

The Actuarial Profession  
making financial sense of the future

# REINSURANCE COUNTERPARTY CREDIT RISKS

MARK FLOWER  
On behalf of the working party

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## RCCR

**Agenda:**

- Who, why, what, where?
- What did we do?
- Other avenues?
- Wiki



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## Who?

**The working party:**

▪ Mohamed Afify	▪ Pantelis Koulovasilopoulos
▪ Ian Cook	▪ Jason Lincoln
▪ Mark Flower	▪ David Maneval
▪ Visesh Gosrani	▪ James Robinson
▪ Gillian James	



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## Why should I care?

### RCCR can significantly impact a cedant's:

- P&L
- Cash flow
- Balance sheet
- Capital
- Credit rating

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## Some quick revision...

### Common practice driven by reserving methods:

- 'Bad debt paper'
- Based on rating agency default factor tables
- Notional x Factor = Provision
- (Most of) these tables are for corporate bonds

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## What to consider?

### Issues with this common practice when moving towards prospective ICAs etc:

- 007 is not a reinsurer
- Rear view only
- Accumulations, causations, correlations
- Temporal / cyclical impacts
- RCCR impacts more than reserving

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## Where should it impact my thinking?

### RCCR should feature in your:

- Reinsurance purchasing
- Reserving
- Capital modelling
- Risk management
- Contingency planning

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## What have we done?

### Three things:

- Paper
- Model
- Workshop

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## Our paper

### RCCR – Practical suggestions for pricing, reserving and capital modelling:

- Issues with current approaches
- Explored wider fields, proposed new approach
- Illustrative model and worked example
- Causation and correlation
- Commercial considerations, latest developments

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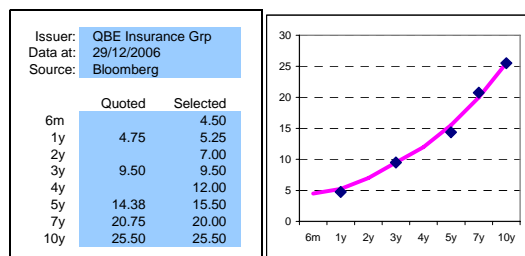
## The 'banking' approach

### Common approach at core of credit models:

- Default intensity curve (market consistent)
- Theory is intuitive
- RCCR application is challenging

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## Default intensity curve (bps)



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## Our 'banking inspired' model

- Cash flow simulation
- Defaults based on intensity curves
- Intensity curves imputed from investment data
- Models impact of market shocks and cycle
- Very straightforward

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## Our 'banking inspired' model

### Addresses several issues:

- Key dynamics captured
- Prospective assumptions used
- Fits an ERM framework

### Useful perspective and thought process

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## Our workshop (D8)

### We'll be looking at the model in more detail:

- Framework
- Practical application
- Hurdles
- Benefits
- Comparison

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## Other avenues to explore?

- Other investment data?
- Predictive power of equities?
- D&O and Credit underwriting?
- 'High risk debt' analysis by Arium?
- Best's impairment rate & rating transition study?

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And finally...

**Google shared documents:**

- Worked well initially, but...
- Struggled with lengthy papers
- Forget spreadsheets
- Ghosts in the machine!
- Has its uses but also limitations

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