



Workshop Accumulation of Exposure: Which means of control are available?



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Agenda

- Introduction
- Marine Accumulation
- Solvency II framework
- Impact on the business
- Conclusions

Introduction

Accumulation control represents a relevant *challenge* for the Marine business.

Is it worth raising awareness on this issue?

Time-consuming, considerable effort...

...but given the increasing internal/external competition, it is a MUST rather than a choice.

In this presentation we will explore why

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- Solvency II framework

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Marine Accumulation

Two main sources of accumulation:

1. Geographical Accumulation.

Hull and Cargo “resting” in ports, airports, marinas

2. Cargo Accumulation.

How many clients have cargo on board one vessel? How much cargo value is at stake on one vessel?

Larger containers \implies lower transparency

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Marine Accumulation

How much do you have at stake?

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Marine Accumulation

How much do you have at stake?

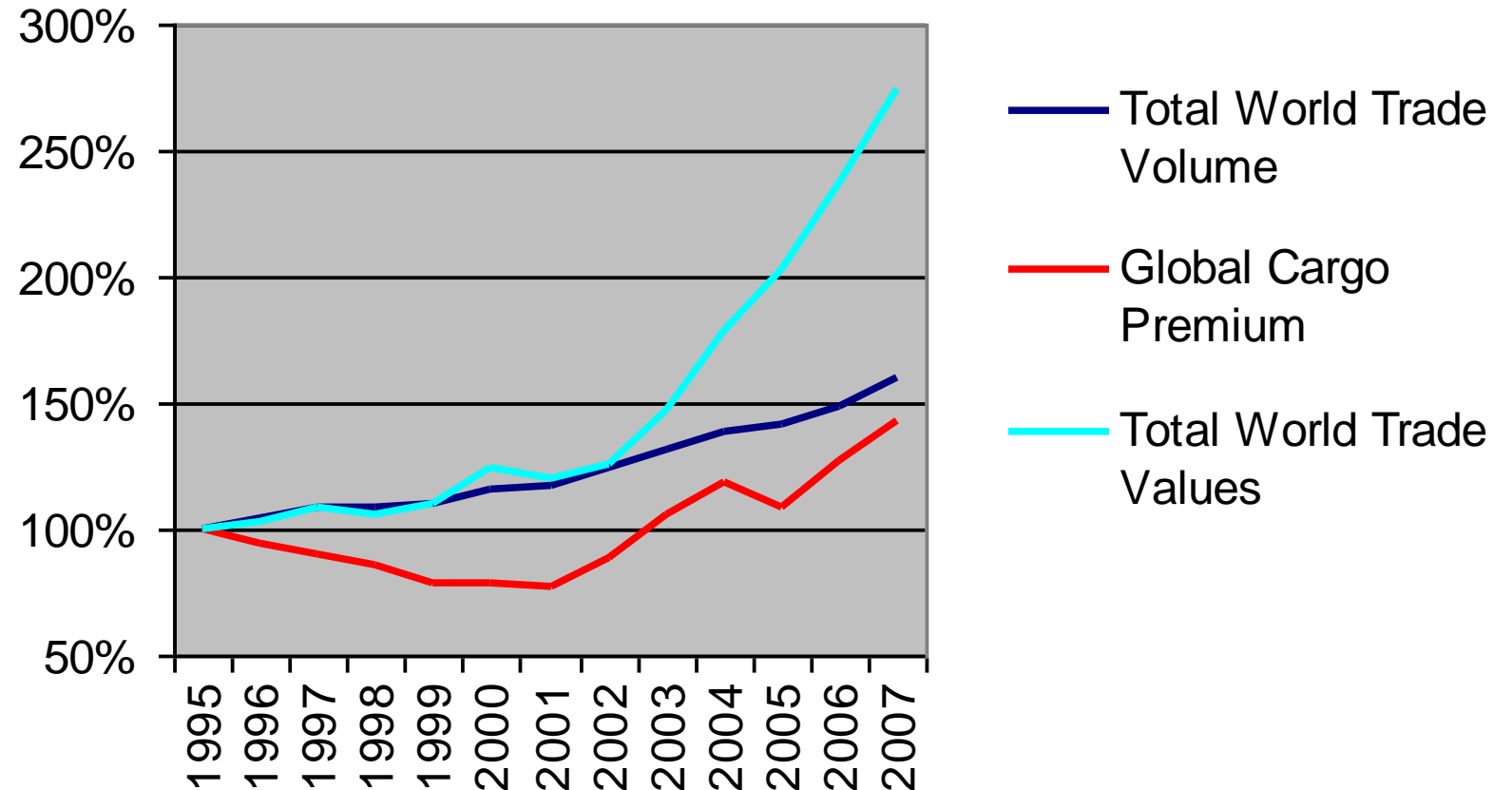
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Marine Accumulation

