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Insolvency II: A Retrospect on SFCRs

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+
LCP INSIGHT
CLARITY
ADVICE

Key questions

- What caused these insolvencies?
- Could analysis of Pillar III reporting warn this was coming?
- Could this analysis be used to find other companies at risk?
- What can be learnt from these events?



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Agenda

- Outline of the companies involved
- Quantitative Reporting Template (QRT) analysis
- The 'Solvency II' only story
- Conclusions and findings



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Causes of failure

25 October 2018

CBLIE



• Key facts:

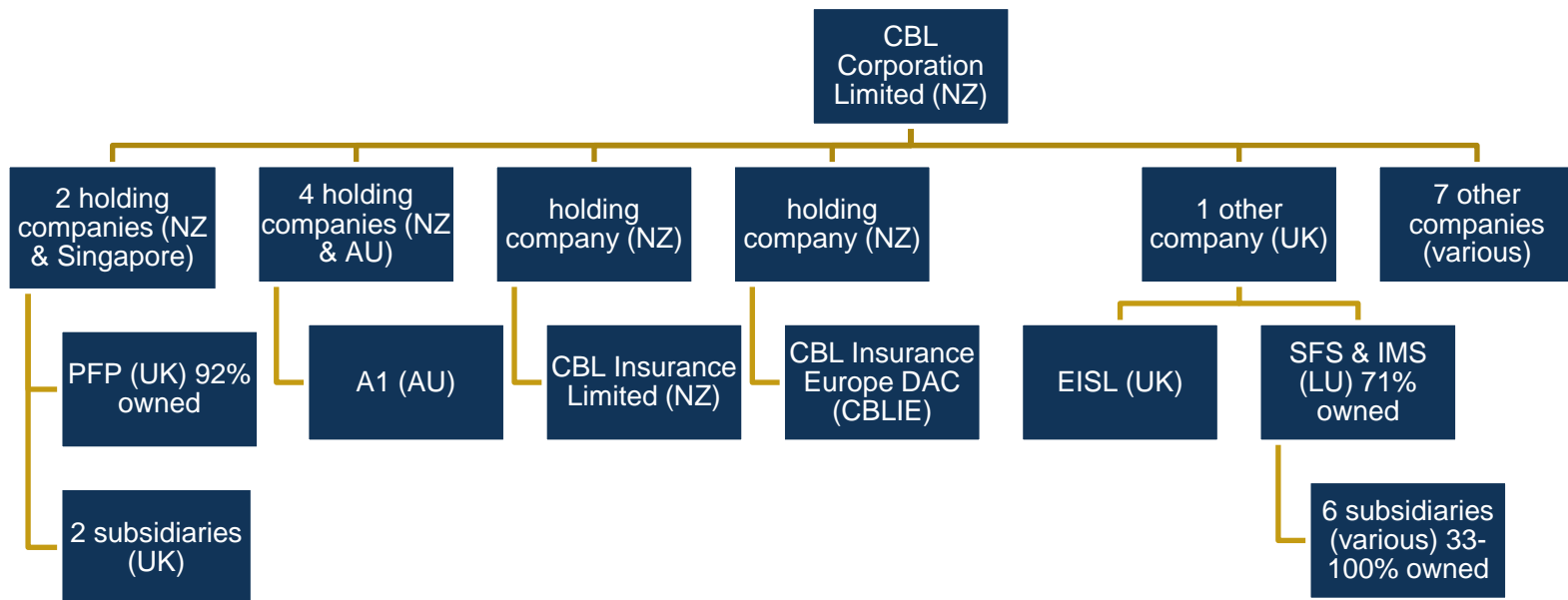
- Acquired by CBL Corporation in December 2013
- Wrote business across Ireland, UK, France and Denmark
- As at 31 December 2016:

• Total assets	€20.4m
• Total gross written premium	€25.0m
• Technical provisions	€5.8m
• SCR	€11.2m
• Eligible own funds to SCR ratio	125%



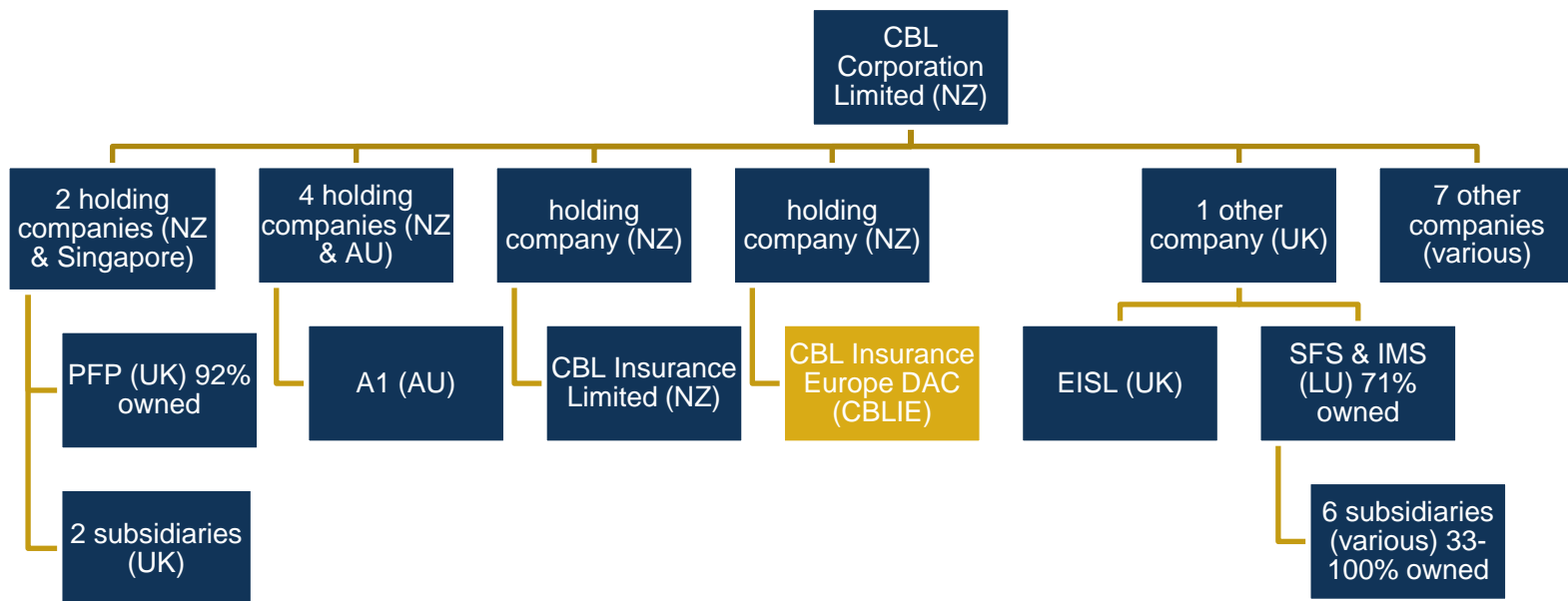
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Causes of failure – The CBL Group Structure



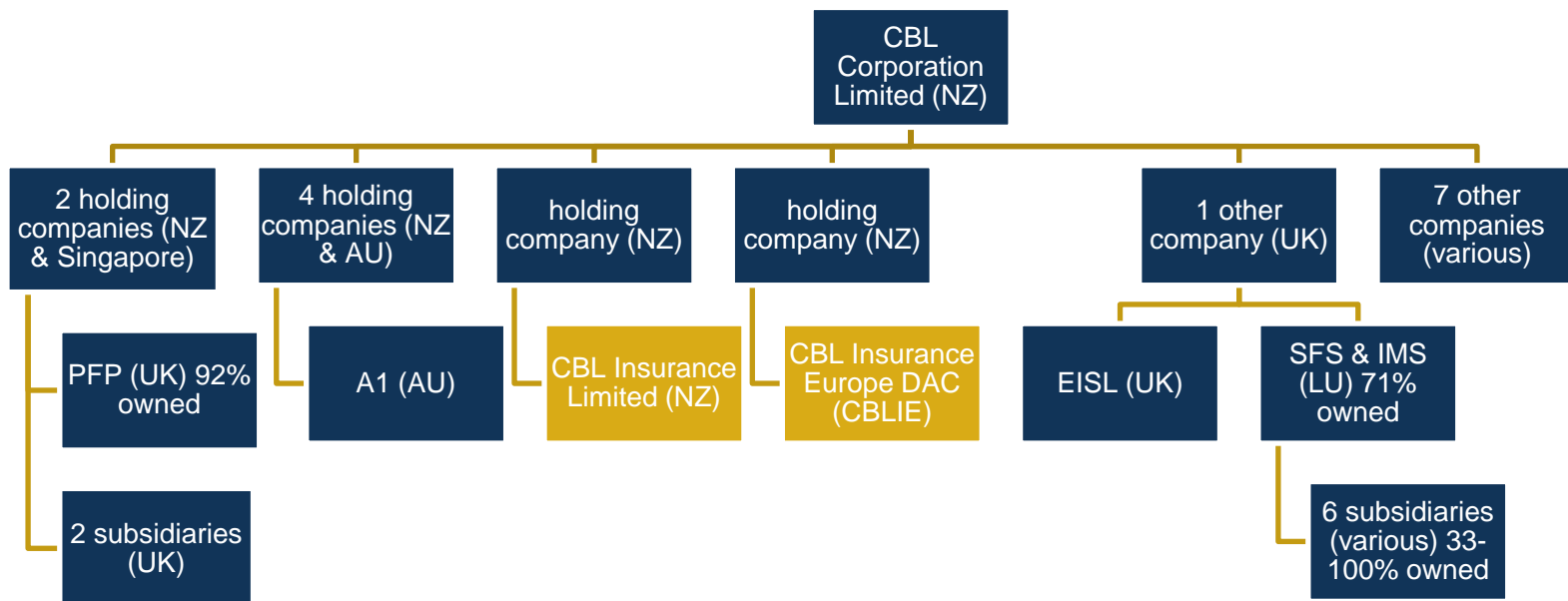
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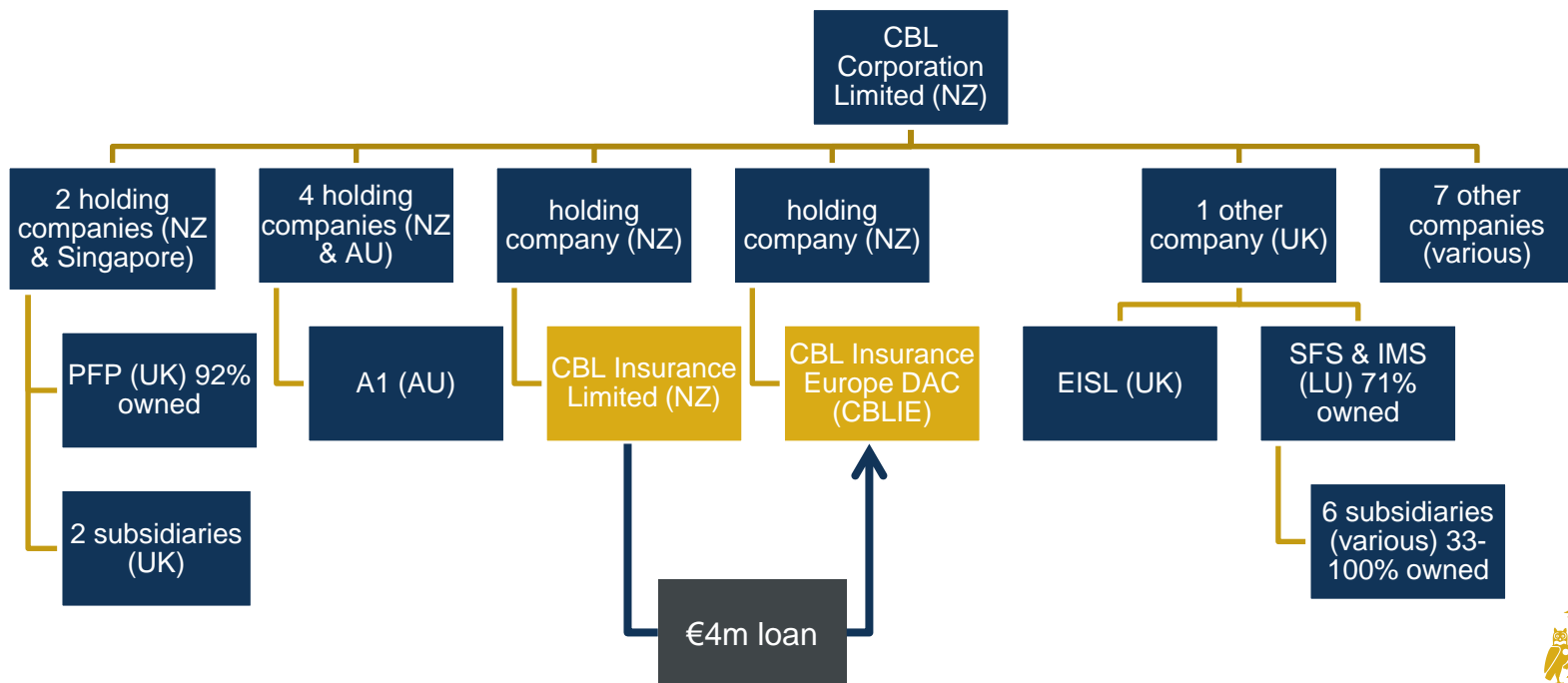
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Causes of failure – The CBL Group Structure



