



Unique Aspects of a Monoline Credit & Surety Insurer's FCAR

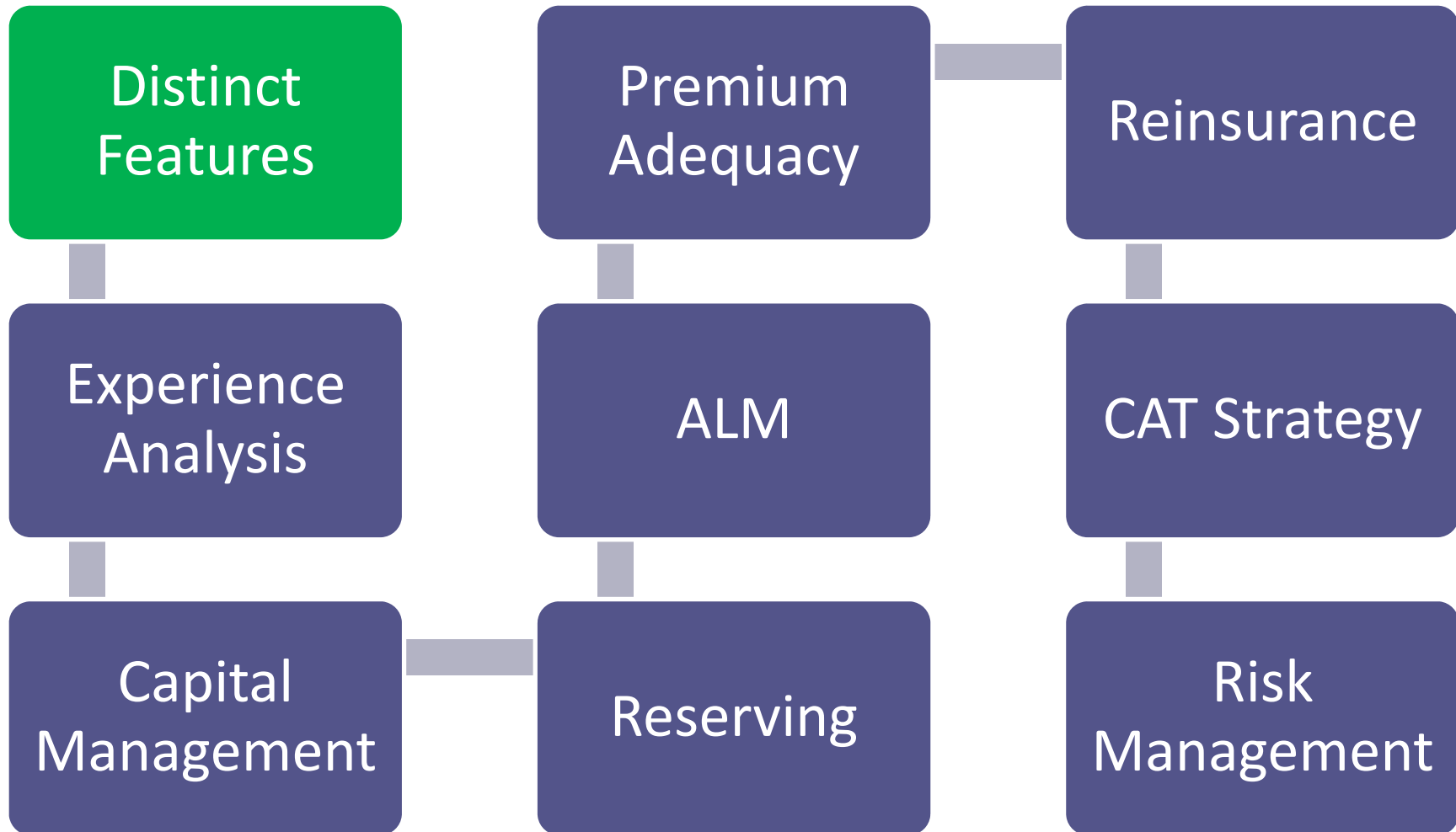
IAI General Insurance Workshop

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Appointed Actuary
ECGC Ltd

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Hyderabad

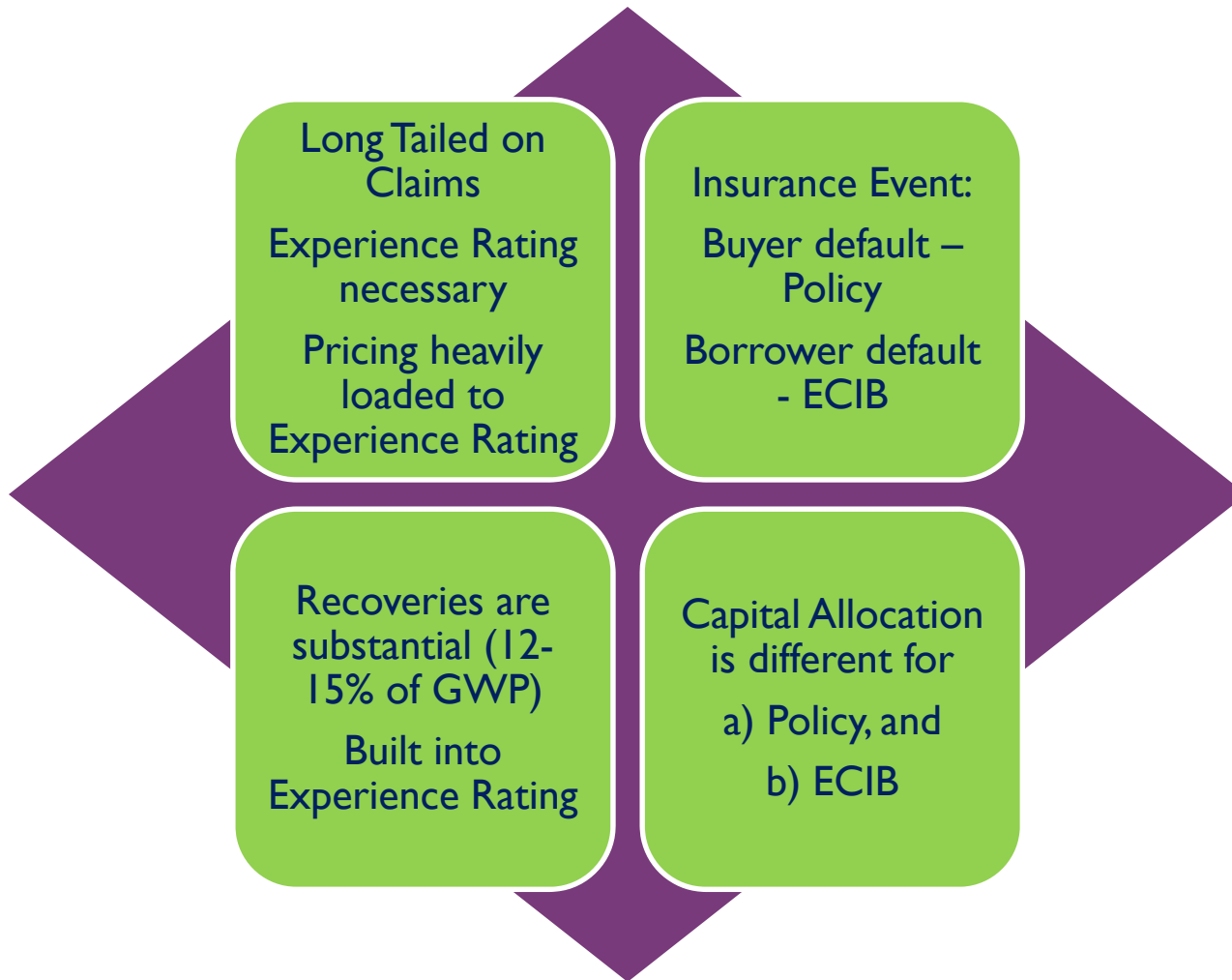


Outline



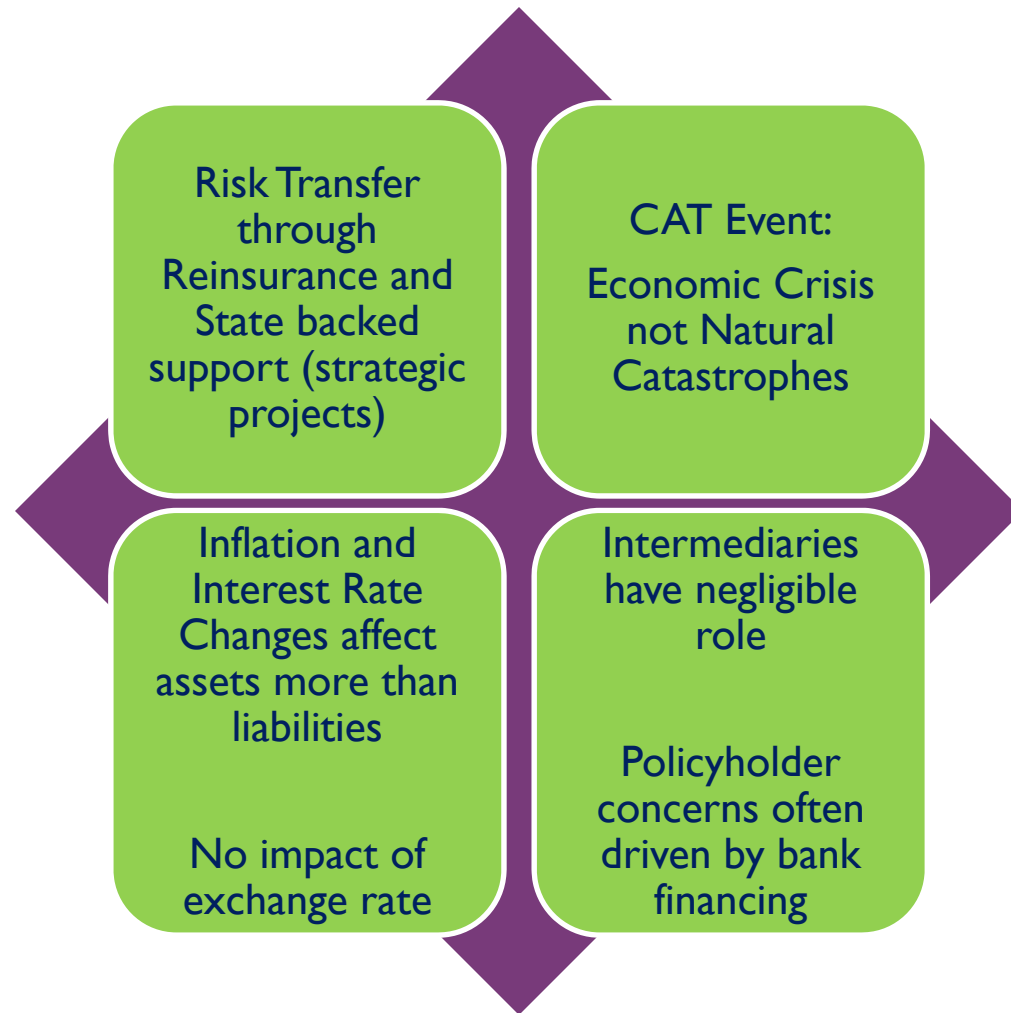


