



# SCOR Alternative Solutions

## ART solutions for corporate clients and captives

Q1 2021

# SCOR P&C Alternative Solutions



## Alternative Solutions

*Capital management, Volatility management and Parametric insurance center of expertise*

Treaty & Global lines teams

### Structured reinsurance for insurers

- A range of sophisticated solutions, allowing insurance companies to make the most of the latest innovations in reinsurance protection
- Capabilities ranging from structured QS, multi-year / multi-line, to aggregate XS, multi-trigger deals, retrospective LPTs, ADCs
- Cedants benefit from SCOR Reinsurance underwriters' expertise, together with the innovation provided by its Alternative Solutions team

### Parametric solutions

- A range of sophisticated solutions allowing insurance companies, corporate clients and public authorities to access index-based protections, when traditional (re)insurance offer doesn't meet their needs.
- Capabilities ranging from weather index (temperature, rainfall, wind, solar radiation...) to natural events (flood, quake, windstorm...) and some man-made indexes.

### Structured insurance for corporates / captives

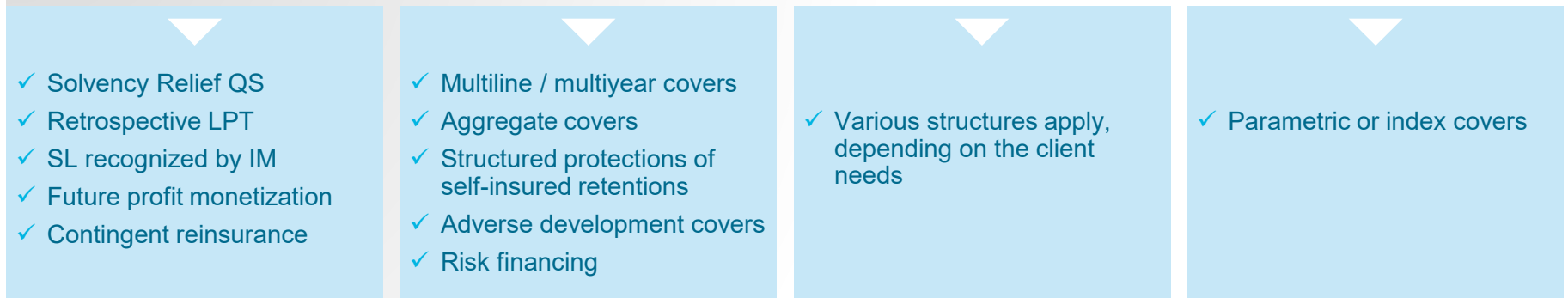
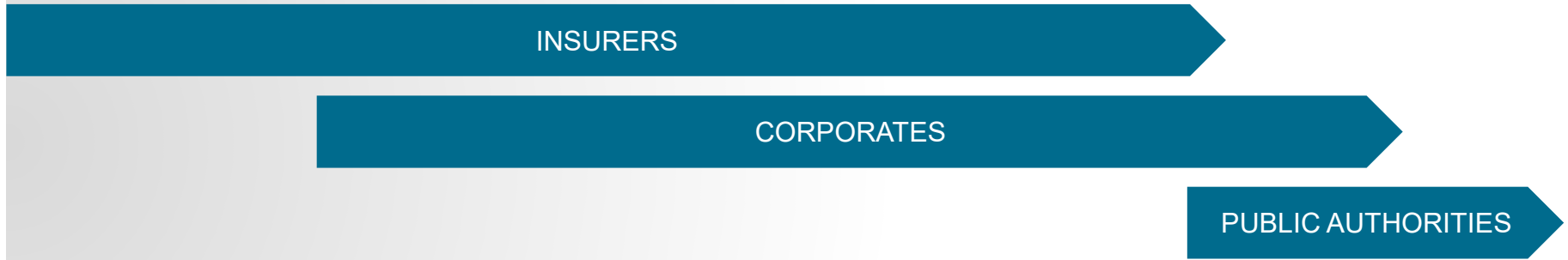
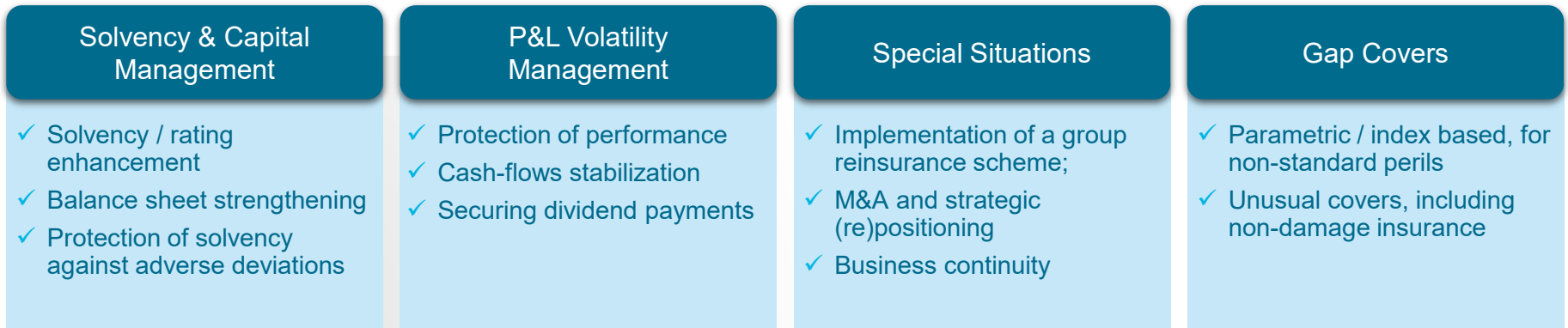
- A market leading structured solutions offering, tailored to clients' specific needs, and adapted to their industry, size and geographic exposure
- Clients benefit from SCOR underwriters' experience and expertise in their respective industry sector, allowing SCOR to provide a best-in-class structured captive offering