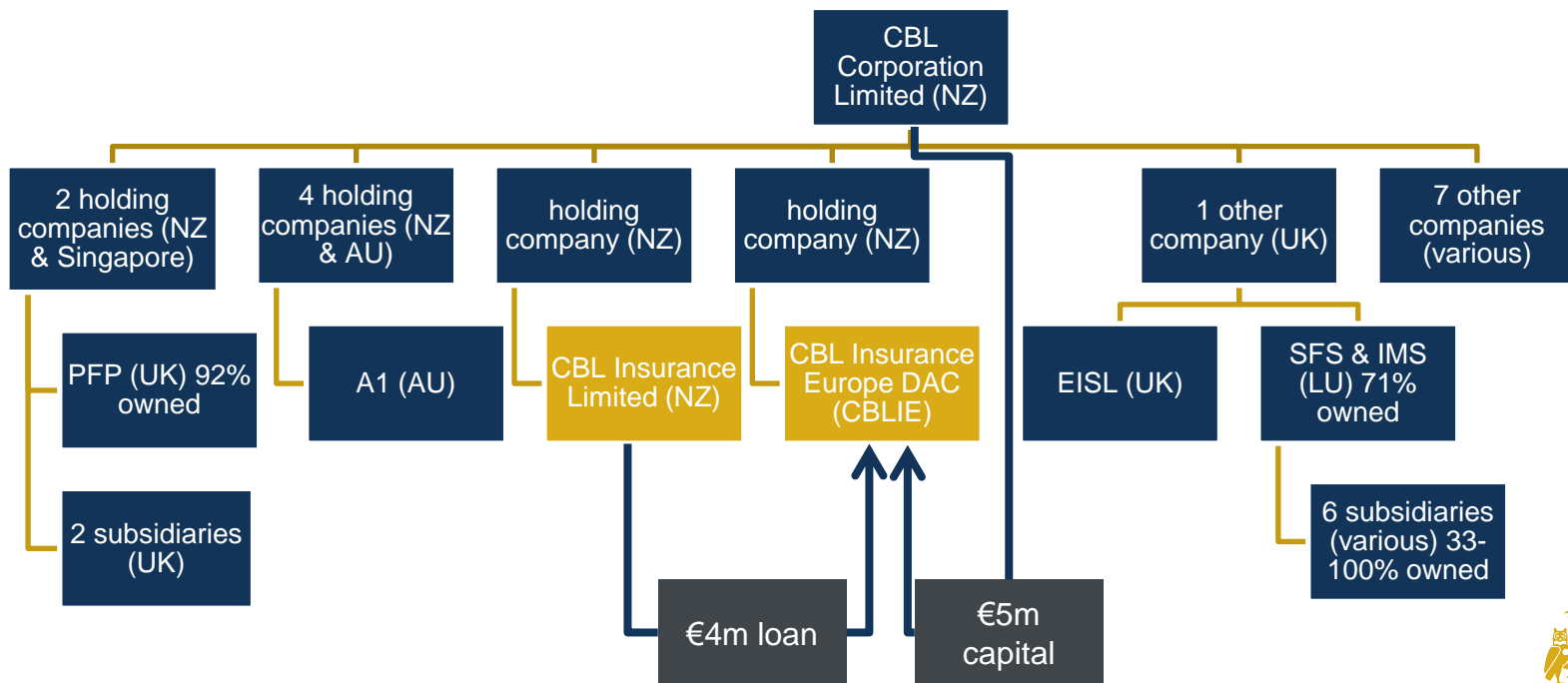
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Causes of failure – The CBL Group Structure



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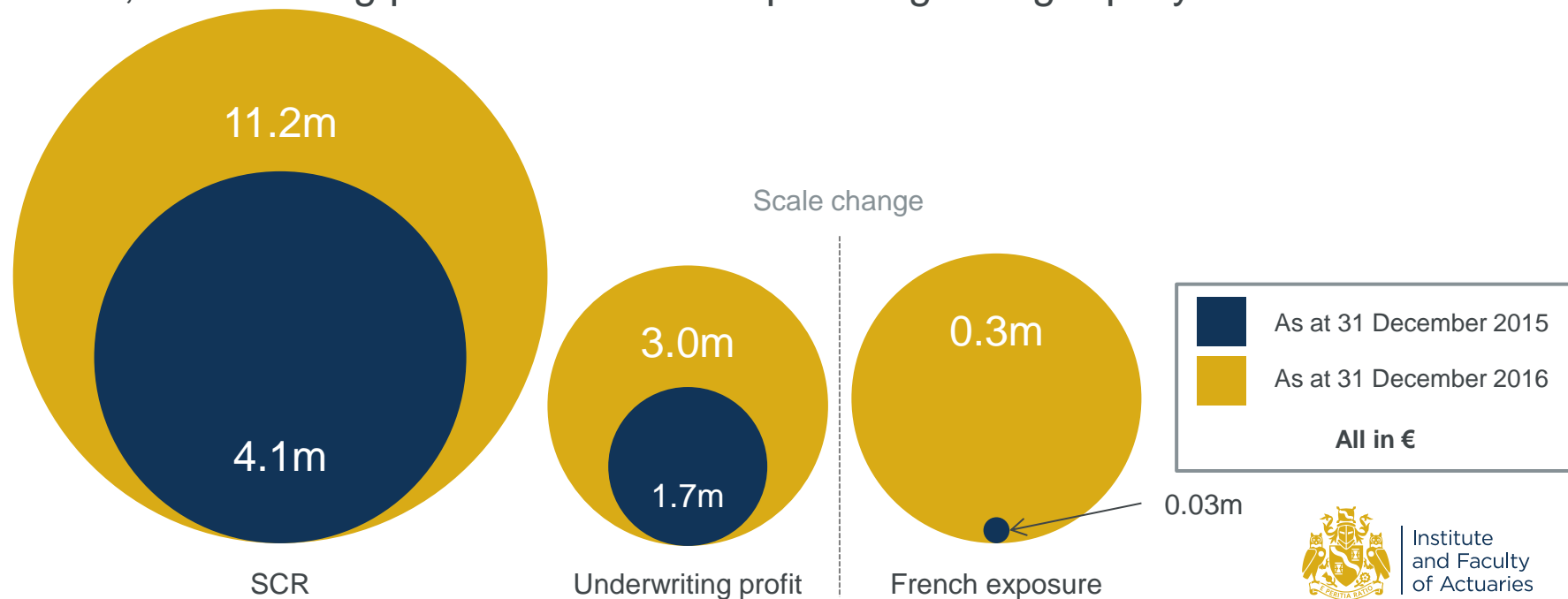
Causes of failure – The CBL Group Structure



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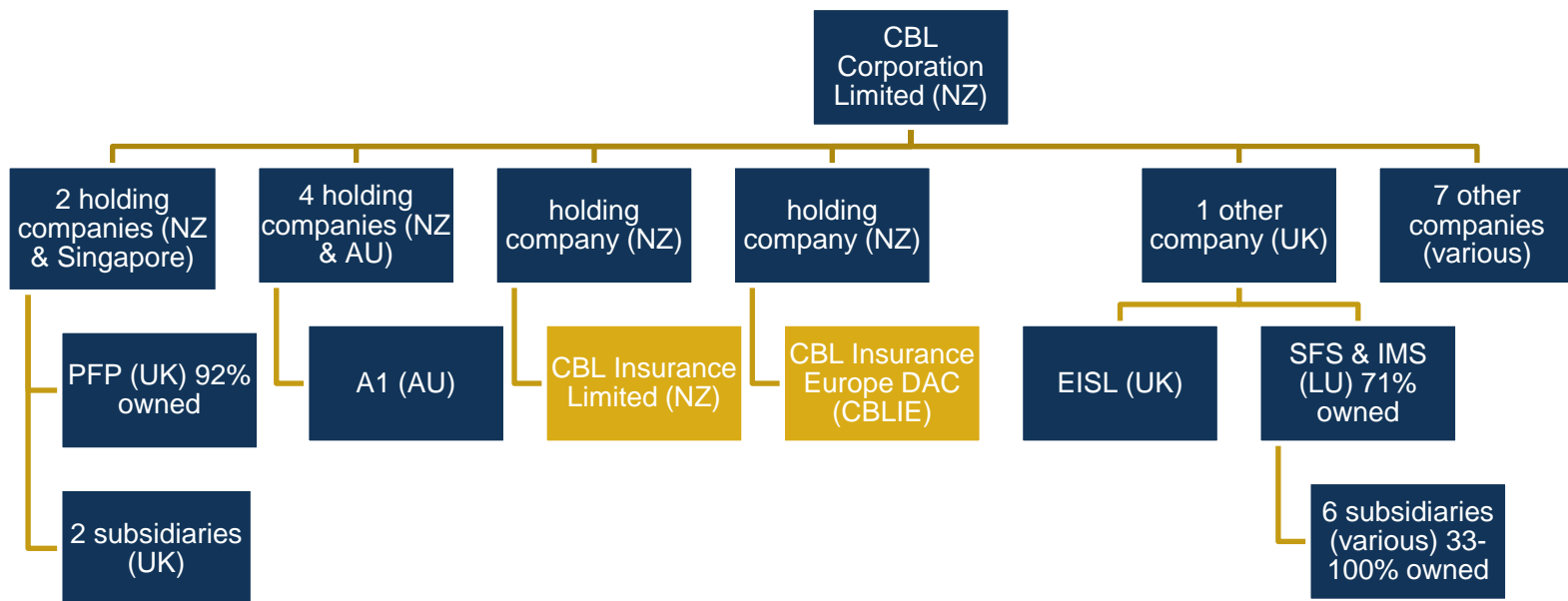
Causes of failure – CBLIE Rapid growth