Distinct Features



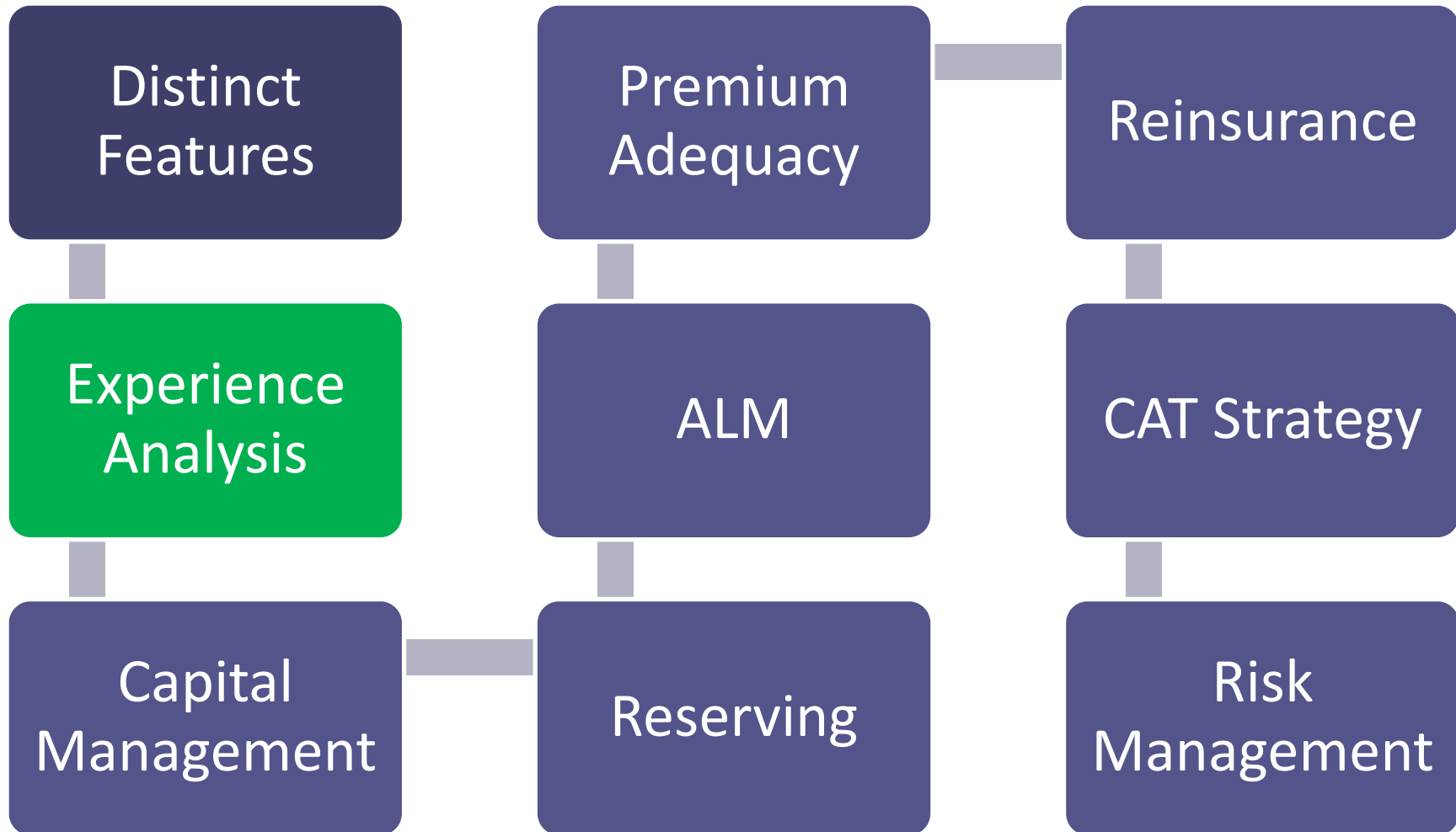


Distinct Features ... contd.





Outline





Experience Analysis

Sector and Product Profitability (Three sectors viz. Policy, ECIB, MLT)

Tail Length of Claims (look out for unusual delays)

Reserving strength

Causes for reserve estimate changes (Court rulings, political developments)