Specialty insurance teams



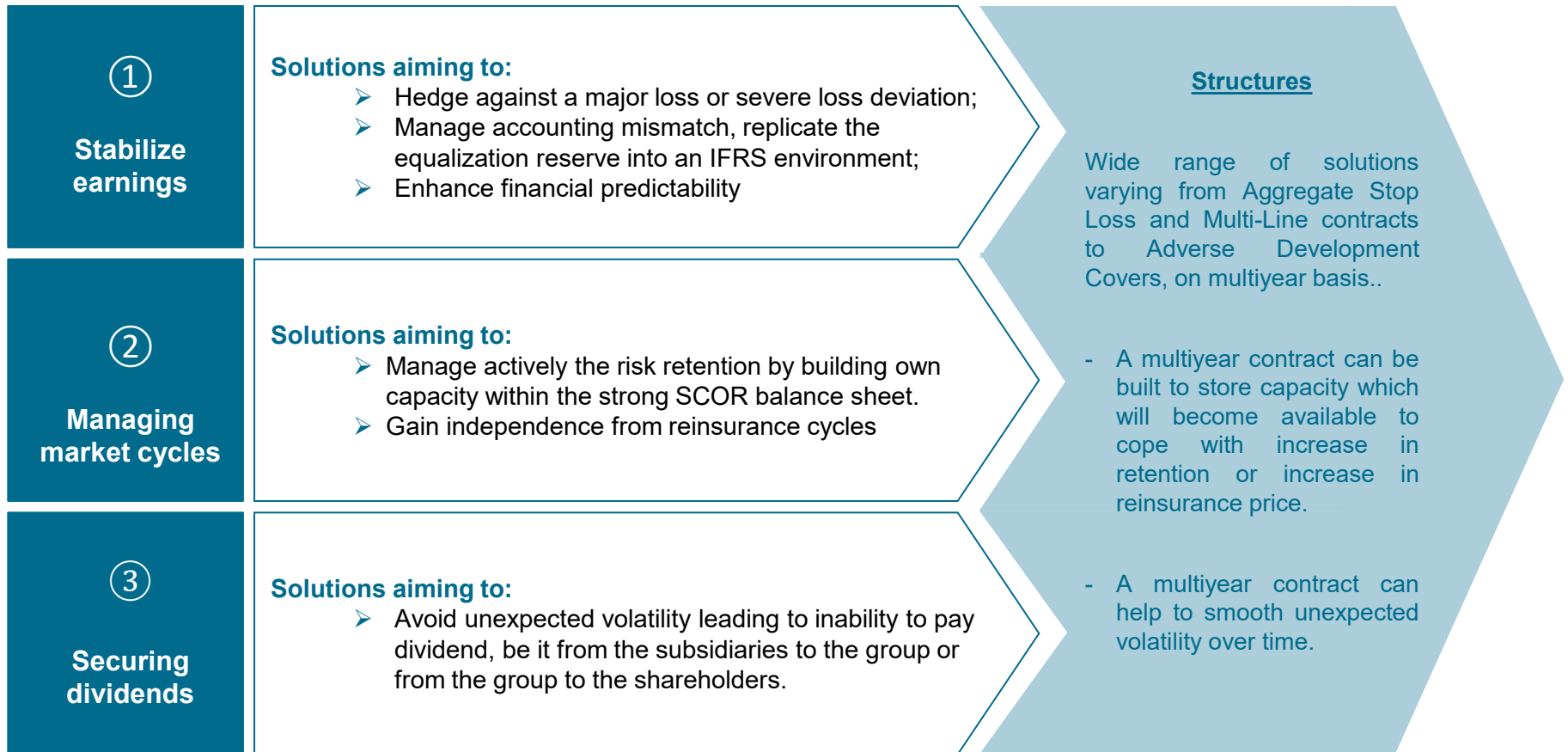
Insurance companies, Commercial and industrial companies, Financial institutions, Public Authorities