- SCR, underwriting profit and French exposure growing rapidly:



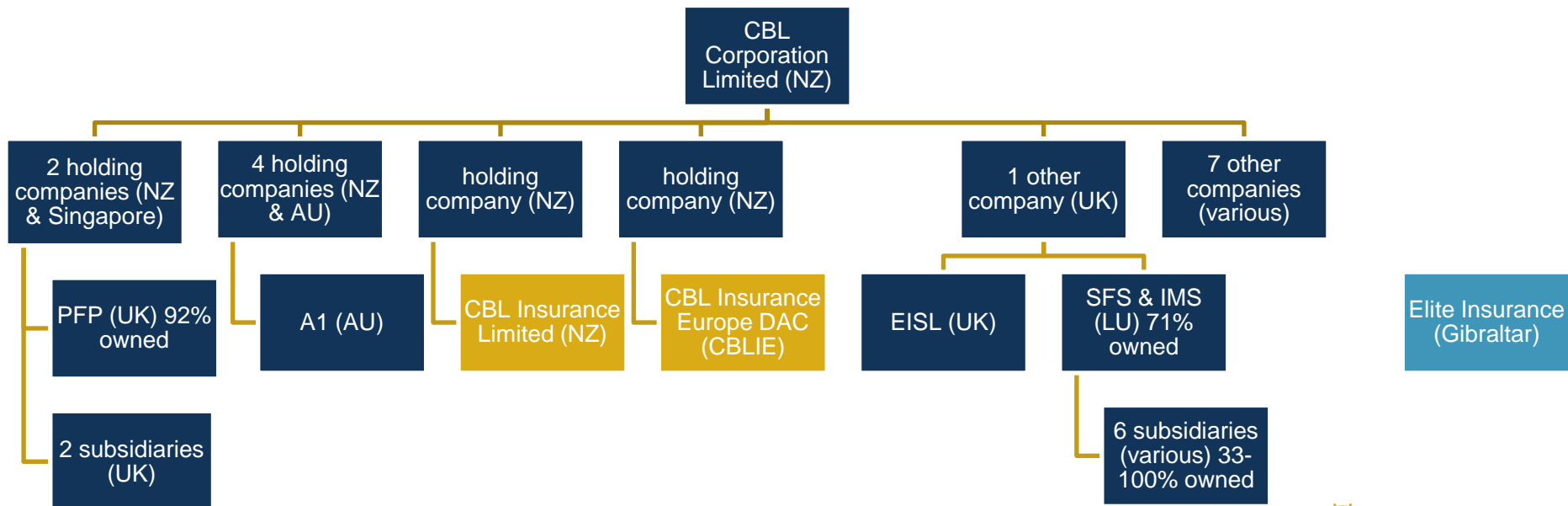
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Causes of failure – The CBL Group Structure



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Causes of failure – The CBL Group Structure



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Elite Insurance Company Limited



• Key facts:

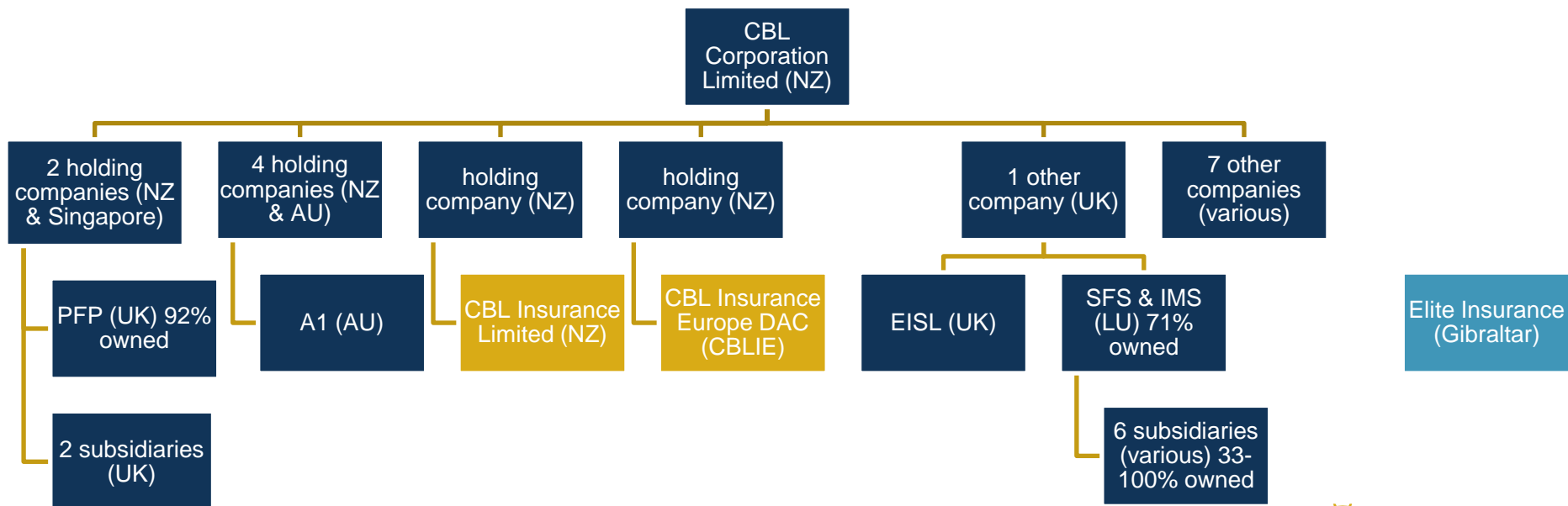
- Gibraltar based and regulated
- Wrote business in multiple European countries
- Half of GWP written in France
- As at 31 March 2017:

• Total assets	£266.0m
• Technical provisions	£122.3m
• SCR	£42.6m
• Eligible own funds to SCR ratio	77.2%



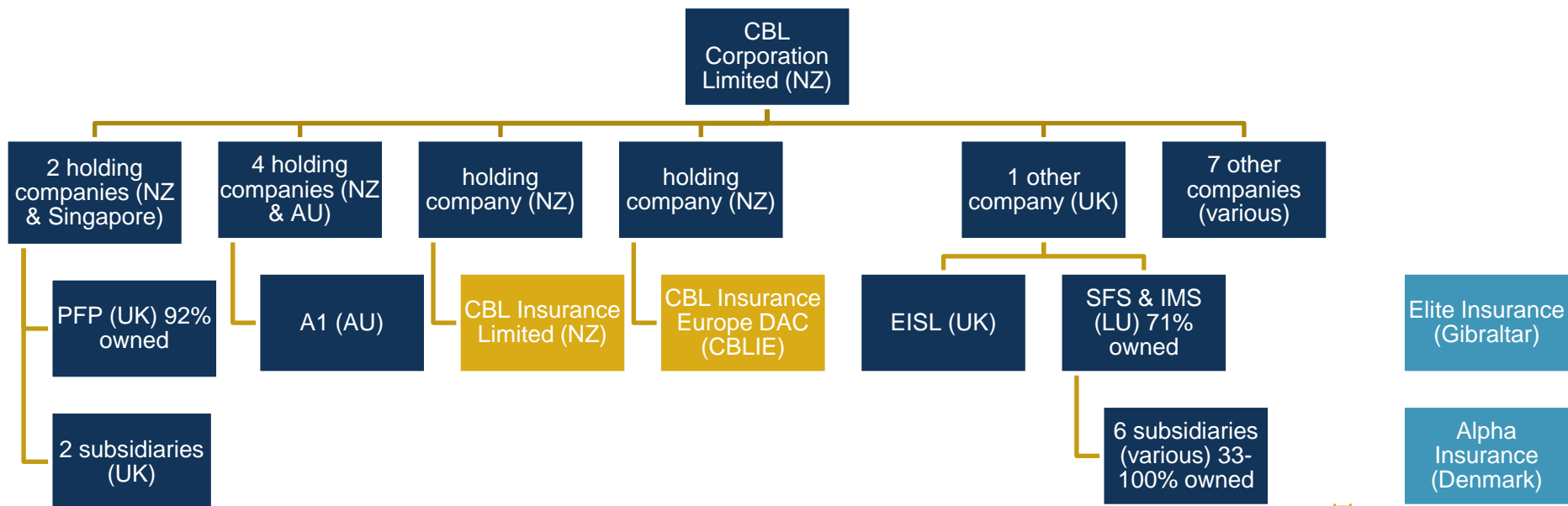
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Causes of failure – The CBL Group Structure



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Causes of failure – The CBL Group Structure