Macroeconomic trends: Credit Growth, GDP growth, Currency, Interest rates

Concentration risk parameter analysis

Global CAT Events e.g. Country downgrade

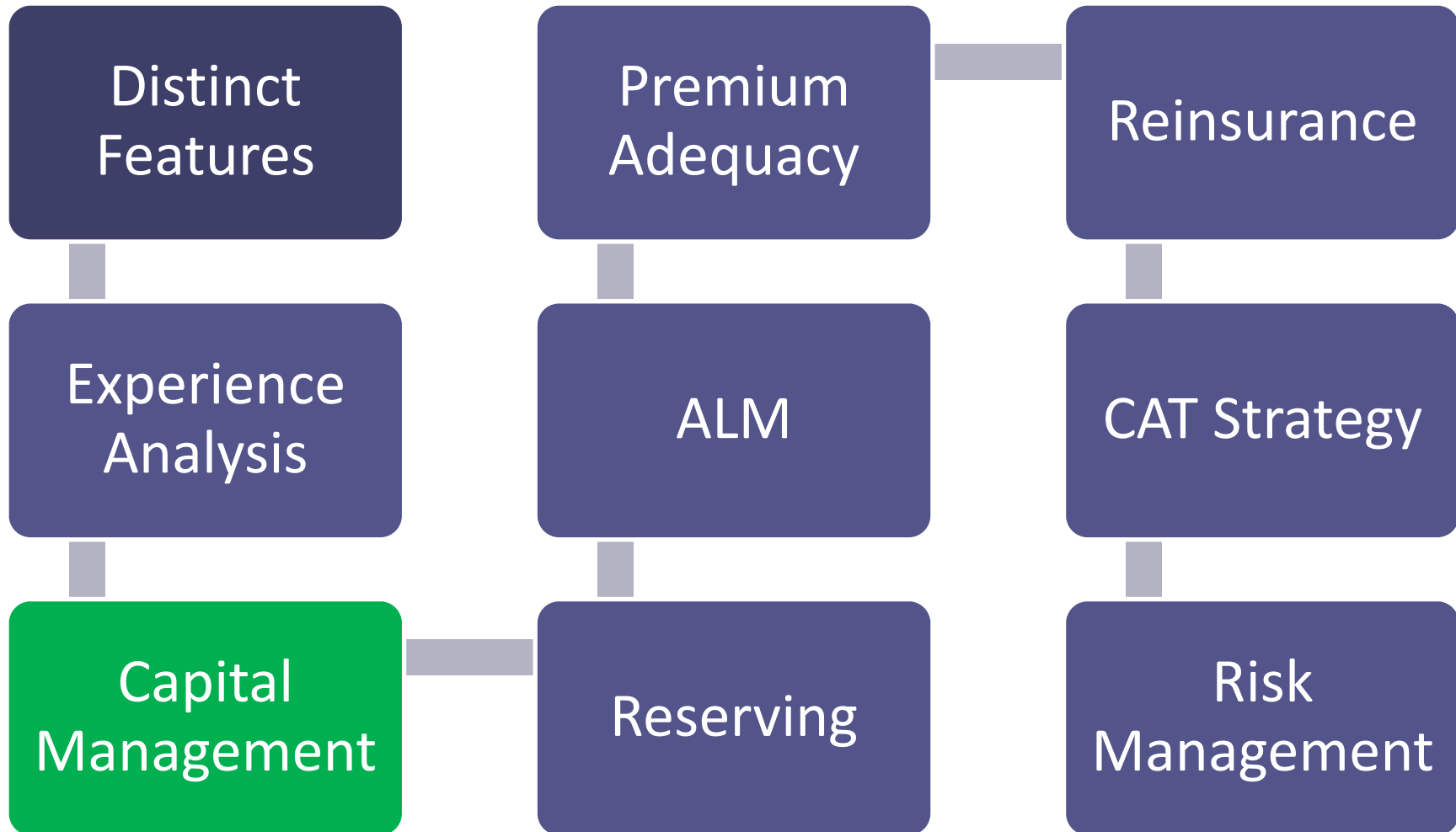
Reinsurance capacity

Investment performance – asset allocation and stock selection

Foreign Trade Policy



Outline





Capital Management

Based on business lines:
higher for more concentrated
lines like ECIB and MLT
Risk is highly 'concentration'
driven!

XOL reinsurance and State
support guides capital
required

Capital
Management

Asset side risks (More risky
assets e.g. long-dated bonds
and equity lead to higher
capital)

Economic Capital approx. 5x
regulatory capital

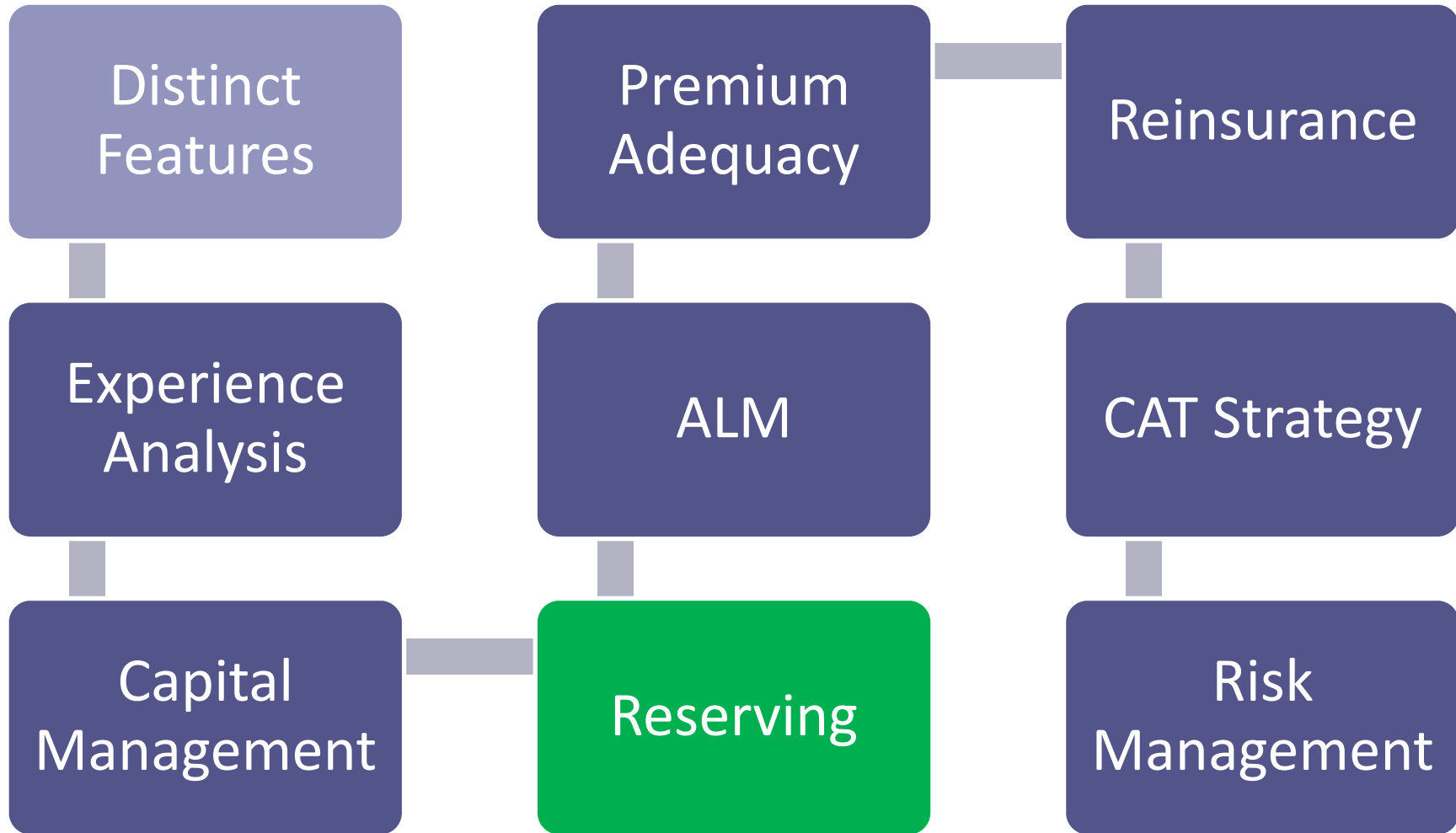


Why is Economic Capital high?

Premium and Reserve Risks	<p>99.5% Value at Risk measure over 1 year.</p> <p>Function of premium and reserve volume and dispersion based on log-normal distribution.</p> <p>Dispersion parameter is standard 11% and 10% of premium and reserve value.</p> <p>Reserves at approx 3 times annual premium.</p>
Catastrophe Risks	<p>Calculated by 1,000 simulated runs on past 25-year loss distribution data.</p> <p>Long tailed business, so an odd 'big loss' year increases the intensity of catastrophe.</p>



Outline





Reserving

Current rate is approx 3.5x annual net earned premium

Internationally, reserving is lower for 'buyer credit' insurers and higher for 'medium and long term credit' insurers

Pure
IBNR

- Cash claim based chain ladder can give volatile estimates, especially in quiet periods. B-F preferred.

