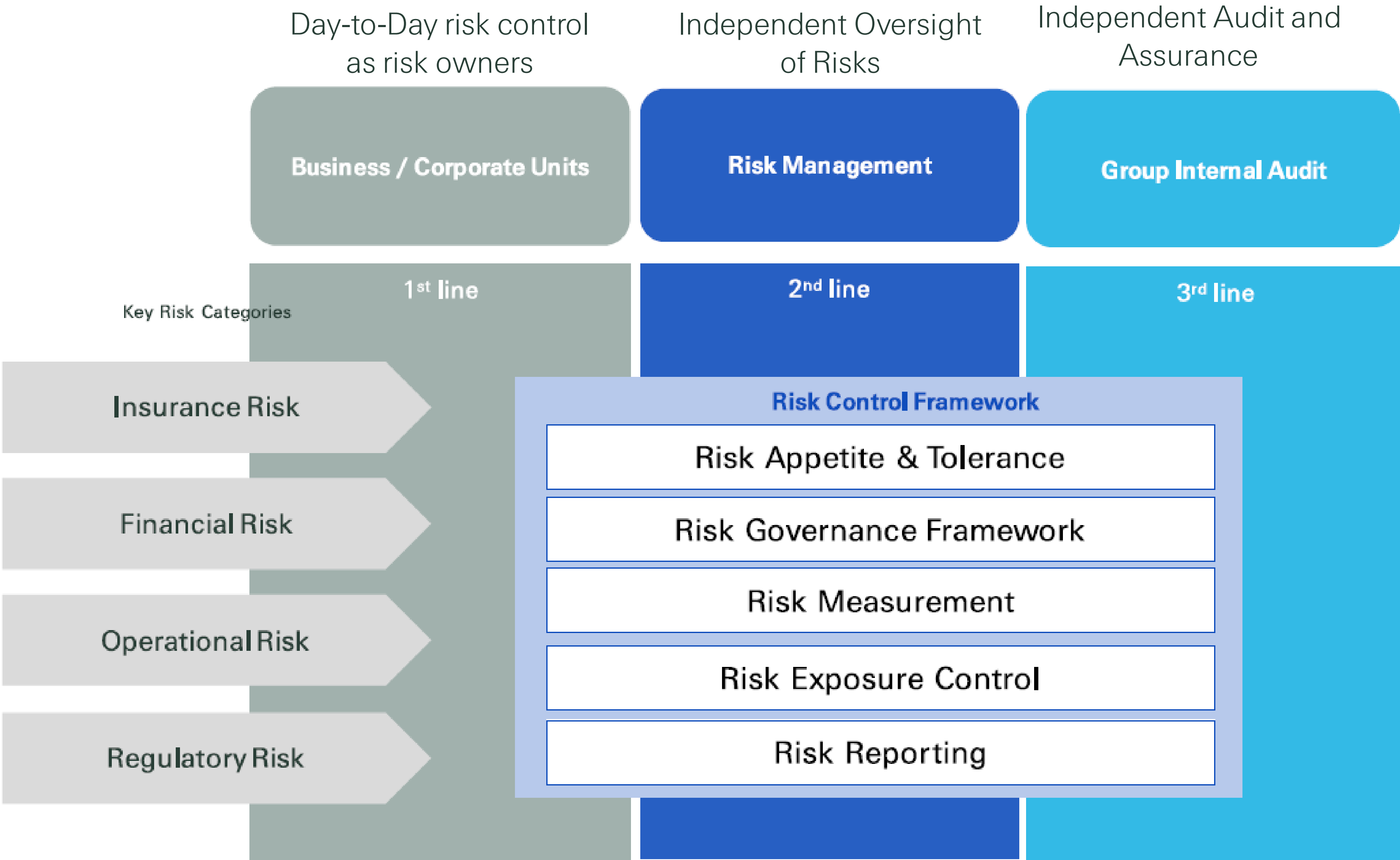
Desired Outcomes

- ✓ Ensure solvency & financial strength
- ✓ Protect brand & reputation
- ✓ Create sustainable business model
- ✓ Identify emerging risks & trends
- ✓ Promote "right" risk taking behaviors

Implementation is a top-down process governed by a robust risk management framework and usually operationalized/cascaded through risk appetite, tolerances & limits and supported by quantification of risks.

Risk Management Framework

Risk-taking is subject to three lines of control (or defence) with clearly defined roles and responsibilities



Risk Appetite, Tolerance & Limits

Overarching principles for risk selection

- Outlines an entity's principles on acceptable risks
- provide key directions for risk-taking and risk controlling as part of overall business strategy.
- Supports business planning and ensures controlled risk-taking throughout business cycle

Key considerations:

- understanding of risks individually
- potential risk accumulations
- adequate remuneration for the risks taken
- alignment of interests between the cedent and reinsurer
- compliance with applicable laws & regulations

Key rationales:

- build well-diversified business across markets
- seek risks that are profitable from a risk/return view
- optimize capacity allocation to risk pools
- ensure liquidity & financial flexibility
- manage capital adequacy
- protect and grow franchise value

Understanding and defining risk appetite and aligning risk limits with appetite is at the core of risk management and should be an integral part within the decision-making framework .

Risk Quantification

Applying a systematic approach to assessing resilience

- a systematic process of risk identification, assessment and quantification.
- describe risks in an objective and quantifiable way.
- understand how bad things can get (severity) and how often (frequency).

- Measuring unexpected change in economic balance sheet
  - Simulation of Economic P/L
  - scenario assessment to ensure balance sheet resilience
- Var and tail VaR measures
  - Economic P/L distribution over one-year horizon
  - 99% Value at Risk (VaR) / 99% Shortfall (tail VaR)
- Internal Risk Models
  - bottom-up economic analysis
  - risk factors & distribution for each risk factor & their dependencies

Non-life Insurance Risk

Risks arising from coverage provided for various non-life product resulting in underlying business risk from uncertainty in costing (actuarial and underwriting) and reserving process.

External risk drivers:

- Catastrophe events;
- Economic risks (inflation, interest rates)

Resulting impacts:

Loss Ratio

Expenses

Investment Yield

Of the three Loss ratio generates the most volatility in results

Getting the expected losses right is at the core of all decision making and capacity allocation.

Costing & Reserving: Key Challenges

- predicting future losses in an indemnity-based business;
- claims pay out over very different timeframes for different products;
- adequately accessing exposure accumulations;
- increasing volatility from high-frequency/medium impact events;
- impacts from weather-related secondary perils;
- inflation driving rising claims costs and expenses; and
- Information asymmetry or lack of adequate quality data for analysis.

Mitigating against these evolving risks and ensuring adequate pricing and reserving requires strong analytical & modelling capabilities, a unique technical skill-set and a dynamic approach to pricing and underwriting process.

Costing & Reserving: Key Considerations

- experience, insights and trends from across the non-life value chain
- proper understanding of the underlying exposures and coverage
- qualitative aspects of the underwriting/costing process
- reinforcing the underwriting discipline through underwriting cycle
- contract terms & certainty
- emerging risk trends
- change in existing risk factors

For superior risk selection, a reinsurer needs to continuously strive to get deeper understanding of client's business, the underlying exposures on the direct insurance side and continue to look beyond existing perils for early identification of emerging risks and trends.

Thank You