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- **Key facts:**

- Denmark based and regulated

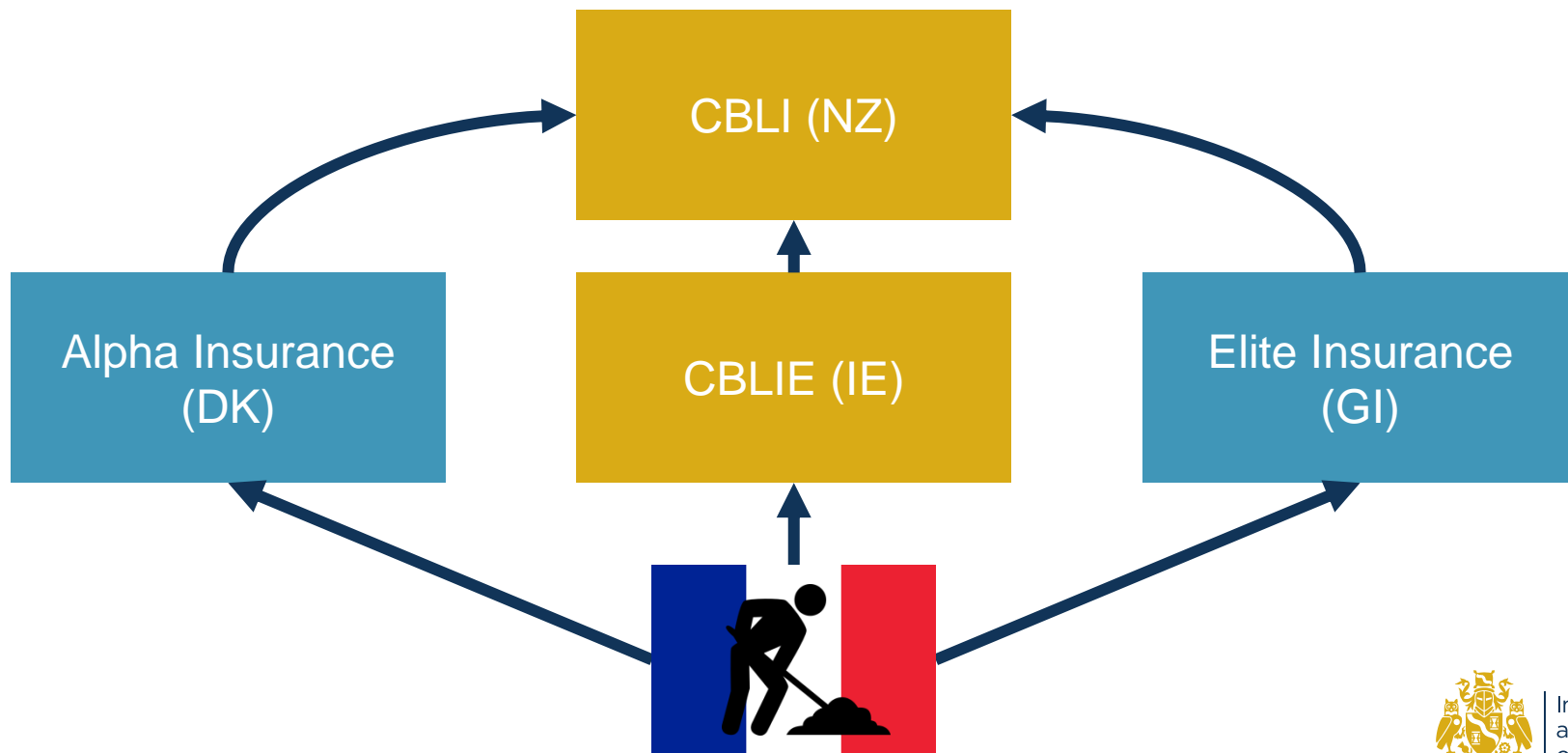
- As at 31 December 2016:

- Motor is largest Solvency II LoB (52% of GWP)
 - UK largest market (48% of GWP), FR (11% of GWP)
 - Total assets €345.9m
 - Technical provisions €213.0m
 - SCR €28.8m
 - Eligible own funds to SCR ratio 216.5%



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Causes of failure – Reinsurance



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Causes of failure – Timeline

Chart not to scale



- Alpha Insurance (DK)
- ▲ Elite Insurance (GI)
- ◆ CBL Insurance Europe (IE)
- ◆ CBL Insurance (NZ)



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Causes of failure – Timeline

Chart not to scale



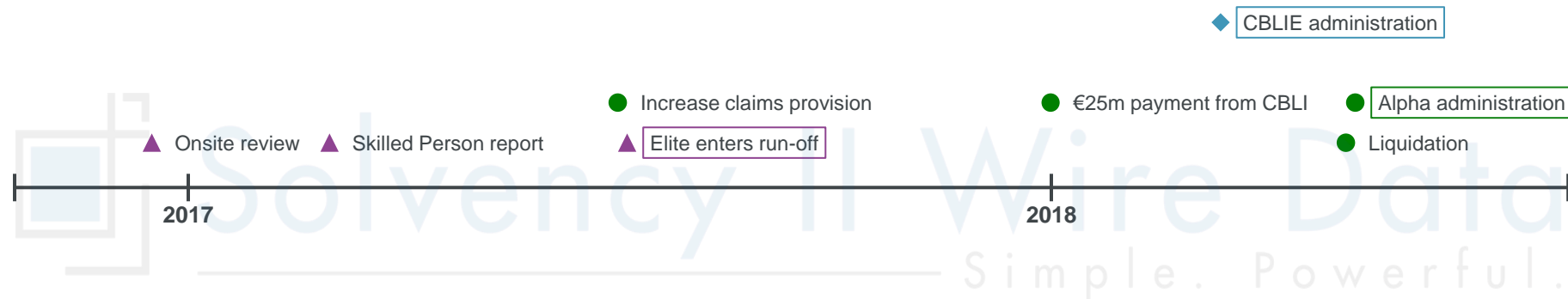
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Causes of failure – Timeline

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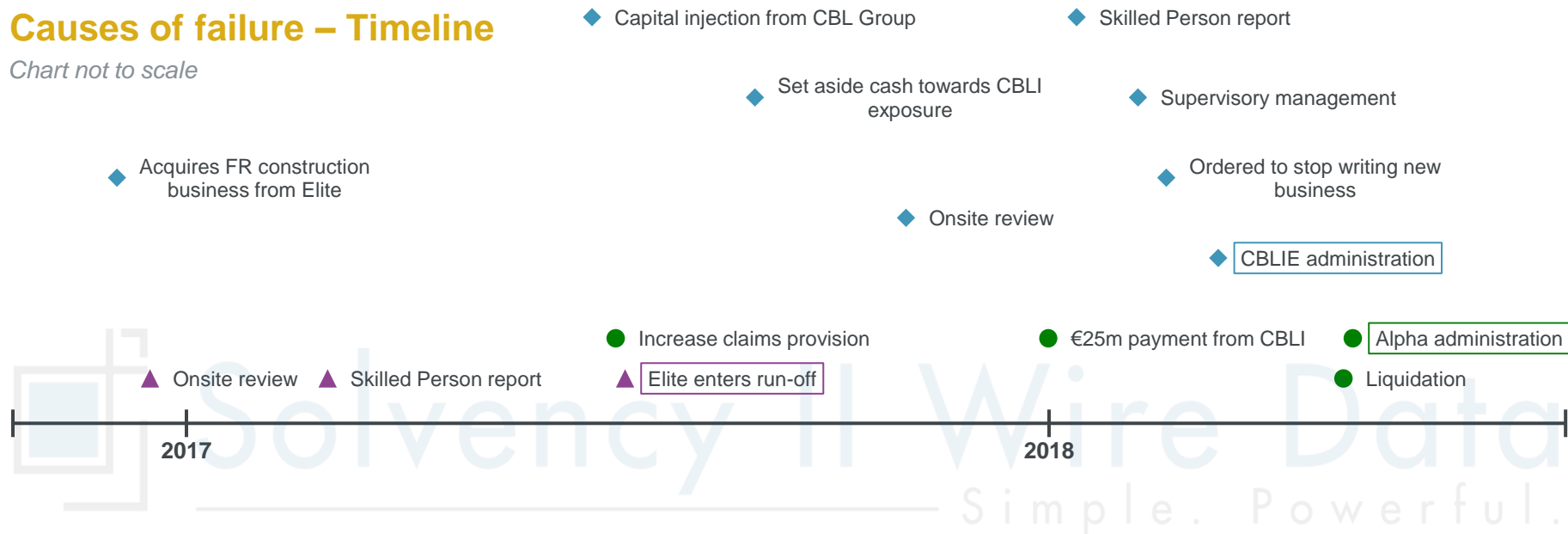
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Causes of failure – Timeline

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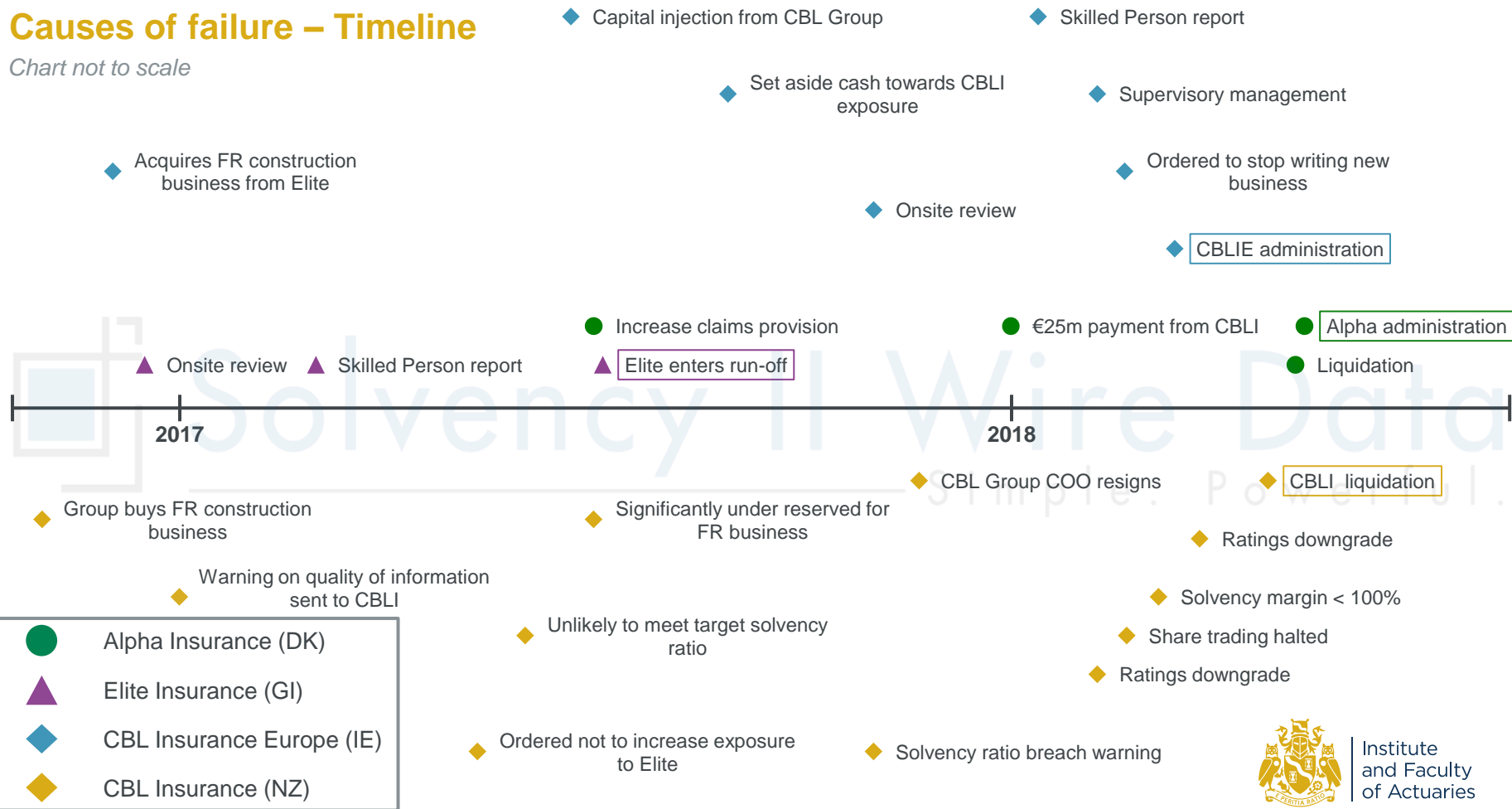
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- Elite Insurance (GI)
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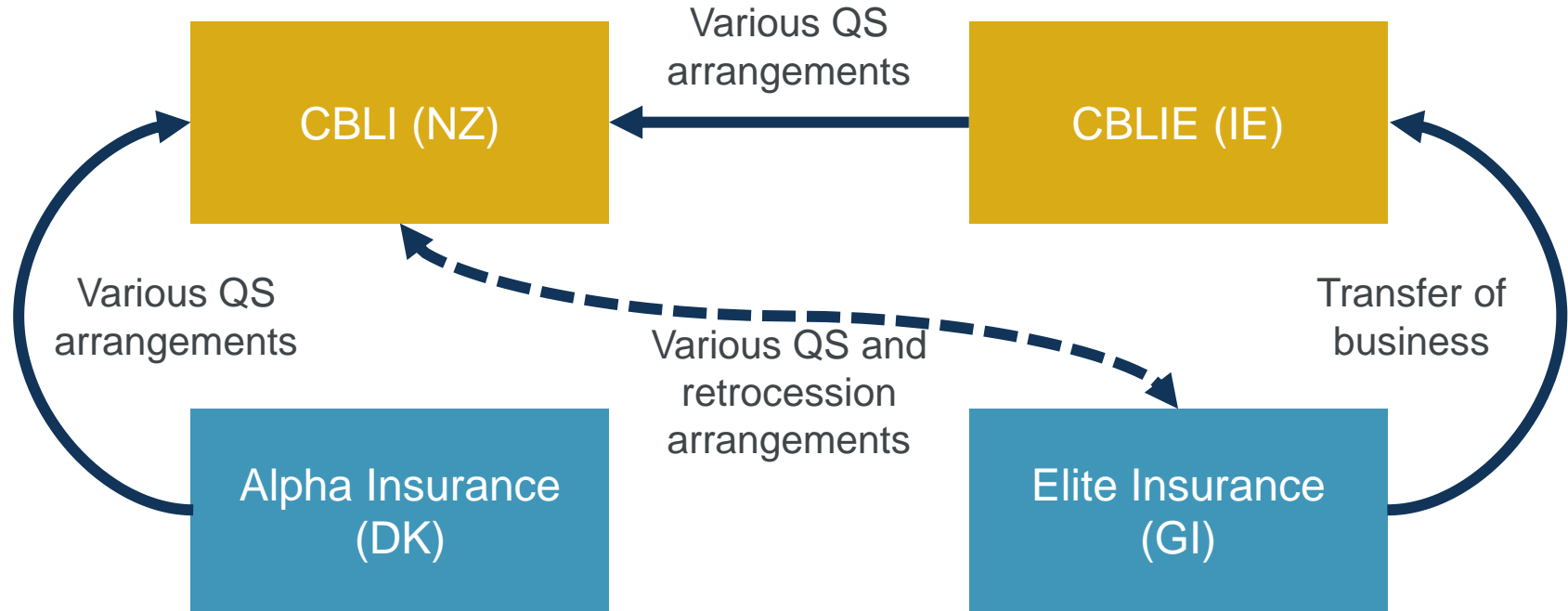
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Causes of failure – Timeline