IBNER

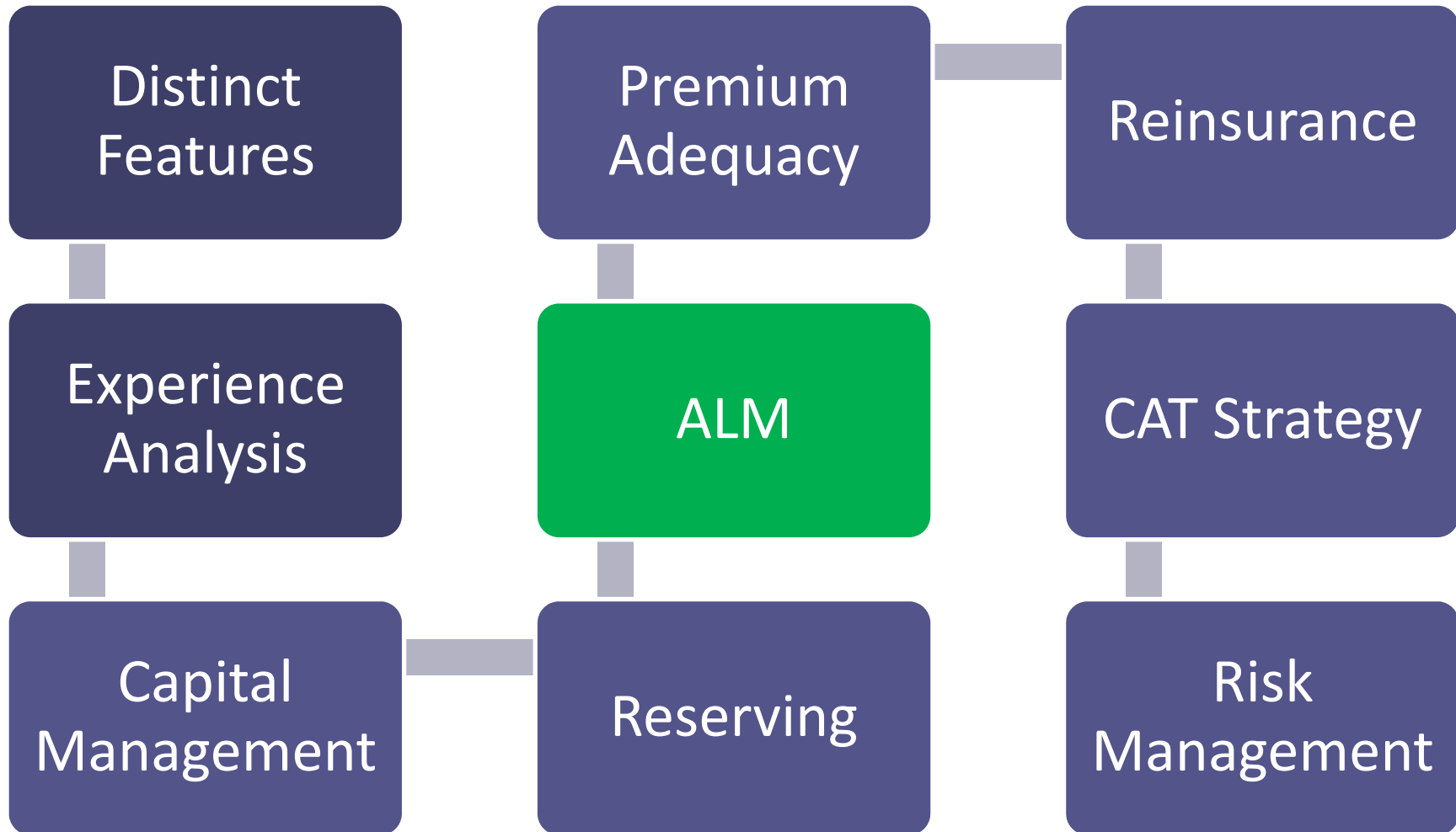
- Forms substantial part of reserves
- Litigation, country exposure and Corporate Debt Restructuring in Banks are the drivers

PDR

- Negligible, as expected claims cost at 75%ile + allocable expenses is within URR



Outline





Asset Liability Management

Appropriate reserving is critical for suitable ALM

Liability duration is 3-4 years on m-duration, bonds also calculated on m-duration basis

Free assets as much as policy liabilities

Higher risks on assets are selectively taken

Mostly in long-dated bonds, equities at 10% of investment portfolio

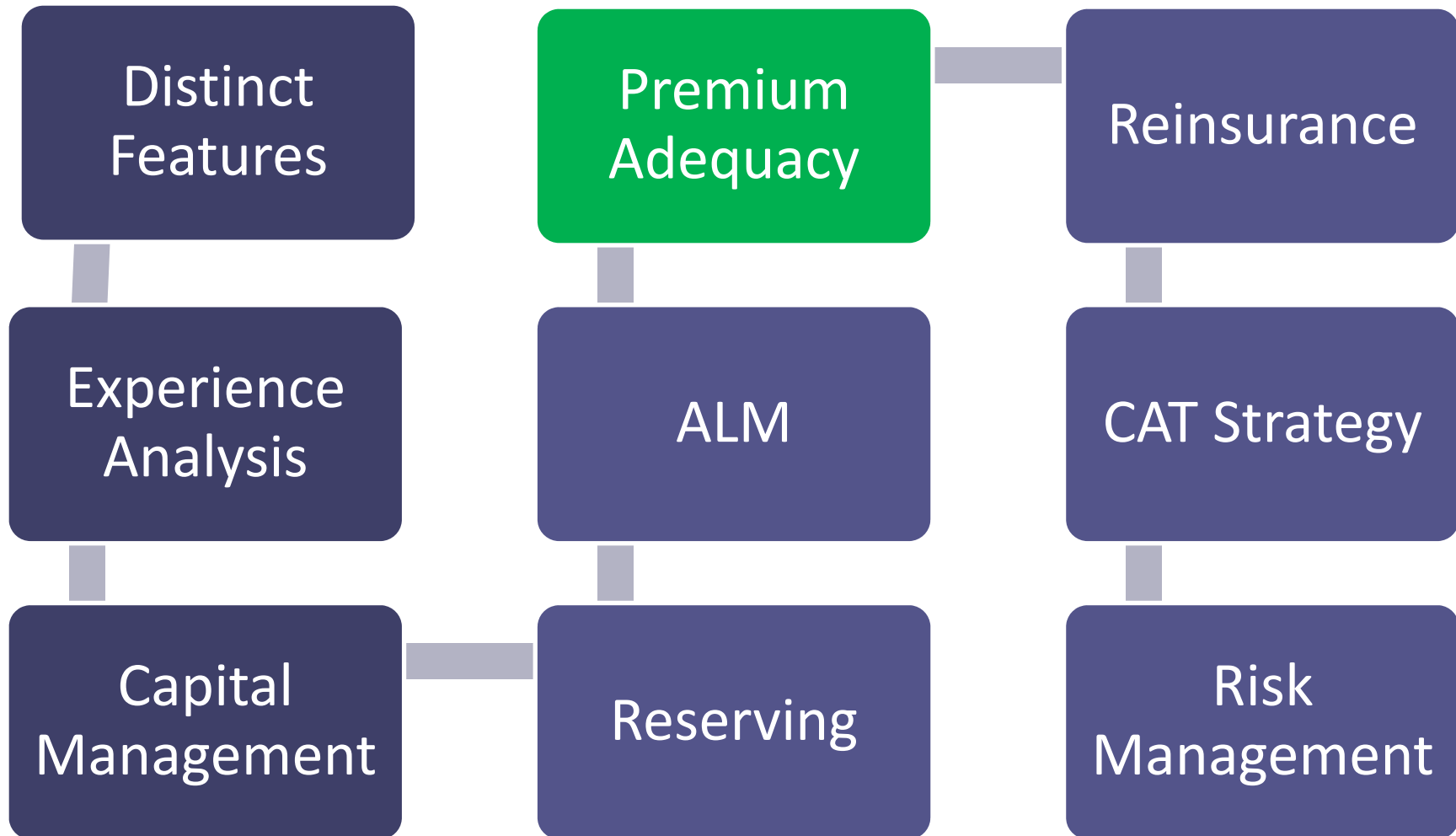
Equities benchmarked with Nifty using MWRR