Premiums do not keep pace with trade volume growth

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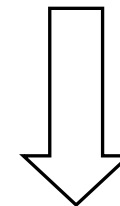


Solvency II framework

Solvency II is the new regulatory framework for insurance and reinsurance companies, replacing Solvency I

It shifts from a *rule-based* approach to a *principle-based* approach

- Explicit requirements on risk management
- Increased supervision
- Internal models rather than fixed rules



Increased *responsibilities* of industry's players

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Solvency II framework

Solvency II aims at:

- Harmonising solvency standards across the EU
- Introducing fair-value valuation of assets and liabilities
- Encouraging active risk management
- Fostering risk control responsibilities of industry players
- Increasing transparency

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■ **Solvency II framework**

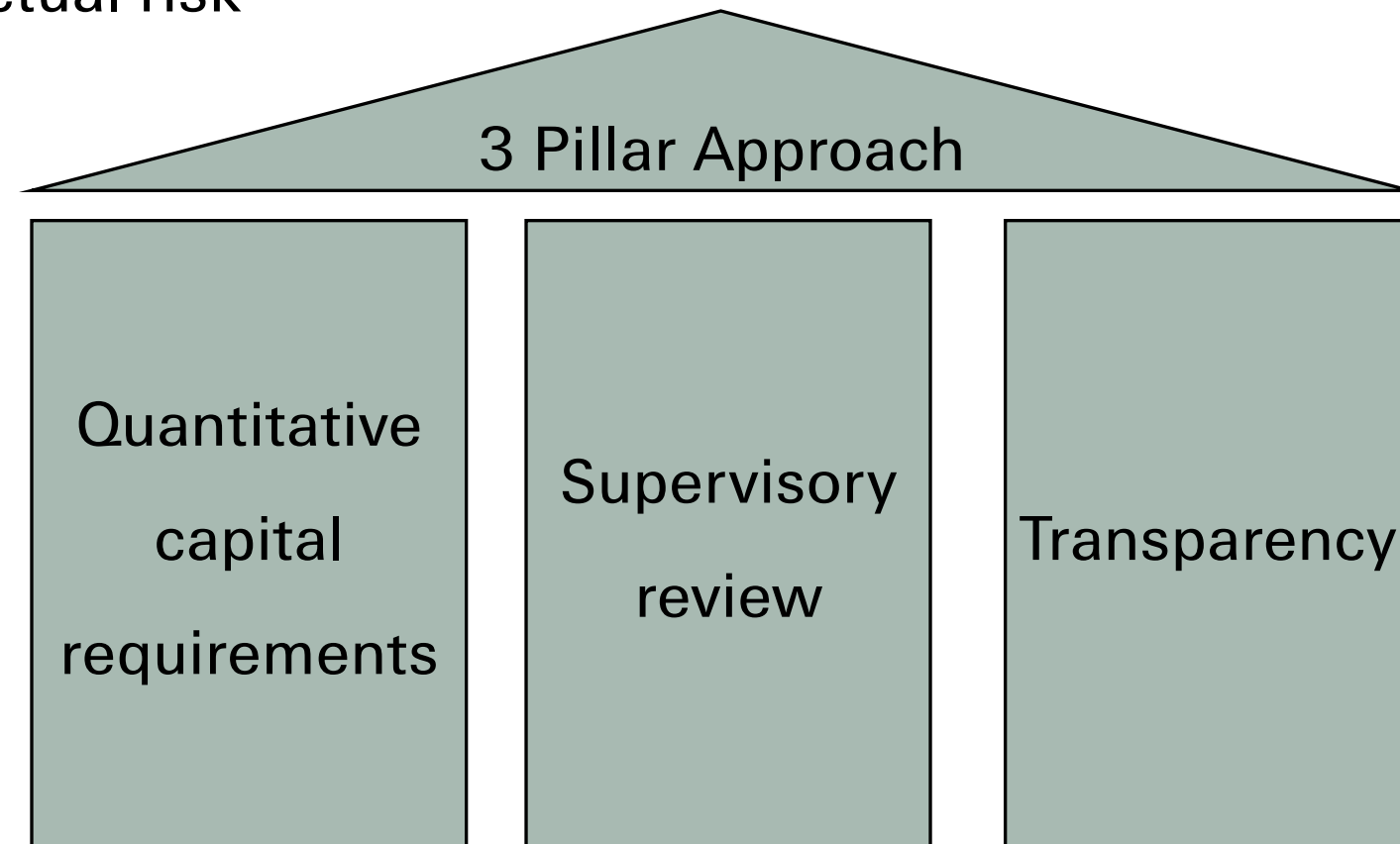
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Solvency II framework

Solvency I was based on the concept "*one size fits all*"

Solvency II aims at *matching* capital requirements and actual risk



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Solvency II framework

The new framework **rewards** proper **risk management** and **transparency**

- Internal model
- Scenario analysis
- Stress tests
- ...