Chart not to scale



Causes of failure – Reinsurance



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QRT Analysis

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QRT Analysis – Background

- Analysis of Quantitative Reporting Templates
 - QRT reporting gives huge database
 - Looking across suitable sample of companies:
 - Standard formula
 - Regulated in UK, Denmark, Ireland or Gibraltar
 - Non-life or composite
 - Reported using a ‘solo’ SFCR
 - 2016 SFCR reporting cycle



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QRT Analysis – Key Performance Indicators

- Need to build set of KPIs
 - If we were to focus on reinsurance, first steps might be to answer two key questions:
 - How ‘reinsured’ is a company?
 - What impact does this have on their capital requirement?



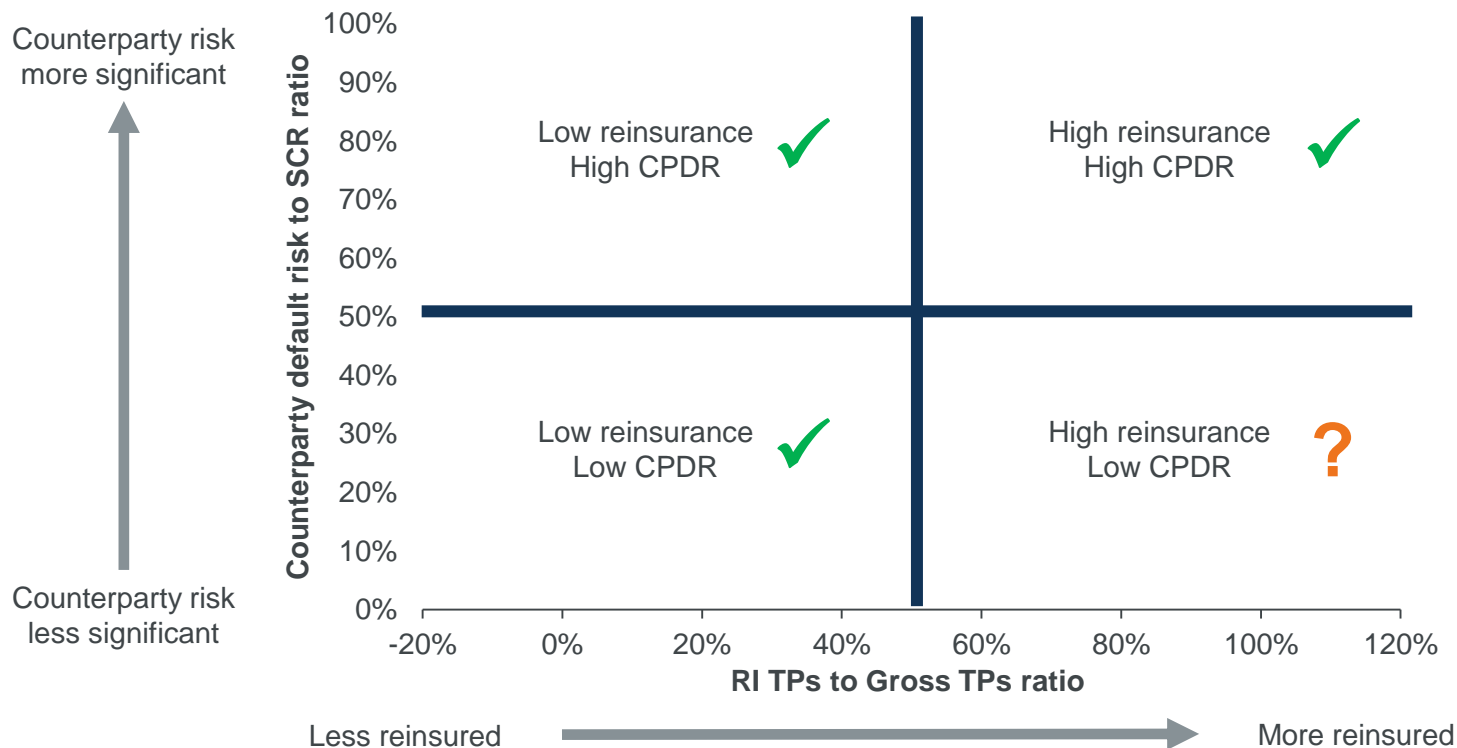
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QRT Analysis – Key Performance Indicators



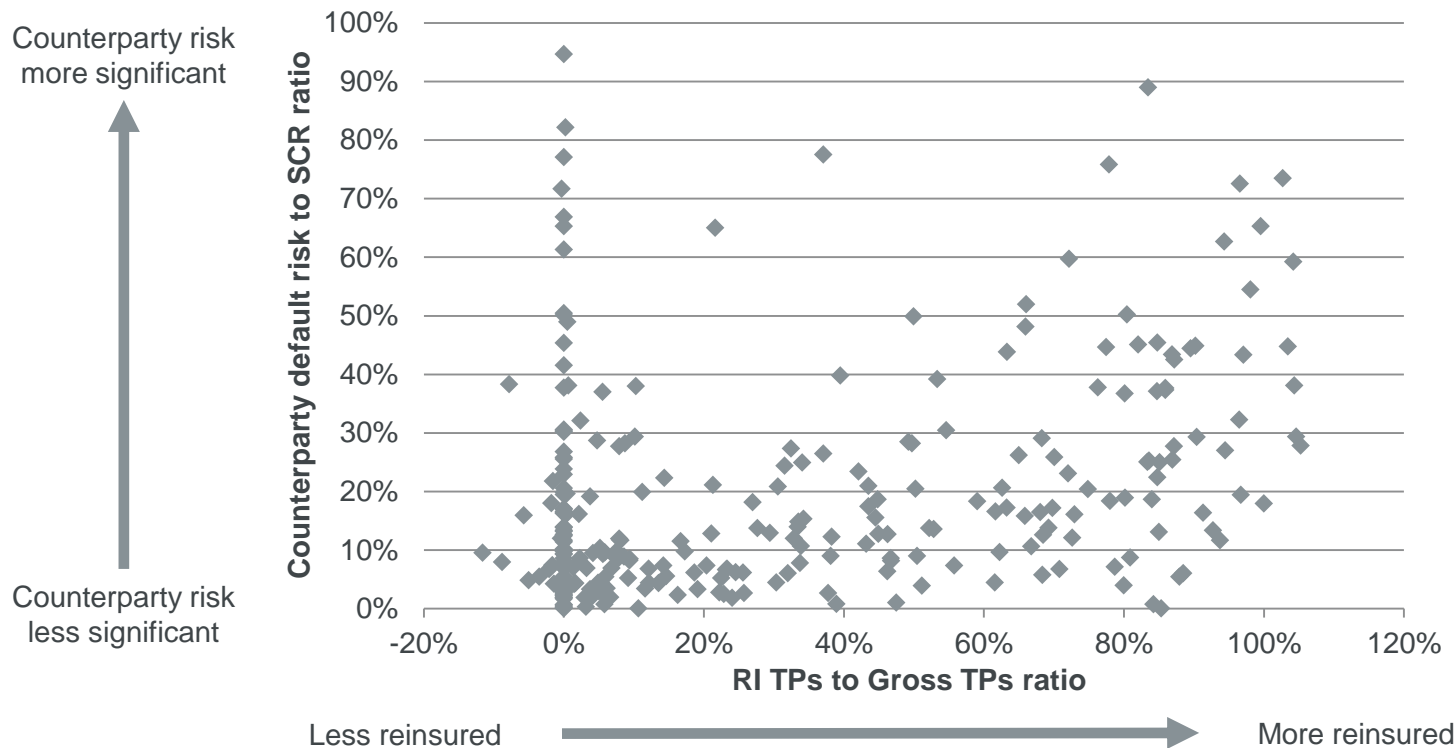
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QRT Analysis – Key Performance Indicators