Separation of equities and debt function for specialization

Only recently, a small trading portfolio has been introduced



Outline





Premium Adequacy

Product rationalization was done for the most popular products WTPC and WTPS

Experience rating ensures stickiness

Rating factors should be relevant, and easy to understand

Rating Factors and Experience Rating

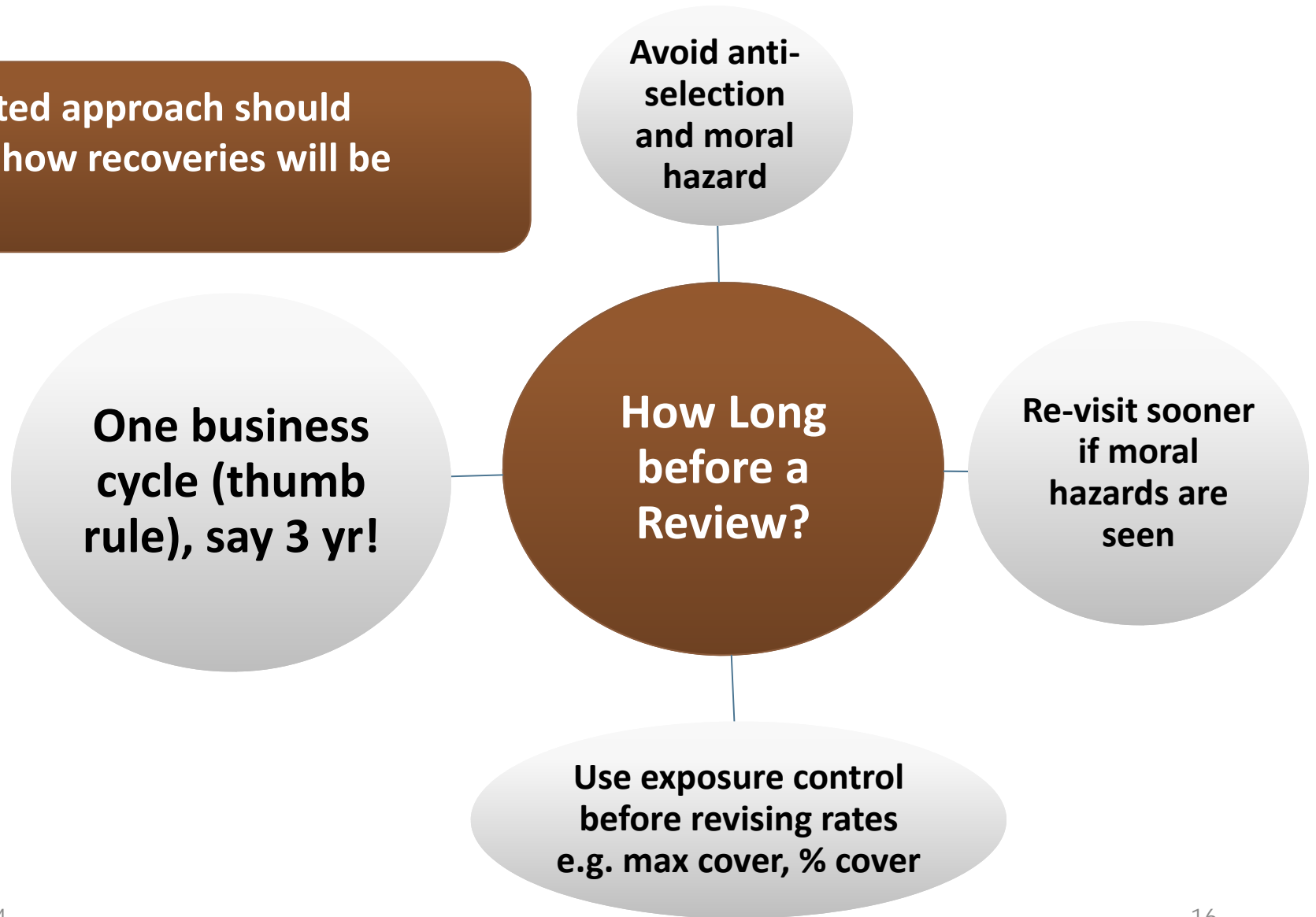
Products need to be 'export development' oriented