# A comprehensive range of structured solutions for various clients



# P&L and Cash-flow Volatility Management

Structured reinsurance addresses **increasing pressure on predictability of returns** from the investors, rating agencies or other stakeholders



# Structured Solutions for Corporates and Captives

## Buffer layer

- Multiyear, multiline layers designed to increase cost efficiency of insurance purchase by having combined limit for several LoBs
- Mostly common in the US, driven by budget considerations

## Parametric products

- Index-based instruments allowing for fast and transparent recovery of losses caused by CAT events or weather patterns
- Fills protection gaps (NDBI) and secures cash-flows and business plans (revenue protection)

## Special risks

- Highly structured and bespoke solutions to cover risks for which there is no available capacity, or too expensive to insure
- Solutions designed to smooth out the P&L volatility and provide post-loss liquidity

## Retrospective

- Solutions protecting against deterioration of reserves on past claims
- Can be considered to reduce capital allocation to a captive, or in a M&A/Exit situation, when a corporate wants to divest its captive, or simply to protect the P&L against volatility

## Captive solutions

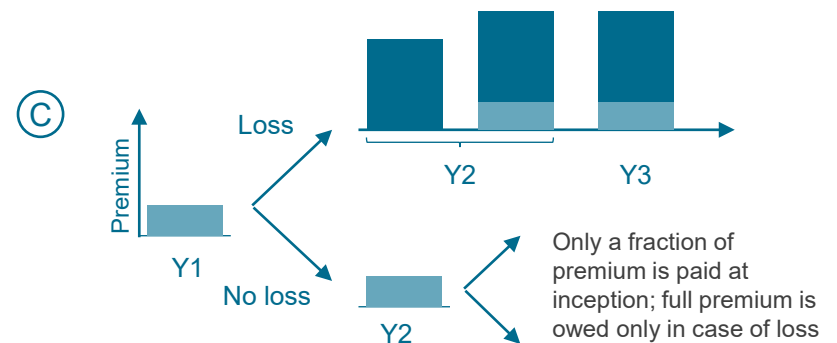
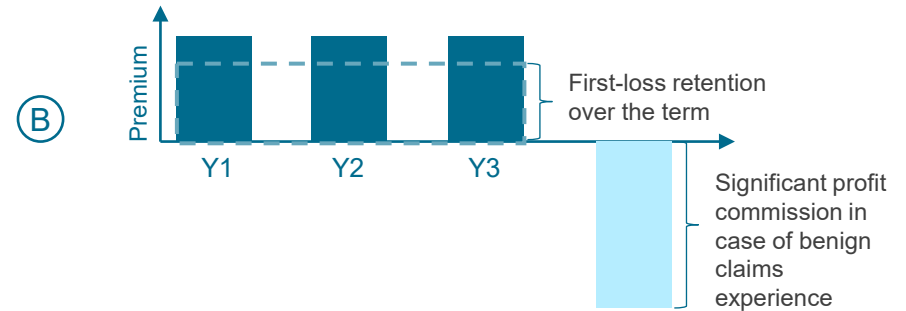
- Captive P&L and capital management through traditional risk transfer and structured solutions: stop-loss, aggregate covers, retention management, run-off...
- Financial loss for non-standard perils or covers: building of reserves on SCOR's balance sheet with appropriate loss triggers

# Our offerings for corporate clients and captives

	Captive life cycle	Structured solutions	Parametric products
Drivers	<ul style="list-style-type: none"> <li>• P&amp;L and capital protection in ramp-up phase</li> <li>• Protection of ongoing results and stabilization of cash-flows</li> <li>• Management of increased retention in context of hardening market</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue / cost overrun protection</li> <li>• Cash-flow stabilization</li> <li>• Insurance budget optimization</li> <li>• Securing dividends</li> <li>• Supporting growth strategy</li> </ul>	<ul style="list-style-type: none"> <li>• Coverage gap: non-damage business interruption, Cat deductible</li> <li>• Revenue protection</li> <li>• Speed and transparency of payout vs. Indemnity products</li> </ul>