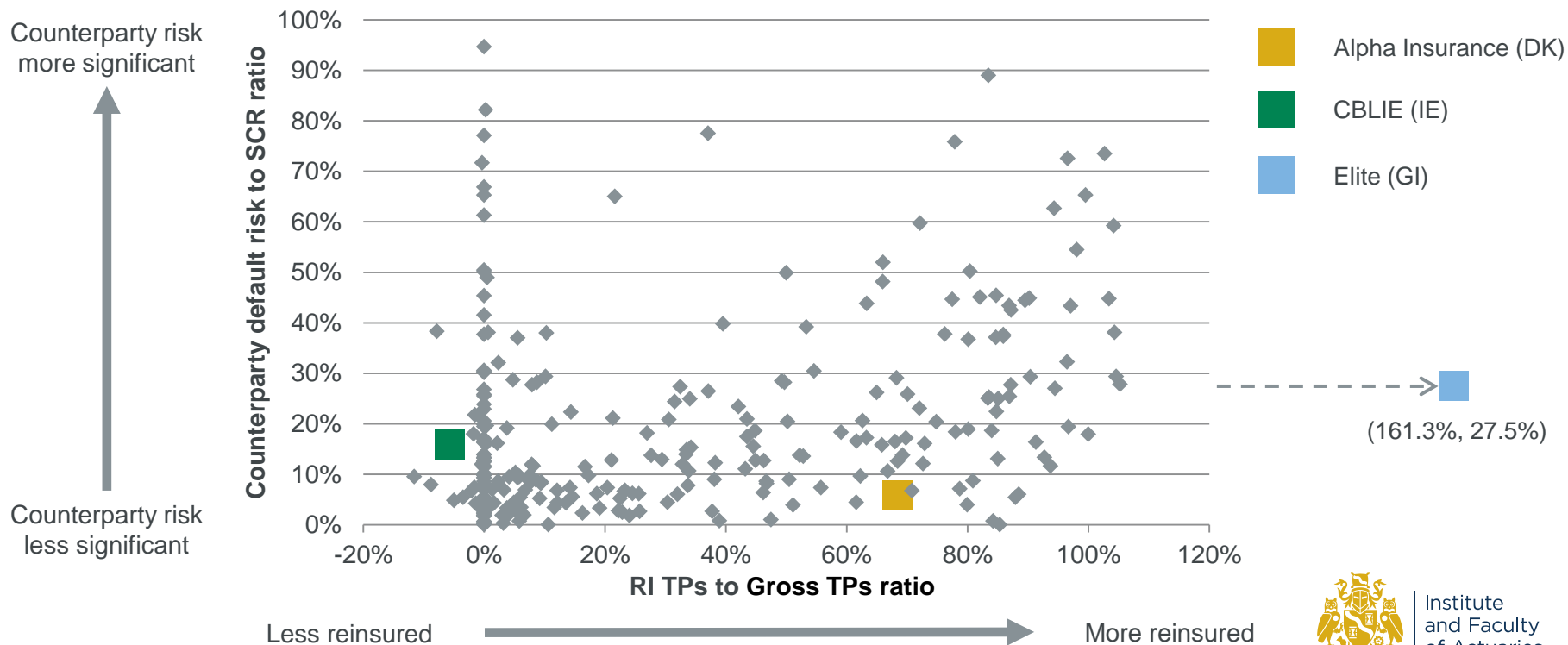
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QRT Analysis – Key Performance Indicators



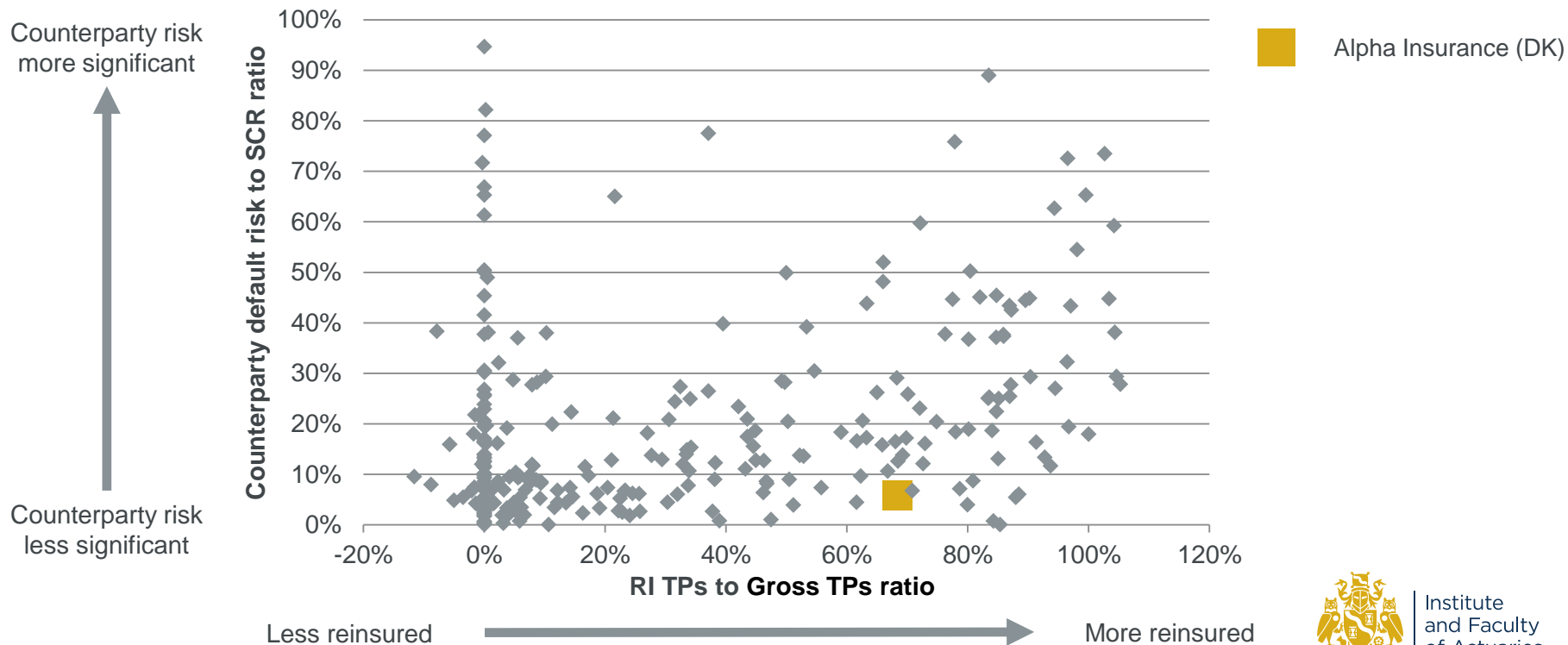
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QRT Analysis – Key Performance Indicators

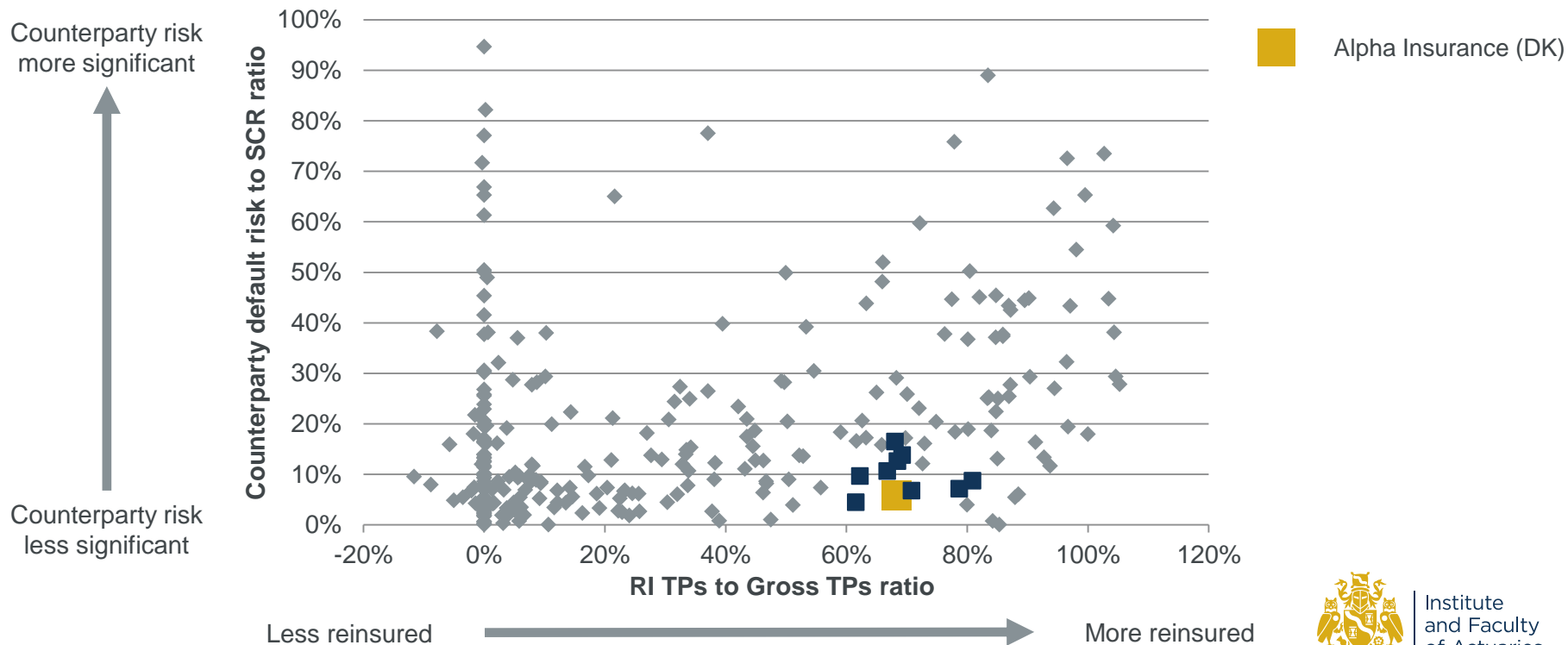


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QRT Analysis – Key Performance Indicators