Mean and s.d. of Net claims ratio (i.e. after recovery) is strong indicator



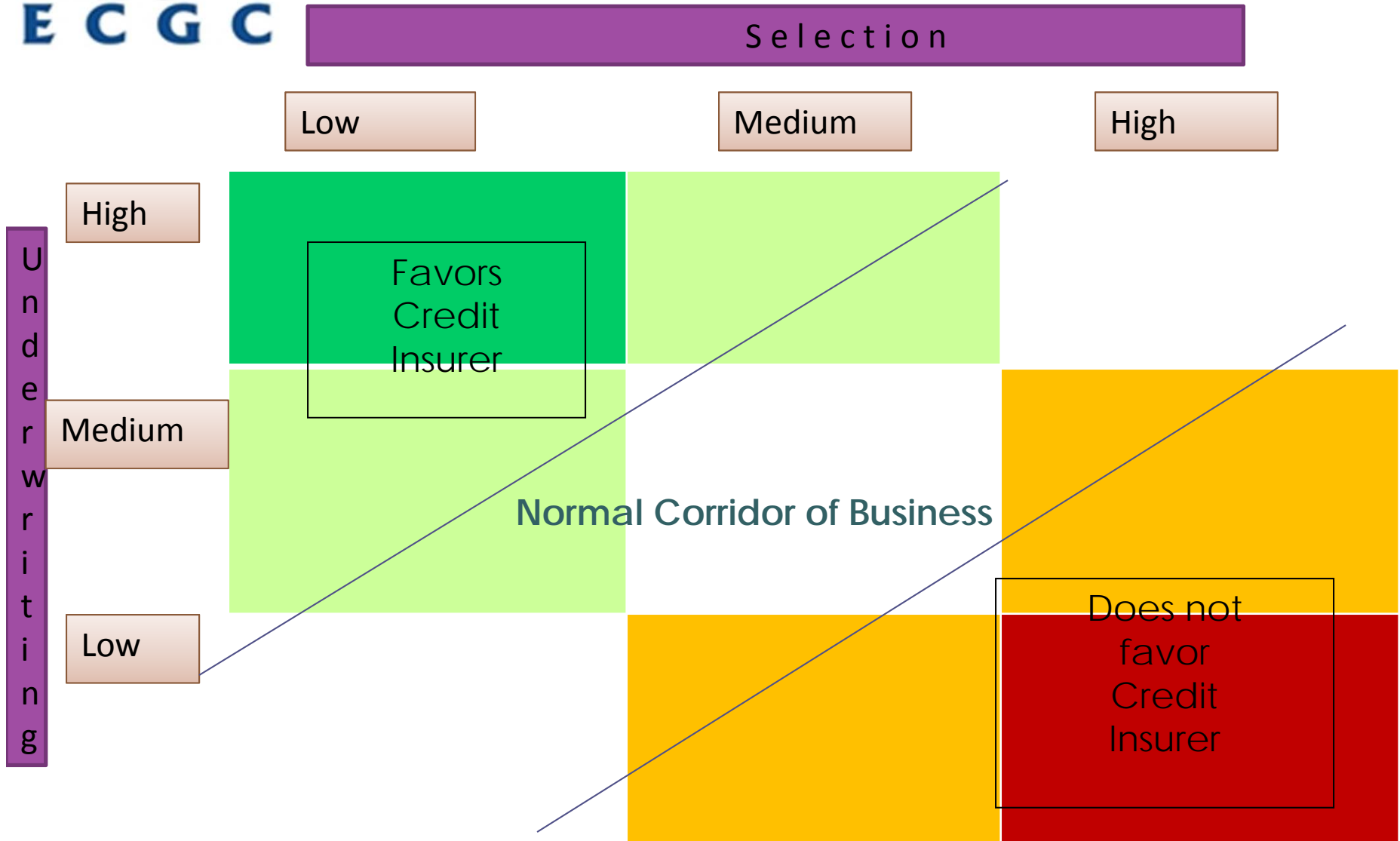
Pricing Experience

A calibrated approach should consider how recoveries will be affected



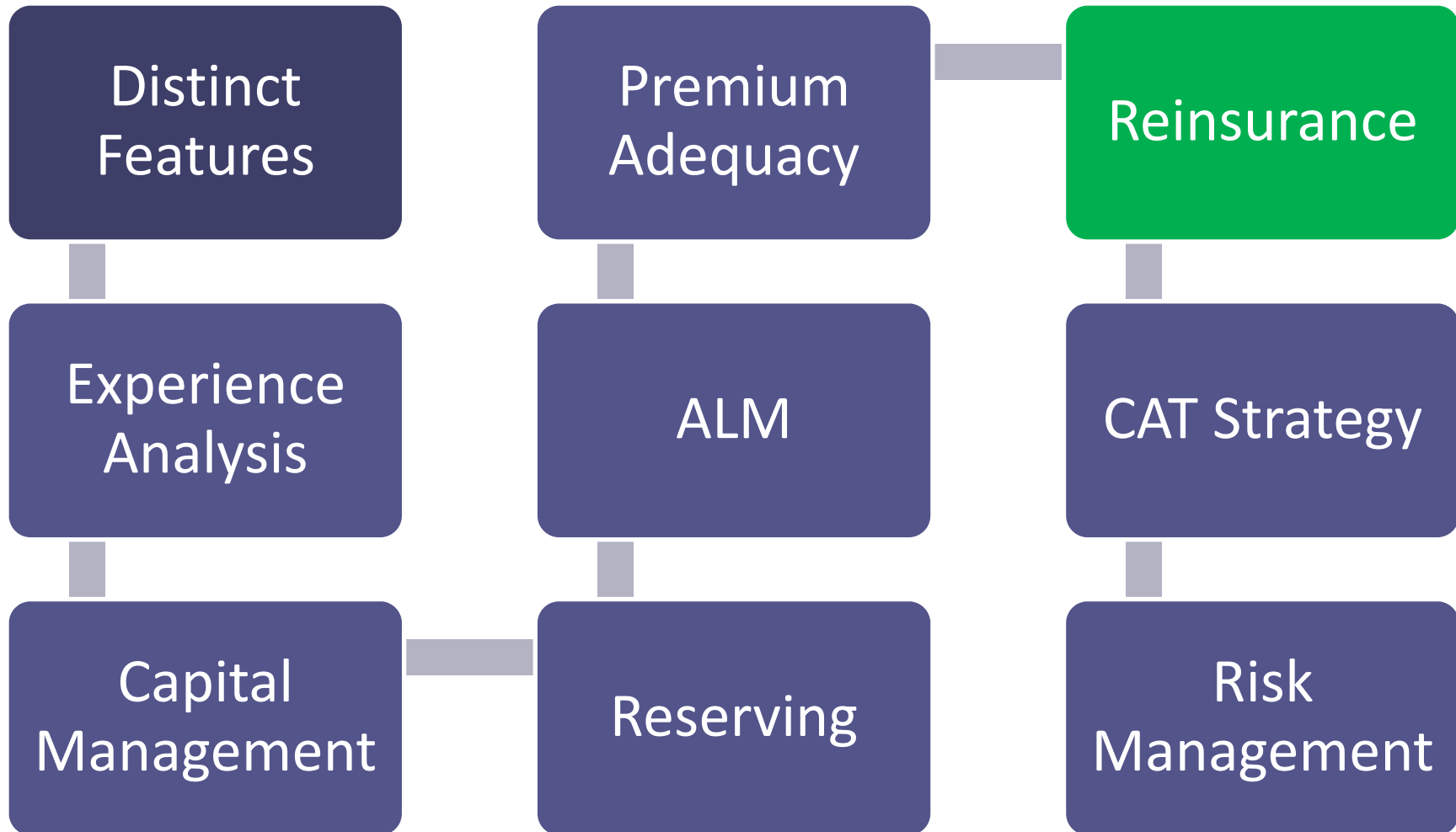


Risk Control: Philosophy of Selection, Underwriting and Pricing





Outline



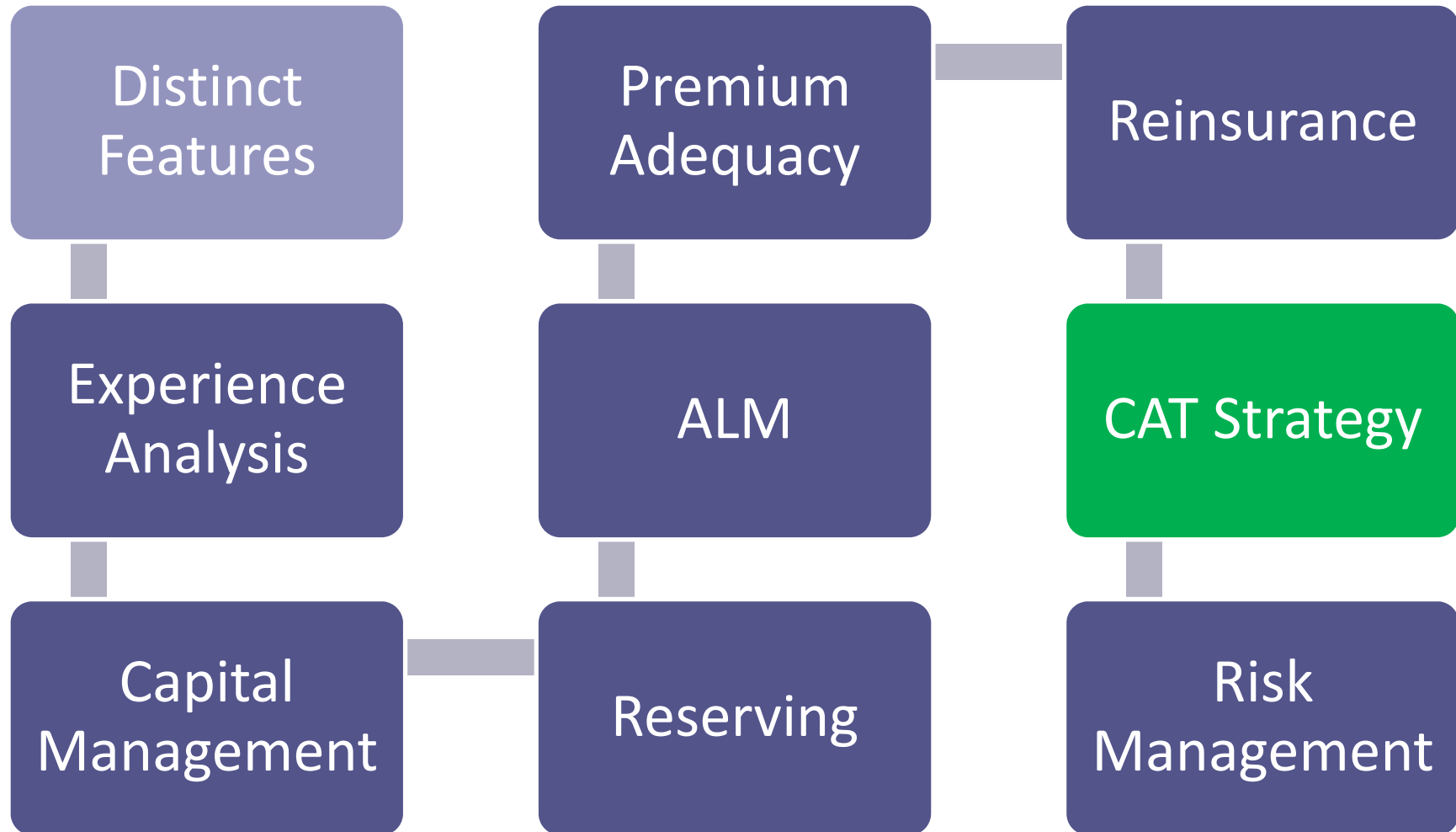


Reinsurance

1	XOL as primary tool	Mitigates concentration risks, but not available standalone.
2	Proportional reinsurance is not valuable	Policy and ECIB sectors are uncorrelated risk events, so a risk diversification exists by default. Experience has been stable over the years
3	ART for Medium- and Long-term exports	Government directed through NEIA account
4	Risk attachment to UW year	Policy: Shipment date ECIB: Report of Default (ROD) notification
5	Emerging challenges	Risk once attached can be vacated on ROD is withdrawn by banks. CDR poses new challenges as claim cycle will be delayed.