Products	<ul style="list-style-type: none"> <li>• Aggregate XoL / stop-loss coverage</li> <li>• Multi-line, multi-year</li> <li>• Structured contracts: profit-sharing, NCB, optionality (“cancel-and-rewrite”)</li> <li>• Flexible contracts to meet evolving needs of clients</li> </ul>	<ul style="list-style-type: none"> <li>• Highly bespoke multi-year solutions</li> <li>• Flexible financial loss contracts</li> <li>• Insurance or captive reinsurance policies</li> </ul>	<ul style="list-style-type: none"> <li>• Parametric insurance products (no license for derivatives)</li> <li>• Cat-in-the-box</li> <li>• Weather options (put/call/collar...)</li> <li>• Bespoke parametric solutions to minimize basis risk</li> </ul>
Appetite	<ul style="list-style-type: none"> <li>• Underlying LoB: property, liability, engineering, marine, PI, cyber...</li> <li>• EUR/USD 50m+ capacity</li> </ul>	<ul style="list-style-type: none"> <li>• Broad range of risks incl. entrepreneurial/business risks</li> <li>• Line size based on counterparty risk</li> </ul>	<ul style="list-style-type: none"> <li>• Wide range of weather and Cat perils (limited capacity for NAHU, Cal EQ, Japan typhoon)</li> <li>• Up to EUR/USD 20m capacity</li> <li>• Single or multi-year</li> </ul>

# Case study: multiline multiyear structured reinsurance concept

- Aggregating reinsurance for several LoB retentions and over a multi-year period reduces the amount of purchased capacity and generates cost efficiency (*fig. A*). The probability that each line suffers losses and that the combined term limit is exhausted is quite low, yet capacity reinstatement conditions can be included in the contract
- A structured solution, where the captive funds a first loss over a multi-year horizon and receives a significant profit commission upon commutation in case of positive loss experience, proves to be more effective than traditional protection (*fig. B*)
- Such a solution provides predictable pricing, unaffected by short-term market fluctuations, and budget stability
- An additional feature allows to pay only a fraction of the premium at inception, and to “activate” the contract only when a loss occurs; this allows to accelerate the capital build-up of the captive in case of no-loss, while smoothing out the impact of a loss over a multi-year horizon, which reduces the capital pressure (*fig. C*)