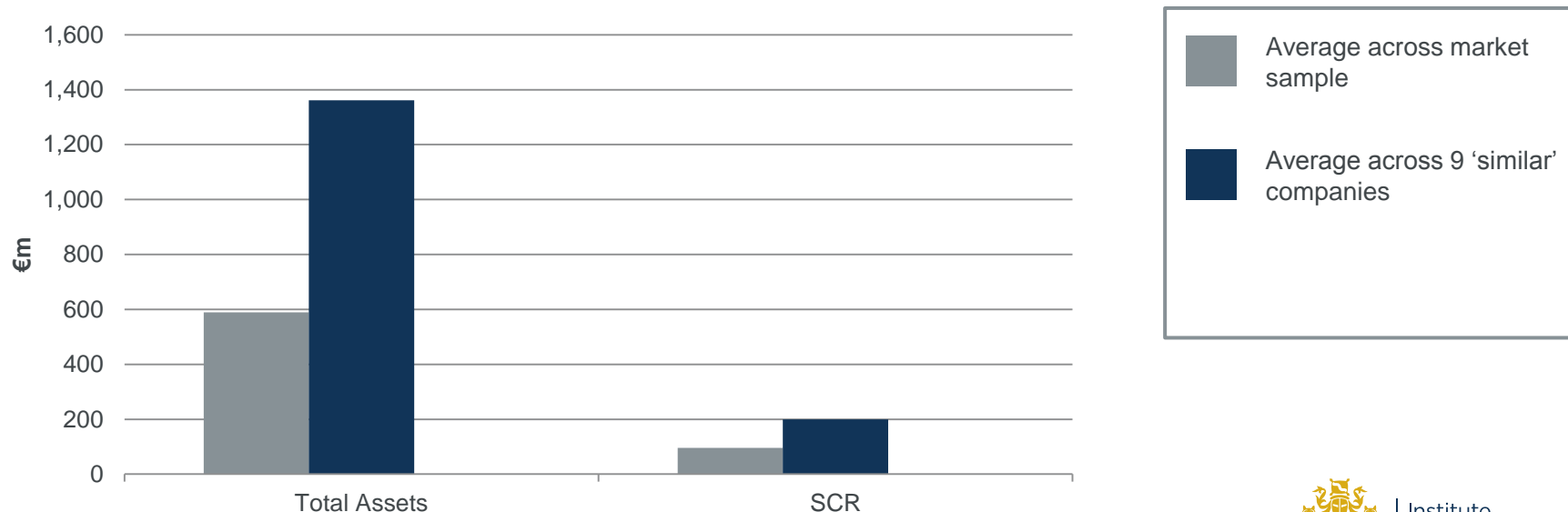


QRT Analysis – Key Performance Indicators



QRT Analysis – Key Performance Indicators

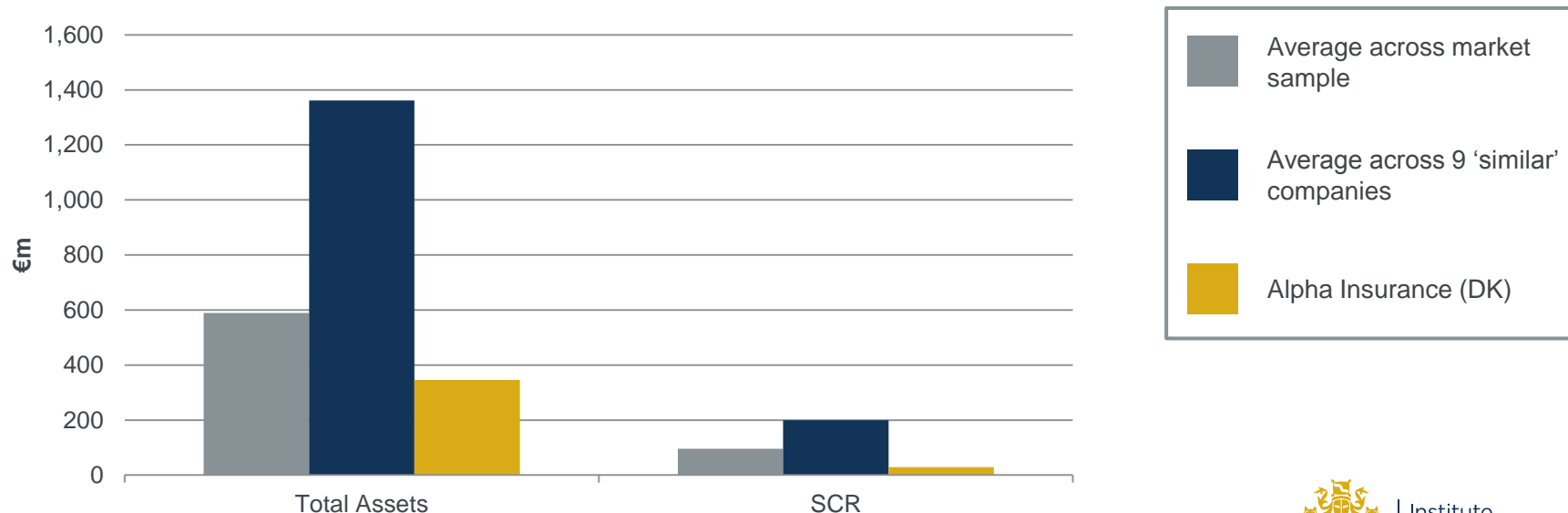
- Who are these 9 companies near Alpha?



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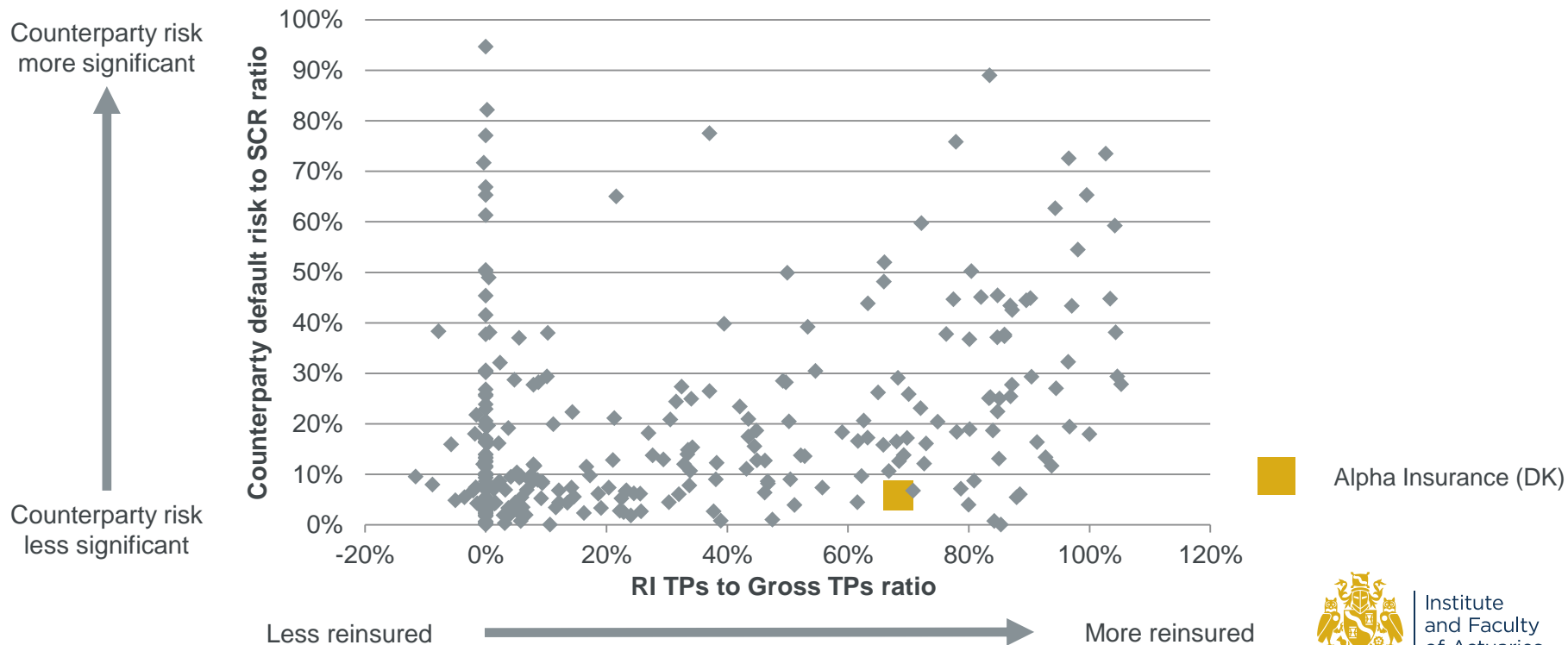
QRT Analysis – Key Performance Indicators

- Who are these 9 companies near Alpha?



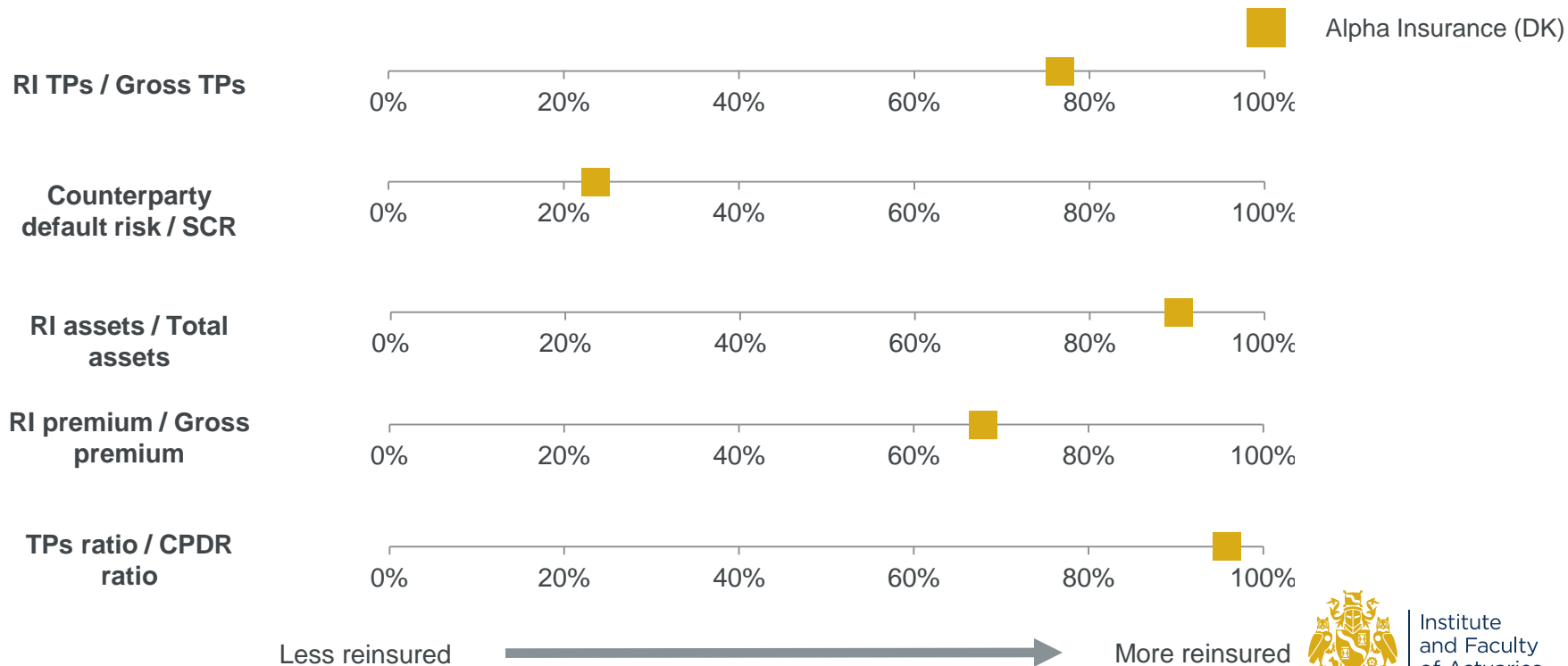
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QRT Analysis – Key Performance Indicators