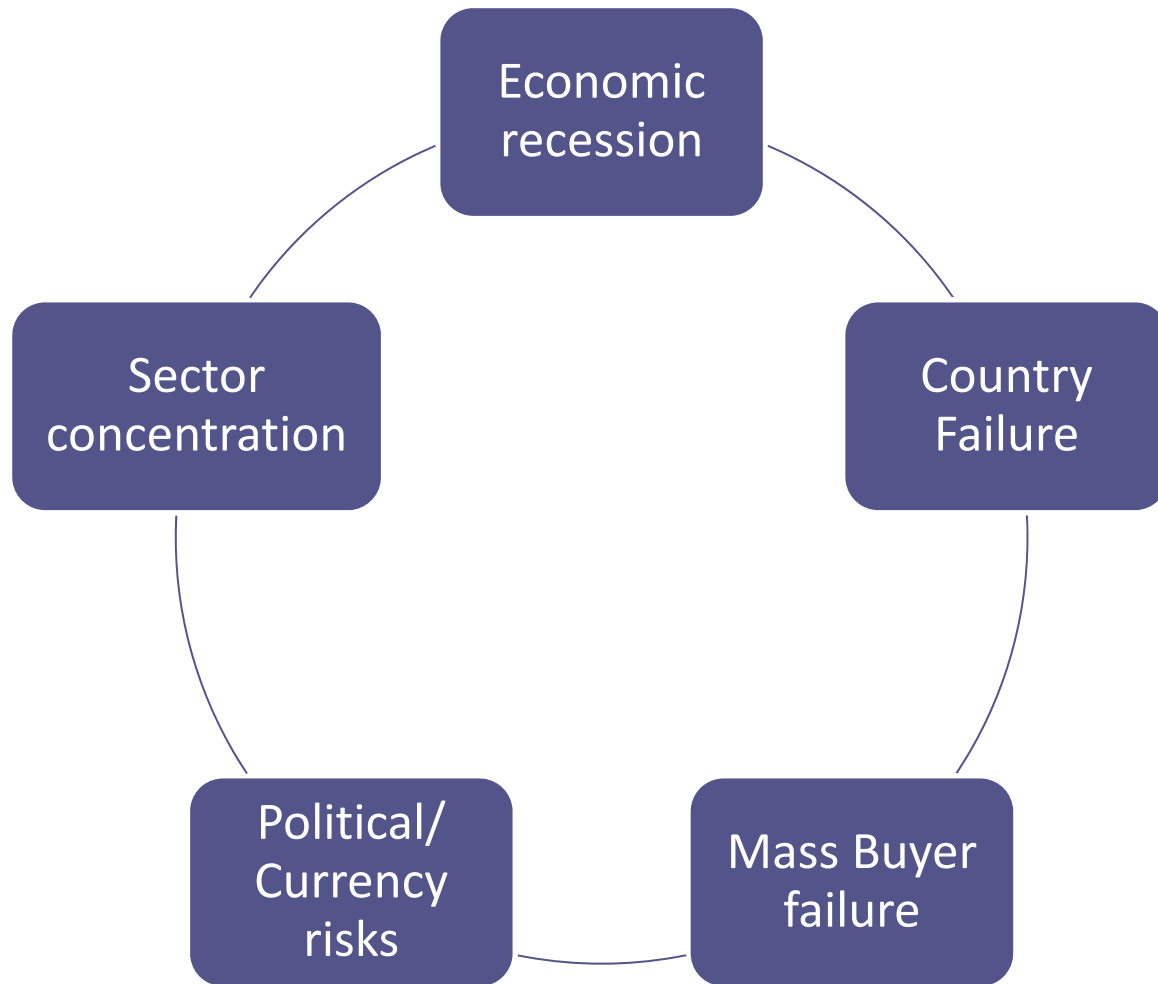


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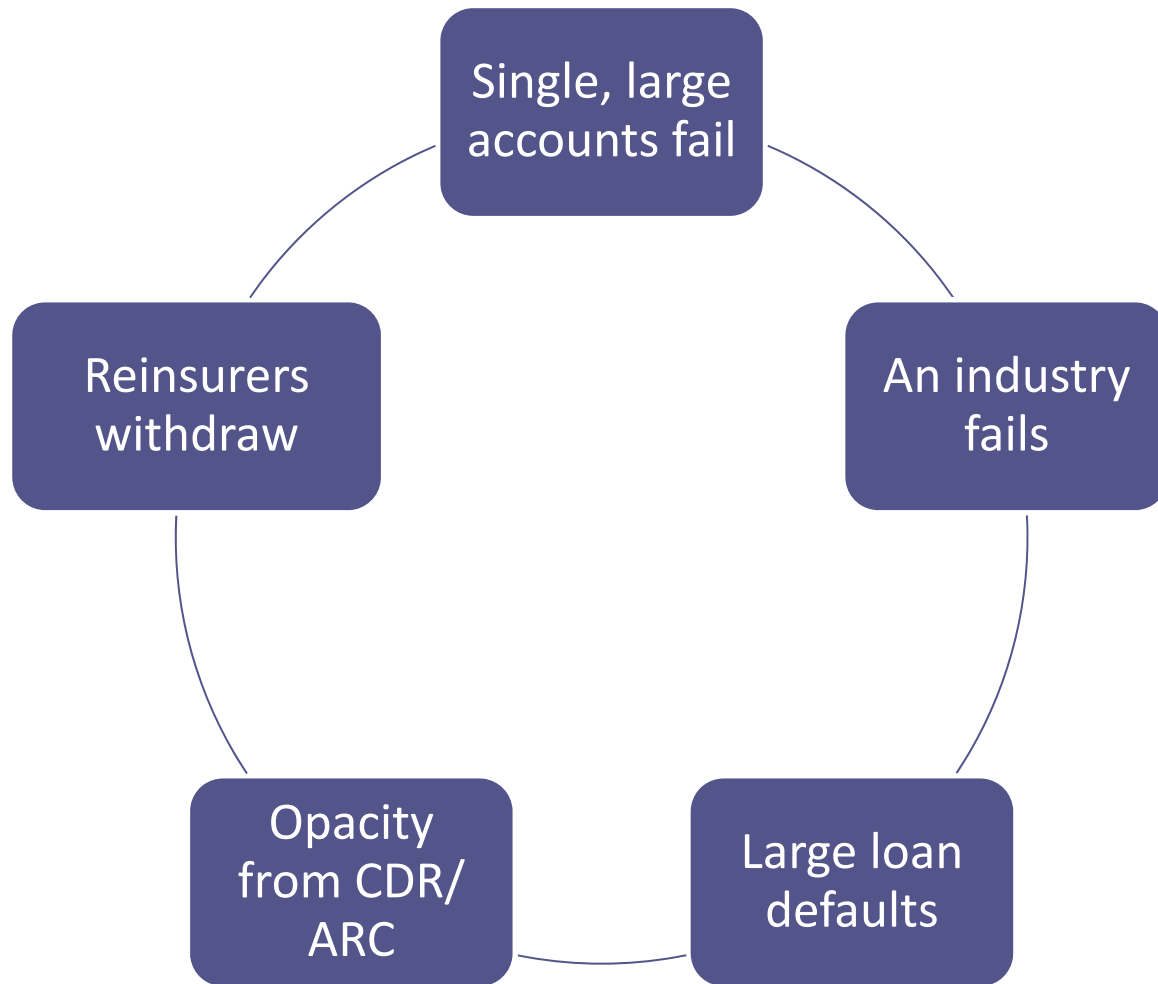


