



Introduction into Retroactive Reinsurance

Capital Partners

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LIMA Programme
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“Our financial reinsurance team explores, drives and pro-actively generates new business opportunities beyond traditional reinsurance with a strong focus on structured reinsurance and corporate finance (e.g. capital management, valuation, M&A). We welcome you to the ‘Structured solutions that go beyond traditional reinsurance’ series that will span over 3 days.

Sabrina Franz
Structuring Manager
Munich Re



NOT IF, BUT HOW

Munich RE 

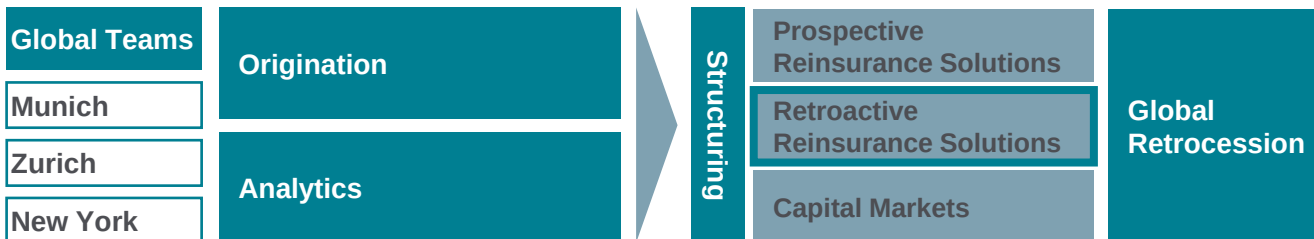
Let's start it off with a poll....

Pooling of expertise and broadening of our solution spectrum

Capital Partners

- Bundling of Munich Re's capabilities for structured prospective and retroactive reinsurance as well as for alternative capital market solutions to address clients' demand beyond pure risk transfer
- Integrated risk, financial and capital management at the core of our solution development
- Teams in Munich, Zurich, and New York form global deal teams and respond to specific and complex client needs by collaborating closely with Munich Re's world-wide CM and UW teams
- We aim to provide our clients by one stop with traditional and non-traditional reinsurance solutions

"Making a difference in Corporate Finance"

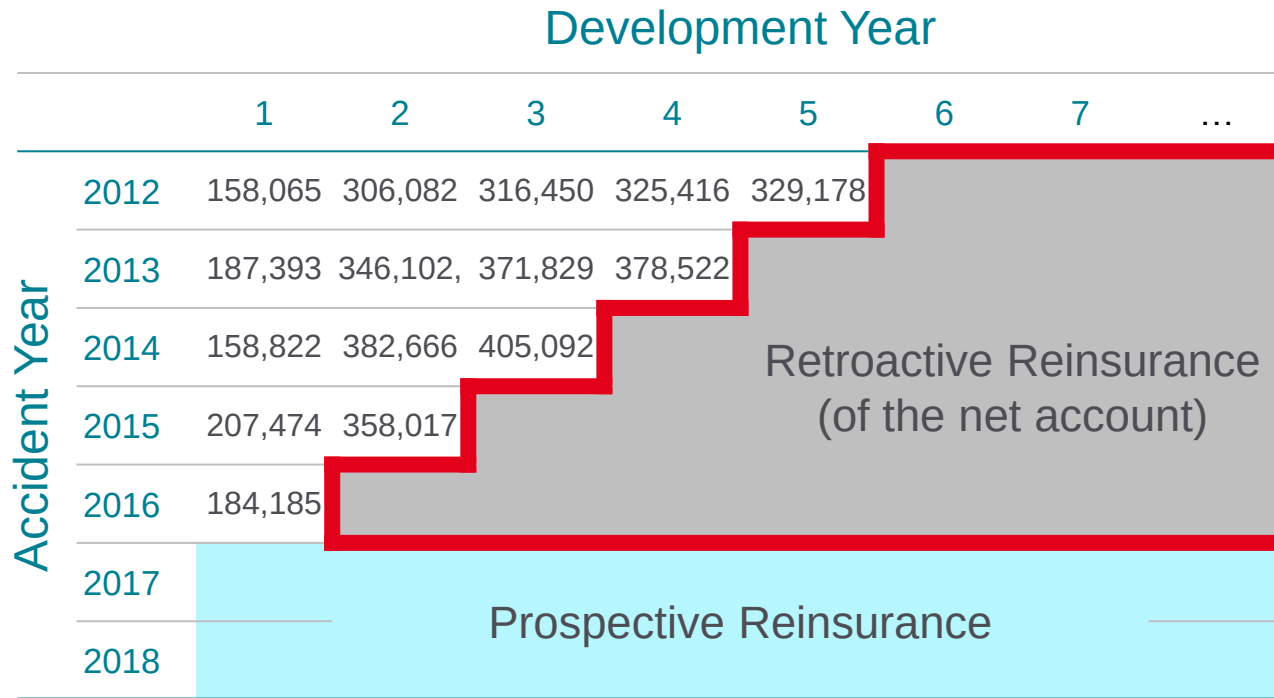


Definition of Retroactive Reinsurance

“**Retroactive reinsurance** is insurance in which a reinsurer agrees to reimburse a ceding company for liabilities incurred as a result of **past insurable events** covered under contracts subject to the reinsurance.”