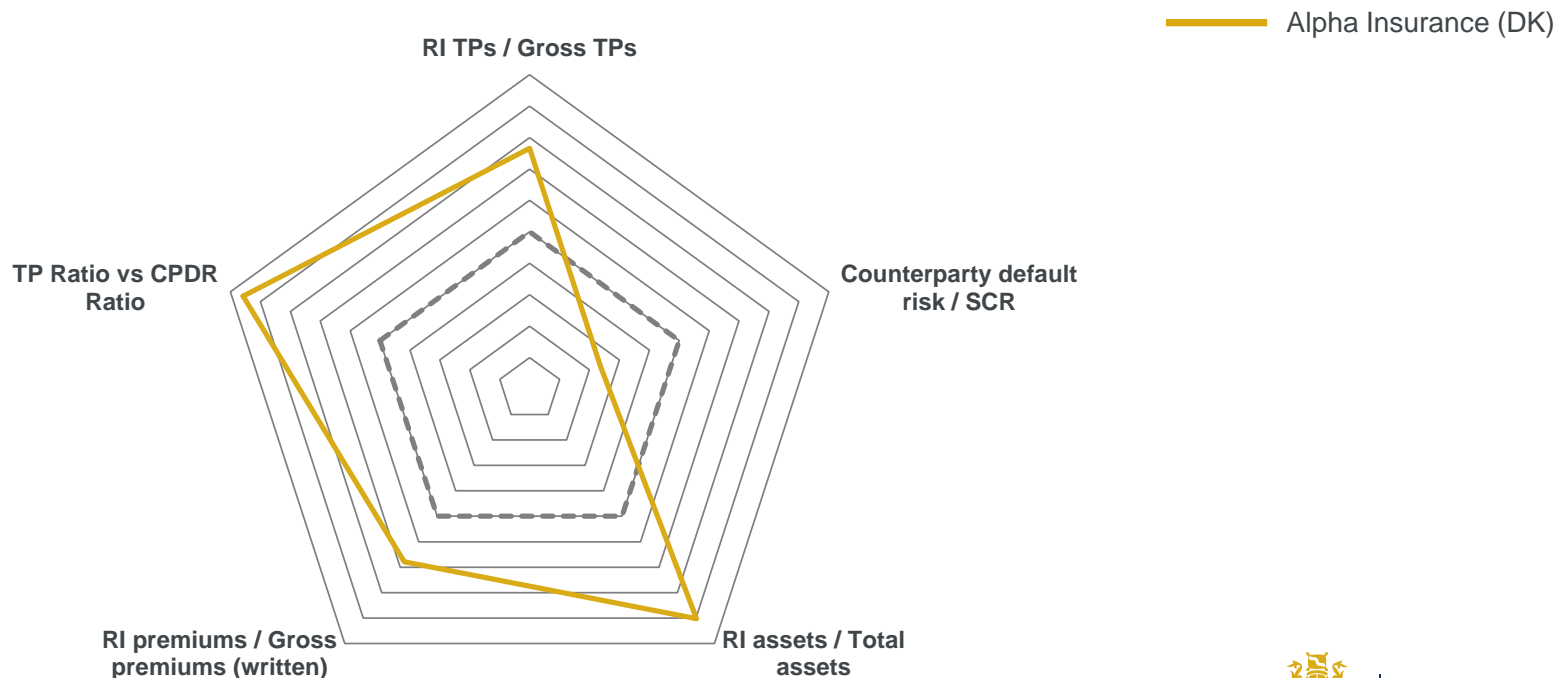
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QRT Analysis – Key Performance Indicators

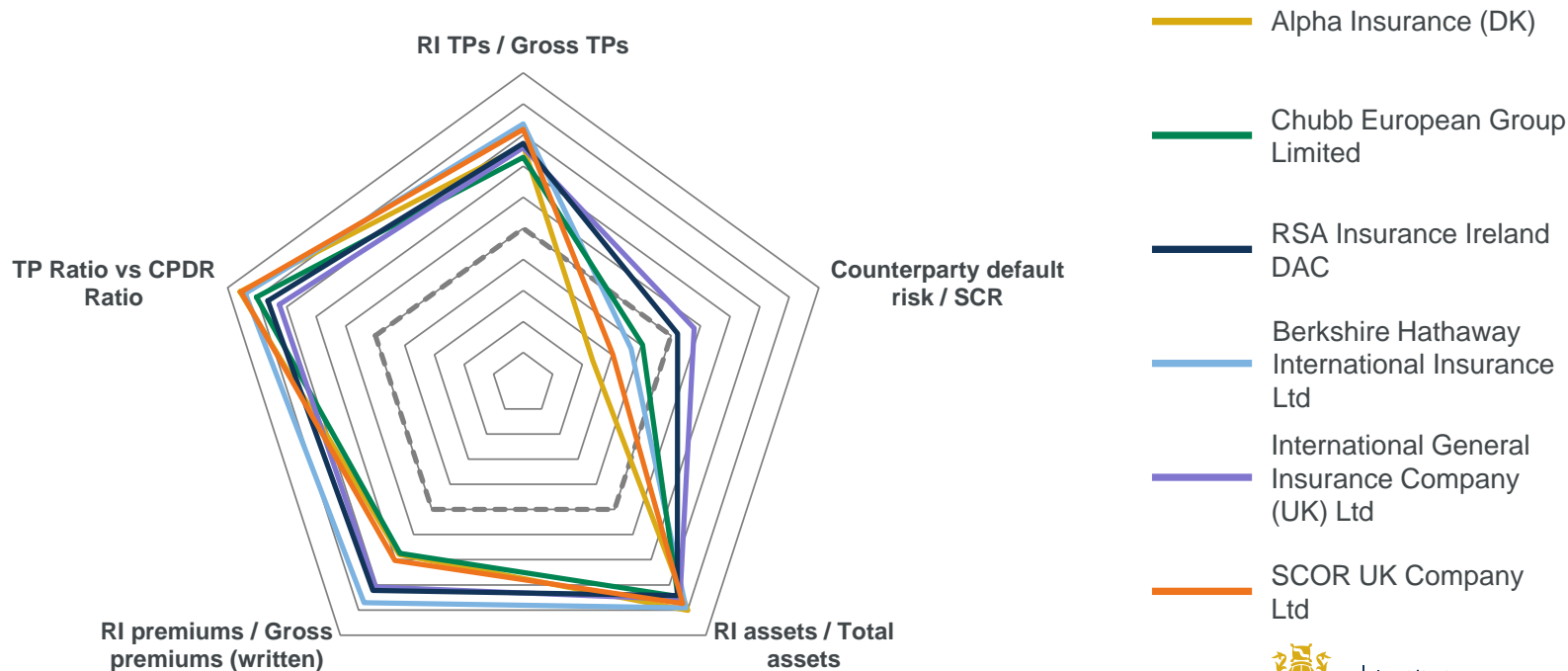


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QRT Analysis – Key Performance Indicators



QRT Analysis – Key Performance Indicators



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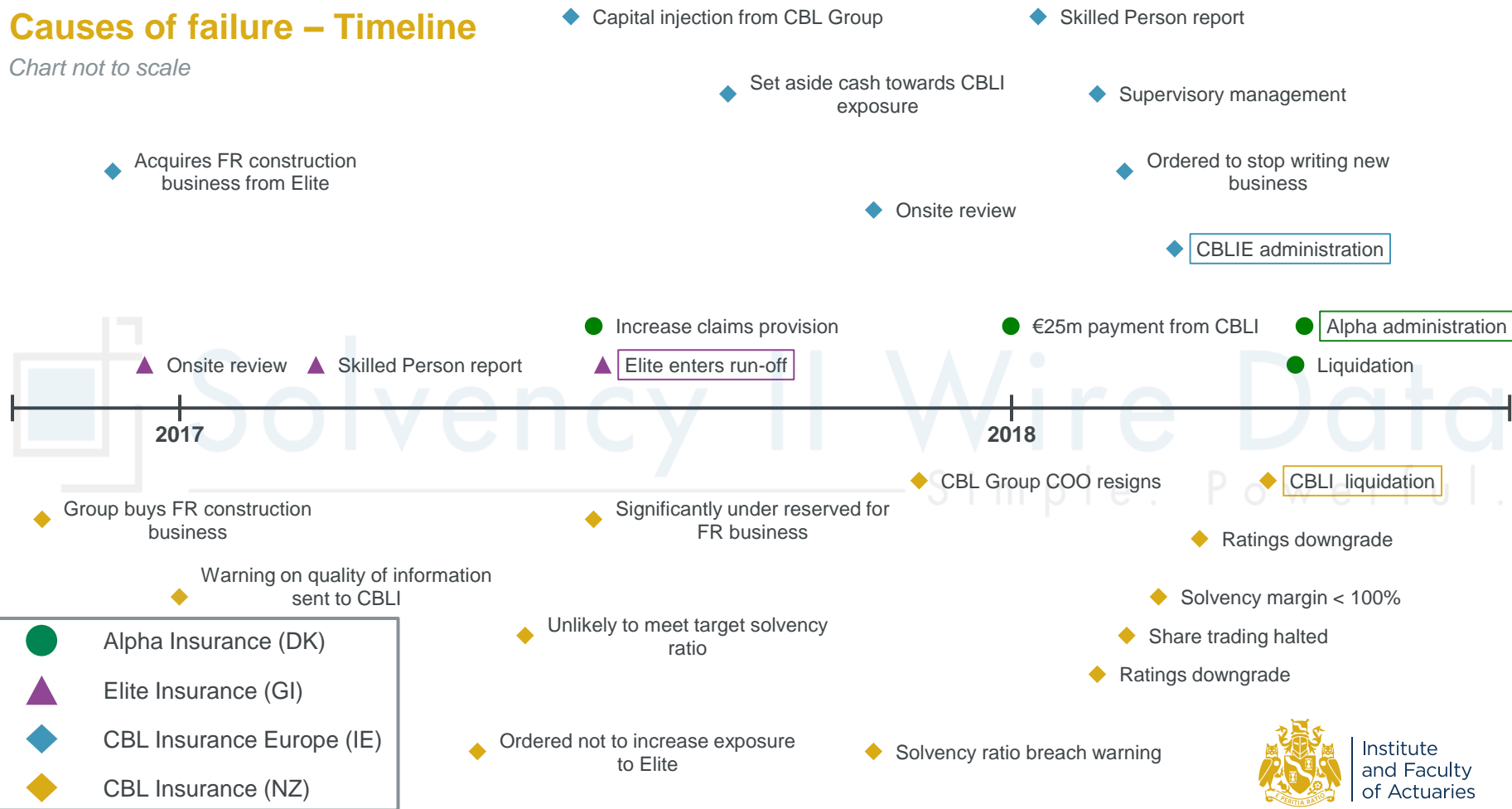
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The Pillar III Story

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Causes of failure – Timeline

Chart not to scale



Causes of failure – Timeline

◆ Capital injection from CBL Group

Chart not to scale

◆ Acquires FR construction business from Elite

▲ Onsite review ▲ Skilled Person report

2017

2018



Alpha Insurance (DK)



Elite Insurance (GI)



CBL Insurance Europe (IE)



CBL Insurance (NZ)



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The Pillar III Story – CBLIE

- Simplified group structure
- Acknowledgement of concentration risk, but reassured by 'strong credit rating'
- Connection to Elite hinted at



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The Pillar III Story – Elite

- Counterparty risk mitigated by:
 - Run-off 17 July 2017
 - £24m way of loss fund
 - Reassurance of public listing



- Regulator involvement in 2016 & 2017



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The Pillar III Story – Alpha

- CBL not mentioned
- No mention of French construction business
- Even retrospectively, little that helps to explain what happened



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Conclusions

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Conclusions

- The story is still not complete and data is still missing
- Public disclosures only tell a limited story
- KPIs can help to find outliers
- SFCRs may not be fit for (this) purpose



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Conclusions

- Look out for significant changes in any metric
- Better communication between international supervisors
- Quality of information depends on who is viewing it



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Questions

Comments

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