Policy Business CAT Risks



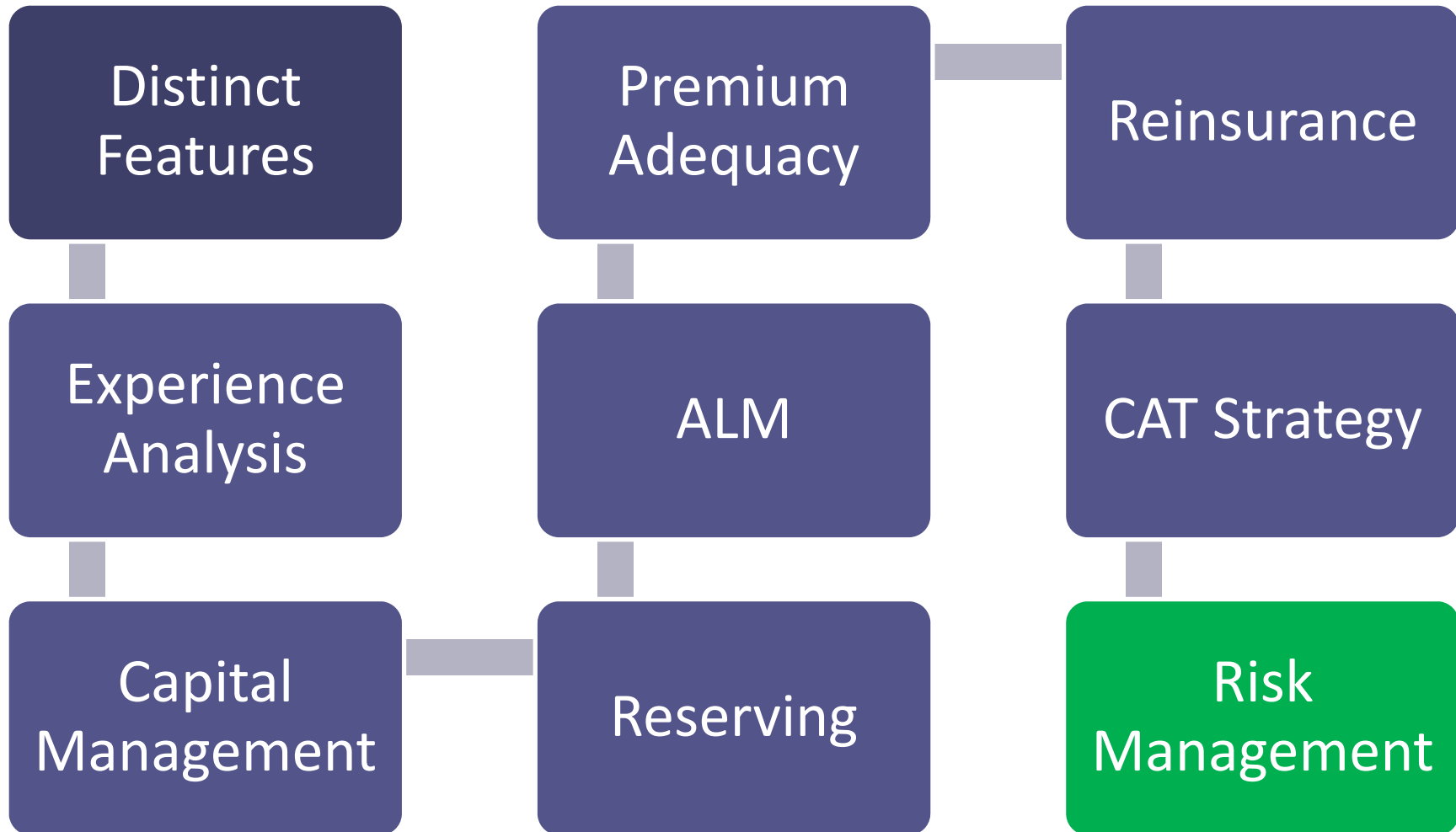


ECIB Business CAT Risks





Outline



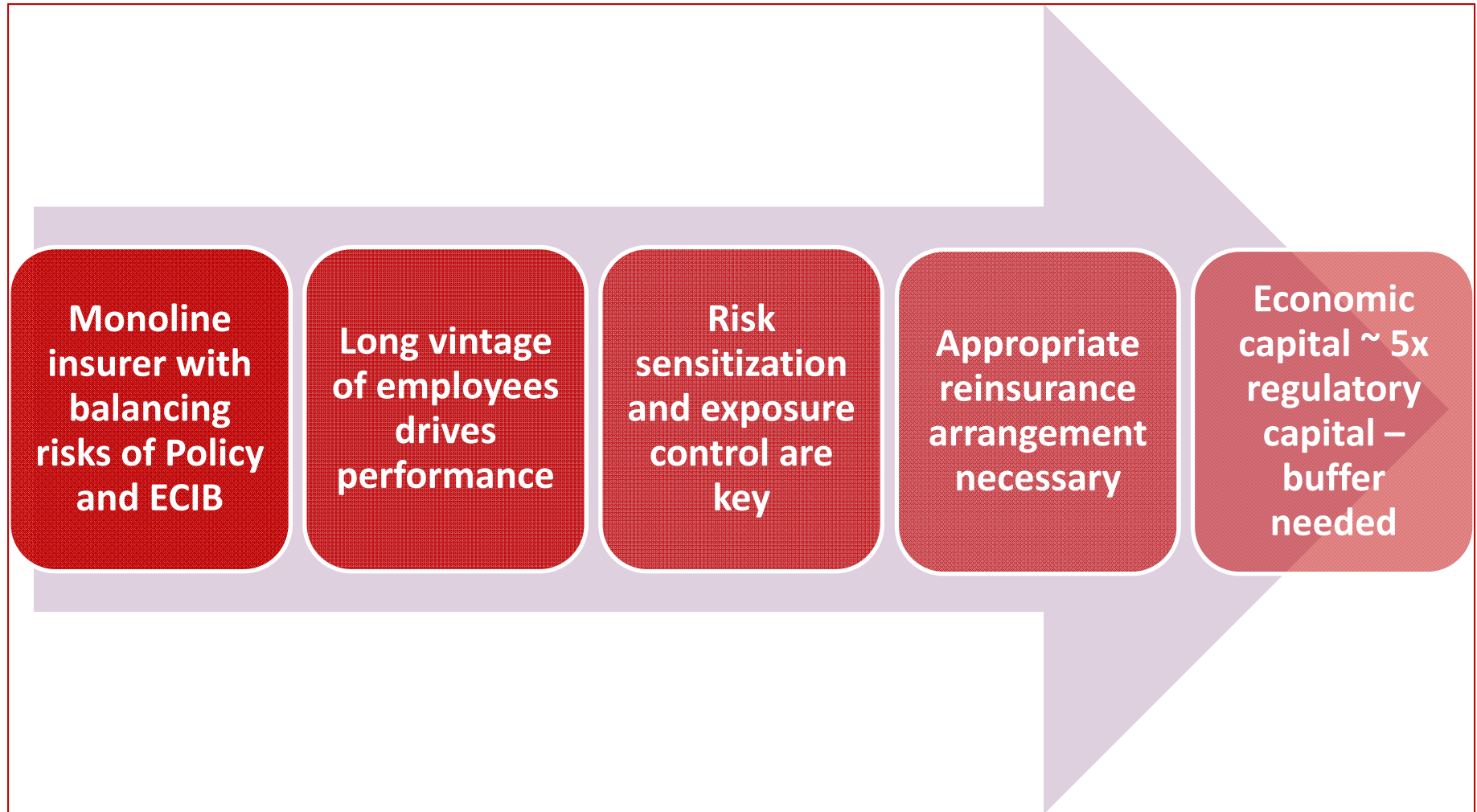


Risk Management

Underwriting	<p>Specific Approval List (SAL) and Buyer SAL</p> <p>Differential experience rated co-insurance</p>
Exposure Control	<p>ECIB: Maximum cover per borrower, per group, per commodity</p> <p>Policy: Cap per buyer, per country</p>
ALM	<p>Duration matching with emphasis on long-term assets representing free capital</p>
Reinsurance	<p>Communication and documentation</p> <p>Reinsurer rating and UW Yr based settlement</p>
Internal Control	<p>Assurance process, Internal audit, IT security and DRP</p>
Recoveries and Business Intelligence	<p>Separate recovery cell, more business intelligence from banking sector study</p>
Future Financial Condition	<p>Driver of what could go wrong in covariate circumstances e.g. world business freeze, countries in peril, and low credit growth</p>



Conclusion



A2

'Insurers with head office in a member state would be free to operate in all other member states
Policyholders in a member state would be free to seek insurance in all other member states'

this additional text could be explained; removed to make the slide more presentable

Admin, 9/15/2014