Why should we care?

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Impact on the business

Solvency II considers the impact of **risk mitigation** measures and rewards **risk control**

- Use of internal models, tailored to your own risks

e.g. Accumulation risk in Marine

- Carry stress tests and scenario analysis; publish results.

e.g. Accumulation risk in Marine

- Capital requirements include interdependencies of risks

e.g. Accumulation risk in Marine

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Impact on the business

Consequences of **poor accumulation control**:

- Higher capital requirement
- Higher capital costs
- Higher prices

Competitive disadvantage compared to other LoBs

Deliver results or lose capital allocation



Capacity endangered!!!

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Impact on the business

High pressure on delivering good results:

- Capital is nowadays a very scarce resource
- Regulation tends to be stricter
- Lower investment returns demand higher underwriting results

Tough competition for capital allocation

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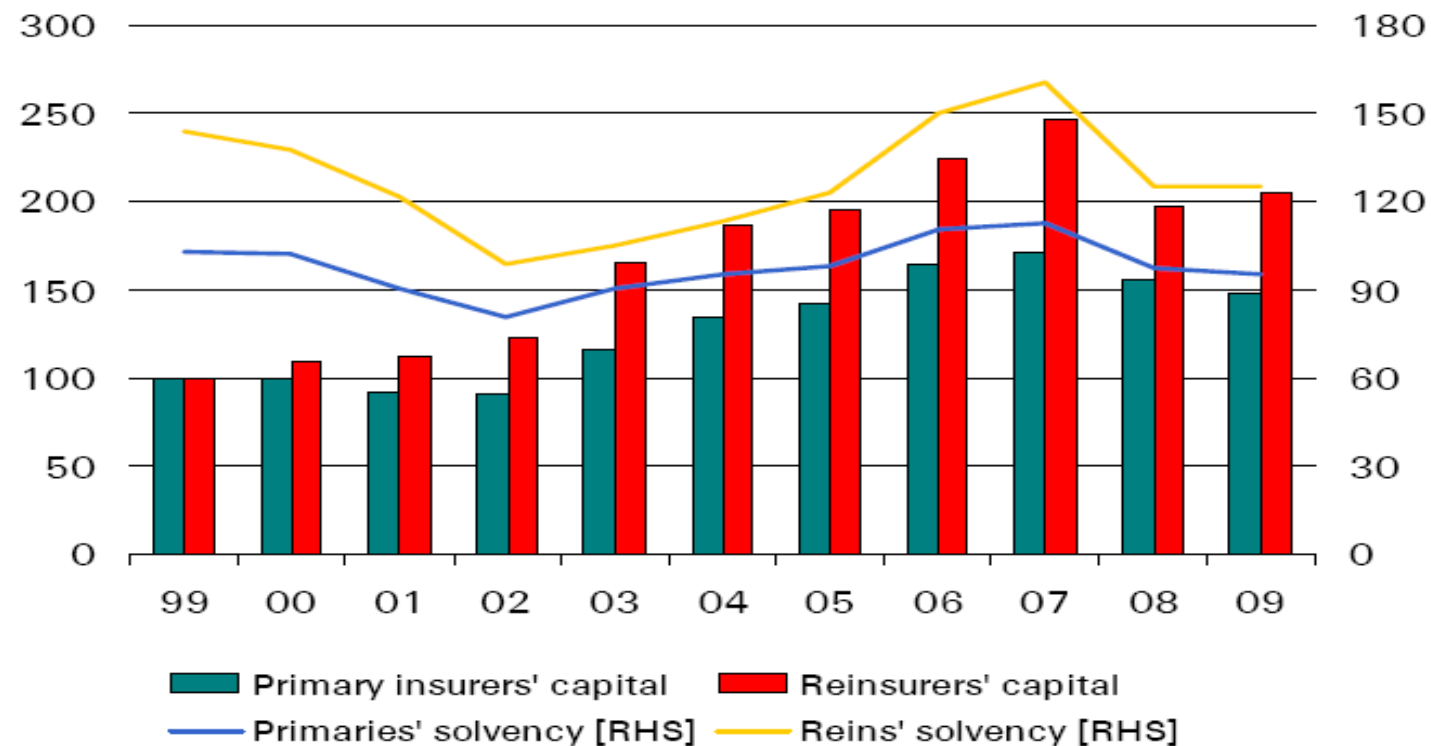
Impact on the business

