Insolvency II: A Retrospect on SFCRs
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25 October 2018
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?
Agenda

• Outline of the companies involved

• Quantitative Reporting Template (QRT) analysis

• The ‘Solvency II’ only story

• Conclusions and findings
Causes of failure
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%
Causes of failure – The CBL Group Structure

CBL Corporation Limited (NZ)

- 2 holding companies (NZ & Singapore)
  - PFP (UK) 92% owned
  - 2 subsidiaries (UK)
- 4 holding companies (NZ & AU)
  - A1 (AU)
- holding company (NZ)
  - CBL Insurance Limited (NZ)
  - CBL Insurance Europe DAC (CBLIE)
- holding company (NZ)
- 1 other company (UK)
  - EISL (UK)
  - SFS & IMS (LU) 71% owned
  - 6 subsidiaries (various) 33-100% owned
- 7 other companies (various)
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€4m loan

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€4m loan

€5m capital

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Causes of failure – CBLIE Rapid growth

• SCR, underwriting profit and French exposure growing rapidly:

- SCR: 11.2m (4.1m at 31 December 2015, 7.1m at 31 December 2016)
- Underwriting profit: 3.0m (1.7m at 31 December 2015, 1.3m at 31 December 2016)
- French exposure: 0.3m (0.03m at 31 December 2015, 0.27m at 31 December 2016)

Scale change: SCR, underwriting profit and French exposure growing rapidly from 2015 to 2016.
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Elite Insurance (Gibraltar)
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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- Elite Insurance (Gibraltar)

6 subsidiaries (various) 33-100% owned
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Elite Insurance (Gibraltar)

Alpha Insurance (Denmark)
Alpha Insurance AS

• 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%
Causes of failure – Reinsurance

- CBLI (NZ)
- Alpha Insurance (DK)
- CBLIE (IE)
- Elite Insurance (GI)
Causes of failure – Timeline

Chart not to scale
Causes of failure – Timeline

Chart not to scale

- Onsite review
- Skilled Person report
- Increase claims provision
- Elite enters run-off
- €25m payment from CBLI
- Alpha administration
- Liquidation

2017
2018

Alpha Insurance (DK)
Elite Insurance (GI)
CBL Insurance Europe (IE)
CBL Insurance (NZ)
Causes of failure – Reinsurance

CBLI (NZ) → Various QS arrangements → CBLIE (IE) ↔ Various QS and retrocession arrangements ↔ Alpha Insurance (DK) → Transfer of business ← Elite Insurance (GI)
QRT Analysis
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
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?
QRT Analysis – Key Performance Indicators

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RI TPs to Gross TPs ratio

Less reinsured  More reinsured
QRT Analysis – Key Performance Indicators

Counterparty risk more significant

Counterparty default risk to SCR ratio

RI TPs to Gross TPs ratio

Less reinsured

More reinsured

Low reinsurance
High CPDR

High reinsurance
High CPDR

Low reinsurance
Low CPDR

High reinsurance
Low CPDR

Counterparty default risk to SCR ratio

0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%

-20% 0% 20% 40% 60% 80% 100% 120%

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QRT Analysis – Key Performance Indicators

Source: Solvency II Wire Data
QRT Analysis – Key Performance Indicators

Counterparty risk more significant

Counterparty risk less significant

Less reinsured  More reinsured

RI TPs to Gross TPs ratio

0%  10%  20%  30%  40%  50%  60%  70%  80%  90%  100%  120%

Source: Solvency II Wire Data

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Alpha Insurance (DK)
CBLIE (IE)
Elite (GI)

(161.3%, 27.5%)
QRT Analysis – Key Performance Indicators

Counterparty risk more significant

Counterparty risk less significant

Less reinsured

RI TPs to Gross TPs ratio

More reinsured

Source: Solvency II Wire Data
QRT Analysis – Key Performance Indicators

Counterparty risk more significant

Counterparty risk less significant

RI TPs to Gross TPs ratio

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

0% 20% 40% 60% 80% 100% 120%

Less reinsured

More reinsured

Source: Solvency II Wire Data
QRT Analysis – Key Performance Indicators

• Who are these 9 companies near Alpha?

Source: Solvency II Wire Data
QRT Analysis – Key Performance Indicators

• Who are these 9 companies near Alpha?