# Case study: Volatility management through multi-year reinsurance

## Client profile

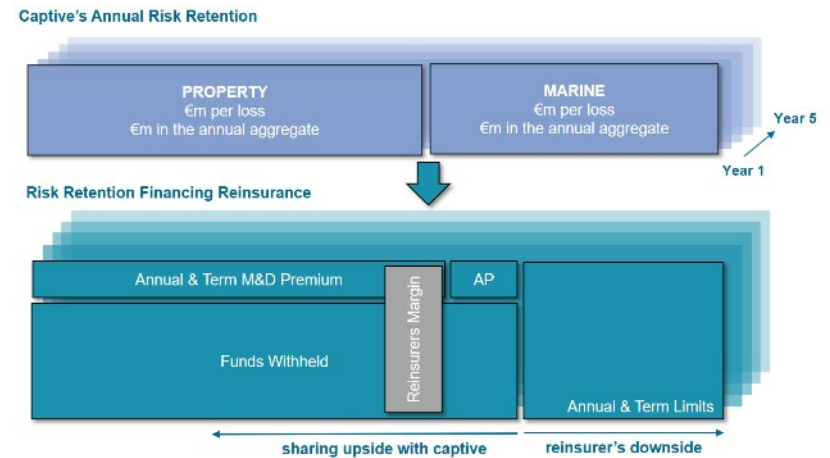
- Large global corporate manufacturing company re-positioning their captive to become the cornerstone to a systematic multi-line risk management strategy

## SCOR solution

- **Term:** 5 years
- **Premium:** deposit plus additional premium triggered by loss ratio to reduce cash flow
- **Adjustment:** annual formula
- **Reinsurer's margin:** 10% of deposit premium
- **Funds Withheld Account:** total premium less margin for potential captive upside

## Benefits

- **Strategic:** purchase reinsurance on an integrated basis across multiple lines to provide a stable and long-term protection platform
- **Incentivise:** incentivise corporate to improve further its risk management and loss prevention programs through profit sharing in the event of good loss experience
- **Cash flow:** reduce cash flow volatility & minimise maximum loss ratio in any one year for captive





# Case study: Revenue protection

## Rationale

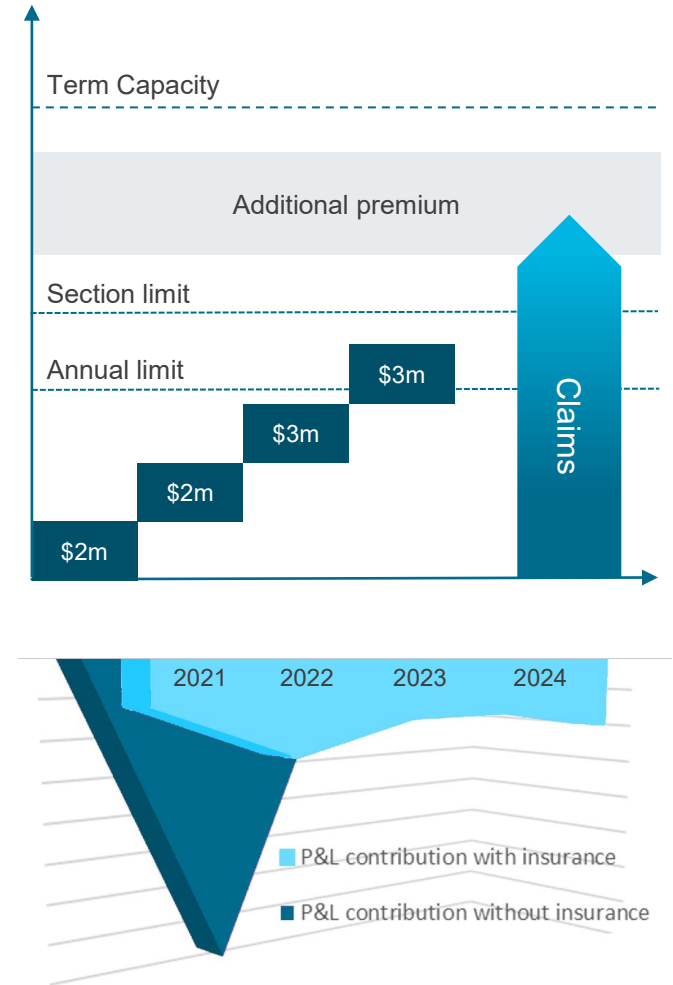
- ❑ A marine cruising company to grow its fleet.
- ❑ New vessels imply investments and increase in leasing costs.
- ❑ At this critical time of their development, loss of revenue, for any reason, is not an option.