Capacity trends

Capacity and solvency of P&C (re)insurers

Index 1999 = 100

Capital/net premiums



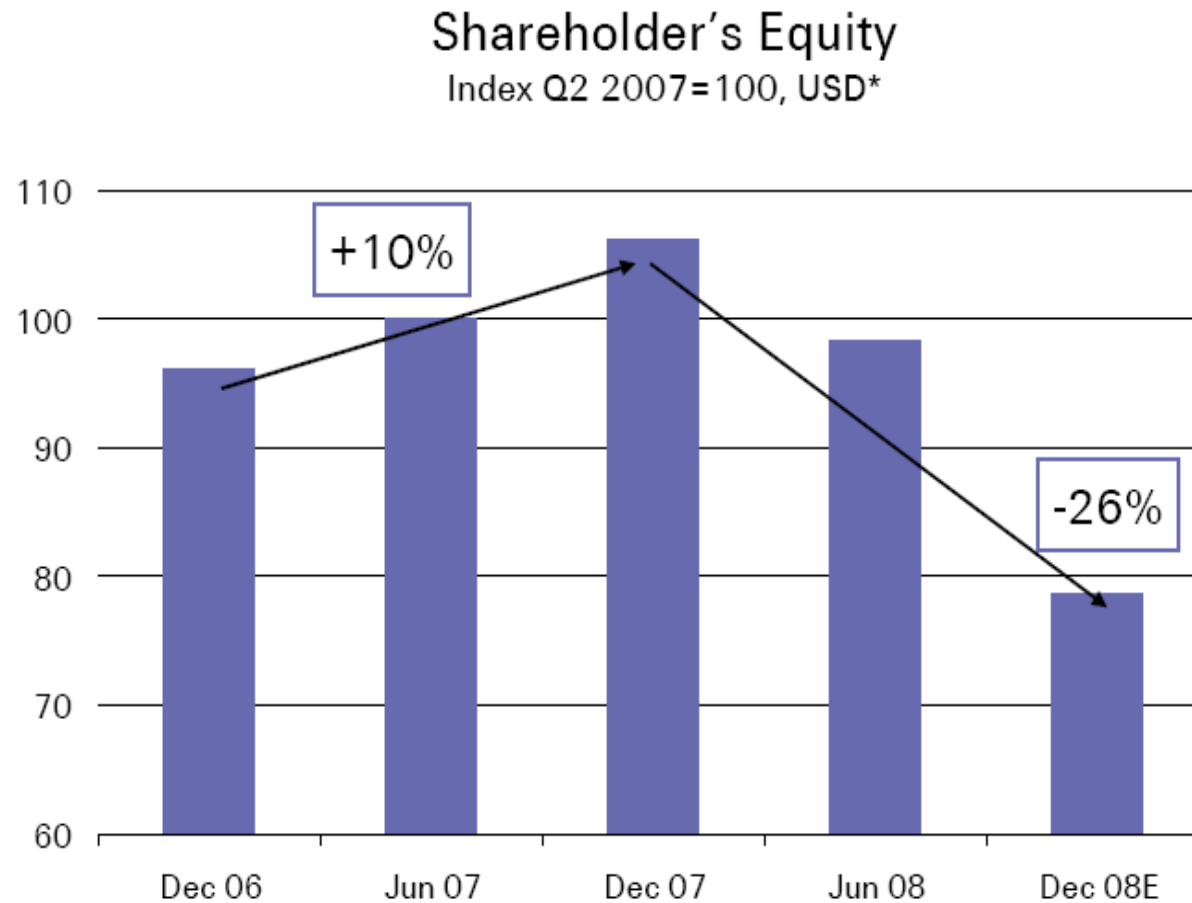
Source: Swiss Re Economic Research & Consulting

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Impact on the business

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Capacity trends



*26 large Insurers

In 2008, the non-life insurance industry lost about 20% and the life insurance industry between 30-40% of the capital base

Sources: Annual Reports, Bloomberg, Swiss Re Economic Research & Consulting

Conclusions

Takeaways...

- Accumulation control is a *hot issue* more than ever
- Solvency II requires *strict risk management* practices and rewards *risk control*
- Benefits are *more capacity, lower prices*
i.e. avoid charges for lack of transparency

...and bottom line

Let's work together to pursue the interests of the whole shipping community

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Thank you for your attention

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First Marine Insurance Forum
Accumulation Workshop
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