FASB 113, “Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts”

Definition of Retroactive Reinsurance

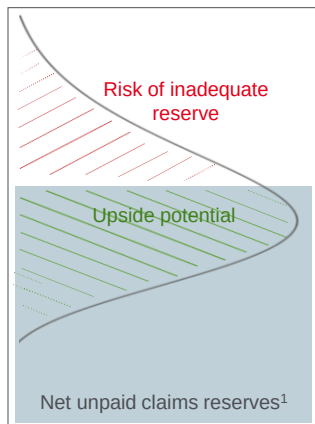


Retroactive vs. Prospective Reinsurance

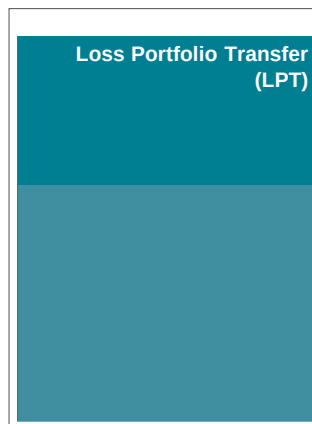
Retroactive Reinsurance	Prospective Reinsurance
Protects the ceding entity for claims which have already occurred	Protects the ceding entity for claims which may occur in the future (e.g. for policies written as from 01 June 2022)
Price of reinsurance is viewed in relation to loss reserves	Price of reinsurance is expressed e.g. as a percentage of original premium
Reduces risk of adverse loss development	Reduces underwriting risk
Mostly one-off transactions	Mostly yearly renewals
Due Diligence includes audit of claim files and claims handling practices	Underwriters may carry out a pre-transaction audit of underwriting files and rate manuals

Basic Forms of Retroactive Reinsurance

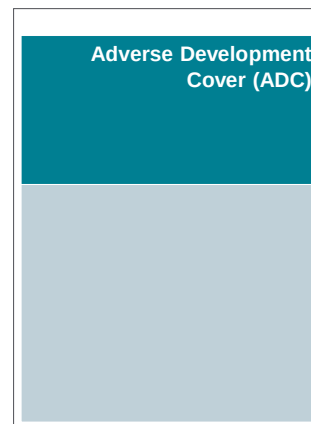
Illustration of reserve risk



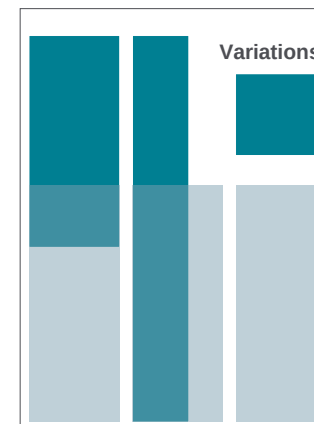
- Through retroactive reinsurance, the reinsurer generally assumes the risks associated with past exposure periods (**reserve risk**).
- Reserve risk consists of **adverse development** (IBNR/IBNER) risk and the risk of **accelerated claims payouts**.



- Reinsurer participates **proportionally** on future claims payments.
- Typically proportional **transfer of upside and downside potential**.
- Structure typically used for harvesting reserve redundancies, capital relief (factor-based models) or run-off portfolios.



- Non-proportional structure similar to an aggregate excess of loss.
- **No transfer of upside potential**.
- Structure typically used as “sleep easy” cover



Typical variations of those basic structure are:

- **Financing component**
Idea to finance adverse development protection with discounting effect from “in-the-money” component.
- **Co-Reinsurance**
- **Loss corridor**

Motivations are manifold



IFRS 4 Accounting – Positive Effect on Equity Possible

Assets (in EURm)	before LPT/AD C	change	with LPT/AD C	Liabilities & Equity (in EURm)	before LPT/AD C	change	with LPT/AD C
Cash and Cash Equivalents	8.7		8.7	Unearned Premiums	58.6		58.6
Invested Assets	242.4	-58.2	184.2	Unpaid Claims and Adjustment Expenses	140.6	=	140.6
Receivables	38.1		38.1	Other Liabilities	114.1		141.1
Recoverable from Reinsurers	9.9	+65.0	74.9	Total Liabilities	313.3		313.3
Other Assets	94.8		94.8	Total Equity	80.6	+6.8	87.4
TOTAL ASSETS	393.9	+6.8	400.7	TOTAL LIABILITIES AND EQUITY	393.9	+6.8	400.7

illustrative

- In this **illustrative** example, there is a positive effect on equity due to the (imperfect) asset swap. However, that is not always the case.
- Possibly, local accounting standards prevent the cedent from realizing an immediate gain at inception. Then it would have to be deferred over time.
- Please note that after the transition to IFRS 17, the effects will look differently.