## Main Perils

- ❑ Loss of revenue without physical damage due to pandemic event, terrorism, natural event, political event, bankruptcy of travel agents...
- ❑ Some perils excluded from most policies

## SCOR Solution

- ❑ Multiyear deal to ensure multiple premiums flow
- ❑ An “all risks” section with:
  - Annual limits as per the client’s expectations
  - A section limit over the term lower than cumulated premiums
- ❑ A top layer:
  - Term capacity > total premium
  - Restricted to the perils familiar to SCOR.
- ❑ Premiums
  - Annual fixed premium adjusted to the client’s available budget
  - Additional premium if significant loss.



# Case Study: Conditional protection for Enterprise performance risk

## Client profile

- ❑ A corporate client leading its industry and facing risk relating to performance bonds.
- ❑ Performance commitment is a key driver for the client to access business
- ❑ Client trying to access new high value contracts, in limited numbers.

## Main issues

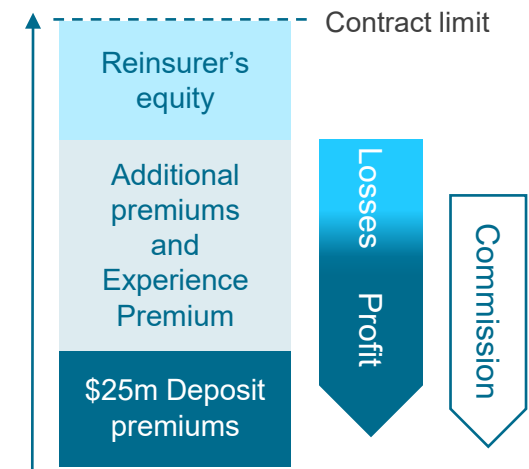
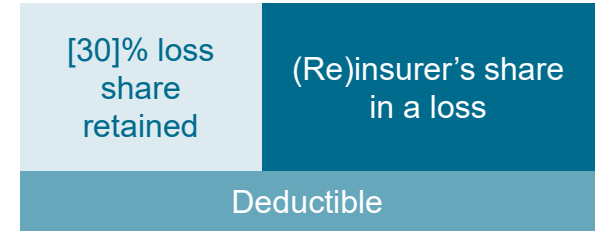
- ❑ Risk which has never been ceded to the insurance market.
- ❑ Moral hazard.

## SCOR solution

- ❑ Allow them to access sizeable insurance capacity
  - \$50m limit per bond, \$150m over the term.
- ❑ Help them to build their own insurance capacity
  - Involve their captive to retain some premium and some risk.
- ❑ Minimize their cash expenditure
  - Ask for a reduced annual deposit premium
  - Additional premium each time a bond is to be covered.

## Building alignment of interest

- ❑ Increasing deductibles and additional premium as per the loss experience.
- ❑ Include captive proportional retention.
- ❑ Allow a form of profit sharing.
- ❑ Cap the Scor maximum downside.