Source: Solvency II Wire Data

25 October 2018
QRT Analysis – Key Performance Indicators

Counterparty risk more significant

Counterparty risk less significant

Less reinsured  More reinsured

RI TPs to Gross TPs ratio

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100% 120%

-20% 0% 20% 40% 60% 80% 100%

Source: Solvency II Wire Data

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QRT Analysis – Key Performance Indicators

RI TPs / Gross TPs

Counterparty default risk / SCR

RI assets / Total assets

RI premium / Gross premium

TPs ratio / CPDR ratio

Source: Solvency II Wire Data
QRT Analysis – Key Performance Indicators

RI TPs / Gross TPs

TP Ratio vs CPDR Ratio

RI premiums / Gross premiums (written)

RI assets / Total assets

Counterparty default risk / SCR

25 October 2018

Source: Solvency II Wire Data
QRT Analysis – Key Performance Indicators

RI TPs / Gross TPs

TP Ratio vs CPDR Ratio

Counterparty default risk / SCR

RI premiums / Gross premiums (written)

RI assets / Total assets

Alpha Insurance (DK)

Chubb European Group Limited

RSA Insurance Ireland DAC

Berkshire Hathaway International Insurance Ltd

International General Insurance Company (UK) Ltd

SCOR UK Company Ltd

Source: Solvency II Wire Data
The Pillar III Story
Causes of failure – Timeline

*Chart not to scale*

- Acquires FR construction business from Elite
- Warning on quality of information sent to CBLI
- Group buys FR construction business
- Skilled Person report
- Warning on quality of information sent to CBLI

Timeline:

- 2017
  - Acquires FR construction business from Elite
  - Warning on quality of information sent to CBLI
  - Skilled Person report
  - Elite enters run-off

- 2018
  - Increase claims provision
  - Capital injection from CBL Group
  - Solvency ratio breach warning
  - Onsite review
  - Ordered not to increase exposure to Elite
  - Solvency ratio breach warning
  - CBL Group COO resigns
  - Supervisory management
  - Ordered to stop writing new business
  - Set aside cash towards CBLI exposure
  - Skilled Person report
  - Onsite review
  - CBLIE administration
  - Ratings downgrade
  - €25m payment from CBLI
  - Liquidation
  - Solvency margin < 100%
  - Share trading halted
  - Ratings downgrade

- 2017.8
  - Increase claims provision
  - Capital injection from CBL Group
  - Solvency ratio breach warning
  - Onsite review
  - Ordered not to increase exposure to Elite
  - Skilled Person report
  - Onsite review
  - CBLIE administration
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- 2018.4
  - Increase claims provision
  - Capital injection from CBL Group
  - Solvency ratio breach warning
  - Onsite review
  - Ordered not to increase exposure to Elite
  - Skilled Person report
  - Onsite review
  - CBLIE administration
  - Ratings downgrade
  - €25m payment from CBLI
  - Liquidation
  - Solvency margin < 100%
  - Share trading halted
  - Ratings downgrade

- 2018.6
  - Increase claims provision
  - Capital injection from CBL Group
  - Solvency ratio breach warning
  - Onsite review
  - Ordered not to increase exposure to Elite
  - Skilled Person report
  - Onsite review
  - CBLIE administration
  - Ratings downgrade
  - €25m payment from CBLI
  - Liquidation
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- 2018.8
  - Increase claims provision
  - Capital injection from CBL Group
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  - Onsite review
  - Ordered not to increase exposure to Elite
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  - CBLIE administration
  - Ratings downgrade
  - €25m payment from CBLI
  - Liquidation
  - Solvency margin < 100%
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- 2019.2
  - Increase claims provision
  - Capital injection from CBL Group
  - Solvency ratio breach warning
  - Onsite review
  - Ordered not to increase exposure to Elite
  - Skilled Person report
  - Onsite review
  - CBLIE administration
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- 2019.6
  - Increase claims provision
  - Capital injection from CBL Group
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  - Increase claims provision
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- 2021.2
  - Increase claims provision
  - Capital injection from CBL Group
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  - Onsite review
  - Ordered not to increase exposure to Elite
  - Skilled Person report
  - Onsite review
  - CBLIE administration
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  - €25m payment from CBLI
  - Liquidation
  - Solvency margin < 100%
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- 2021.4
  - Increase claims provision
  - Capital injection from CBL Group
  - Solvency ratio breach warning
  - Onsite review
  - Ordered not to increase exposure to Elite
  - Skilled Person report
  - Onsite review
  - CBLIE administration
  - Ratings downgrade
  - €25m payment from CBLI
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- 2021.6
  - Increase claims provision
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- 2022.2
  - Increase claims provision
  - Capital injection from CBL Group
  - Solvency ratio breach warning
  - Onsite review
  - Ordered not to increase exposure to Elite
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  - CBLIE administration
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- 2022.4
  - Increase claims provision
  - Capital injection from CBL Group
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  - Ordered not to increase exposure to Elite
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  - CBLIE administration
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- 2023.2
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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
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
The Pillar III Story – Alpha

• CBL not mentioned

• No mention of French construction business

• Even retrospectively, little that helps to explain what happened
Conclusions
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
Conclusions

• Look out for significant changes in any metric

• Better communication between international supervisors

• Quality of information depends on who is viewing it
Solvency II Wire

Questions

Comments

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