Commercial Consolidation

(self diagnosis and self medication)

Nick Johnson
19 July 2018
Commercial Consolidation
A Difficult Balancing Act - The Key Structural Challenges

Member Security
Absolute requirement

Return on Capital
Risk Capital carries the first loss
Risk Capital provides additional security
Requires a reasonable return

“One-way” Capital
Capital fixed
Difficult to compel recapitalisation
Capital release a one-way valve
Definition of release thresholds

Duration
Significant risk in liability tail
Balance risk and capital support
Basis of measure important
Commercial Consolidation
Achieving Balance

PPF
Taxing Power + Benefit Compromise
Member Security
“Two-way” Capital
Duration

Clara
Member First + Bridge to Buy-out
Member Security
“One-way” Capital
Return on Capital

Insurers
Solvency II + Matching Adjustment
Member Security
“One-way” Capital
Return on Capital
Duration
Clara
Achieving Balance

- Misaligned Interest / Profit Motive: Member First
- Fixed Capital: Funded and Permanent Capital
- One-way Valve / Capital Release: Risk Capital is First in Last Out
- Duration of Liabilities: Secure Full Benefits in Insured Market
- Asymmetric: Objective Benchmark
- Member Options: Increase Capital Cover | Accelerate Buyout