# Case study: Cat protection for T&D Lines provides budgeting certainty

## Client profile

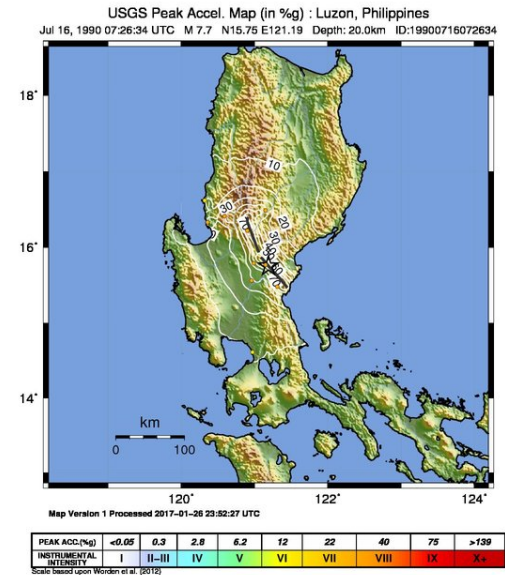
- Transmission & Distribution network exploring alternative ways of buying a cover for its Wind and Earthquake cover. Parametric approach preferred as T&D traditionally considered uninsurable with unpredictable loss potential

## SCOR solution

- Bespoke **parametric index** developed by peril to proxy actual damage
  - Earthquake based on US Geological Survey Shakemap post event measurements
  - Windstorm index based on extrapolated windspeed field from the observed typhoon track
  - Rain index following typhoon based on satellite imagery
- Localized approach with exposure represented by Province weights
- **Term:** 3 years, event limit USD 25m for WS and EQ, USD 5m for Rain
- **Limits:** USD 25m event EQ, WS and USD 5m Rain, term limit USD 60m

## Benefits

- **Cash flow:** fast settlement based on available weather/cat measurements
- **Cost predictability:** fixed cost advantageous for a government owned/run business
- **Structural flexibility:** implement any deductibles or bespoke “rain following typhoon” structures



# Case study: Revenue shortfall protection for hydro power generation

## Client profile

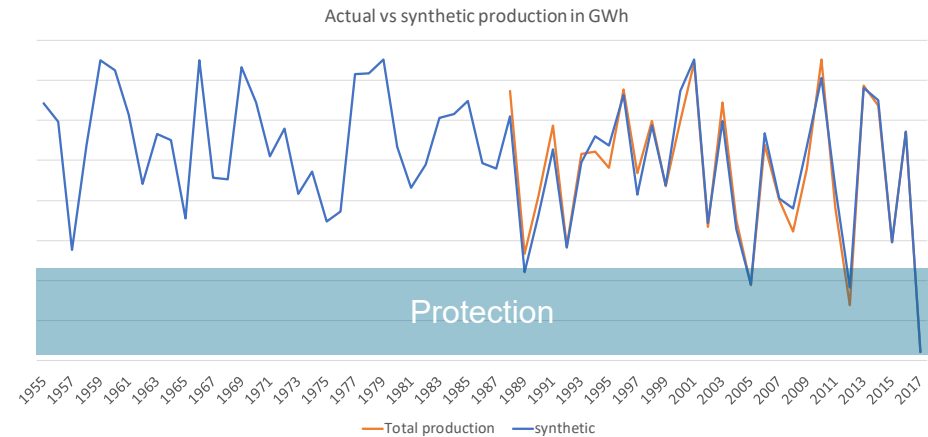
- Turnover from hydro generation dropped by over 2/3 following a catastrophically dry year. Power prices did not compensate the shortfall. Client interested in limiting similar impact in the future and willing to consider

## SCOR solution

- Protecting revenue directly is difficult due to moral hazard and regulatory interventions redirecting flows
- Parametric Index developed based on river flow data exhibiting 95% correlation with actual production
- Payout based on defined layer and fixed price per GWh
- Term 1 to 5 years
- Option to share upside, similar to swap structure

## Benefits

- Revenue floor: transparent min guaranteed revenue
- Multi Year volatility management: use inherent volatility up & down to its advantage
- Financing flexibility: can pre- or post-finance losses



# Your contacts

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