



**CERA Global Risk  
Conference 2021**

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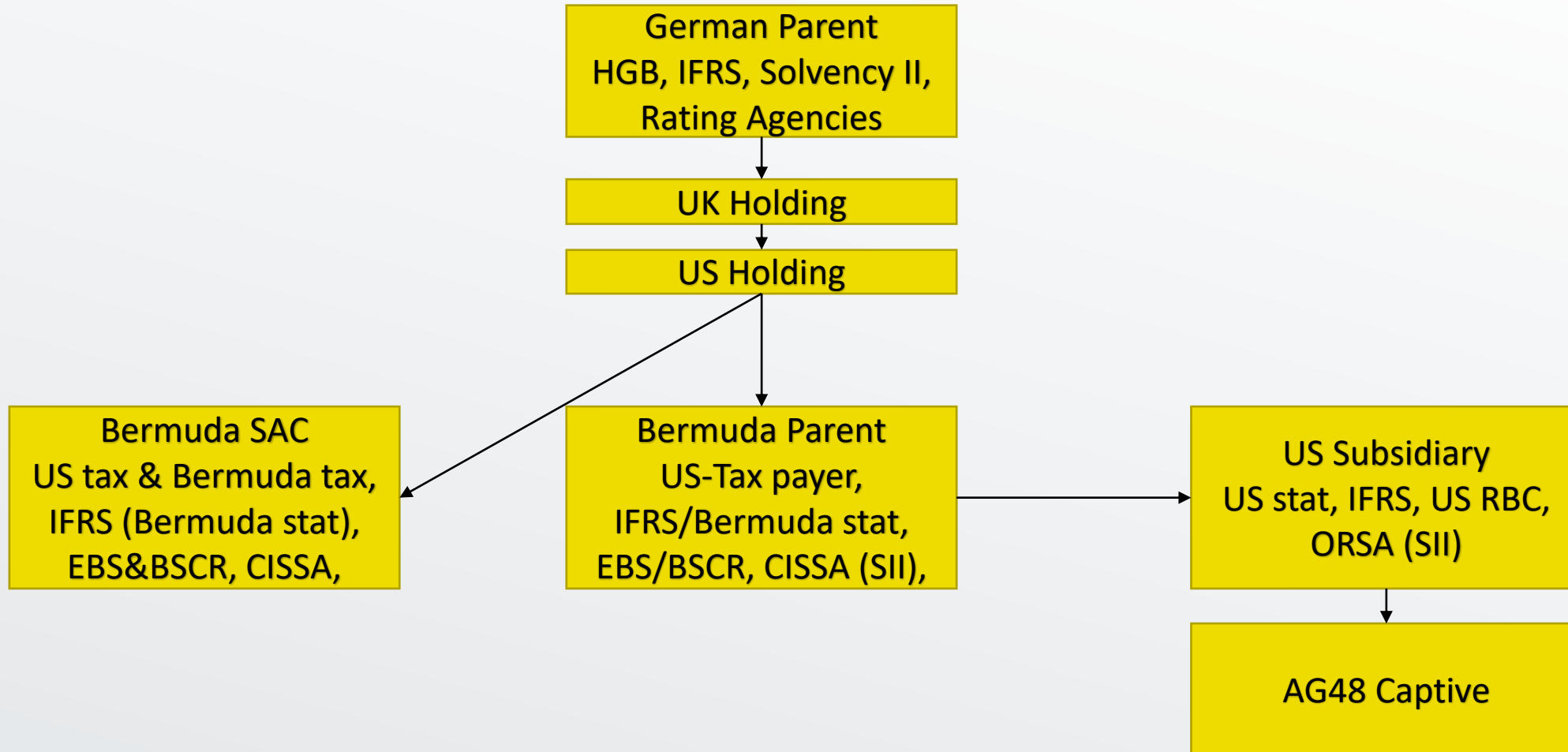
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**Steering Risk and Capital through  
International Waters**

Ophelia Engelhardt-Funke

Hannover Life Re of America (Bermuda), CRO

# Countries, Accounting Regimes, Capital & Solvency Frameworks Why all the Boxes and Arrows?



# Assumed US L&H Business: Should it stay or should it go? Where? In what form?

- Every dollar saved can go to
  - growth
  - dividends
  - affordable products
- Do we like the business? – internal model, economic view, substance only
  - where is the best place?
- Should it stay or should it go? Form matters
  - US license doesn't allow assuming risk in all forms (stop loss vs note vs swap vs etc)
  - US statutory strain? from redundancies? (reserves, acquisition cost, RBC (target!))
  - Compare to requirements in Bermuda, Germany or other countries (EBS, SII, IFRS, HGB, BSCR)
- Stay: mostly short term, traditional (health) reinsurance
- Go: L&H risk assumed in non traditional form, long term life business ( stat reserves, co and YRT, even ½ Cx can add up), annuity riders (RBC)

# Ceding Business around the World

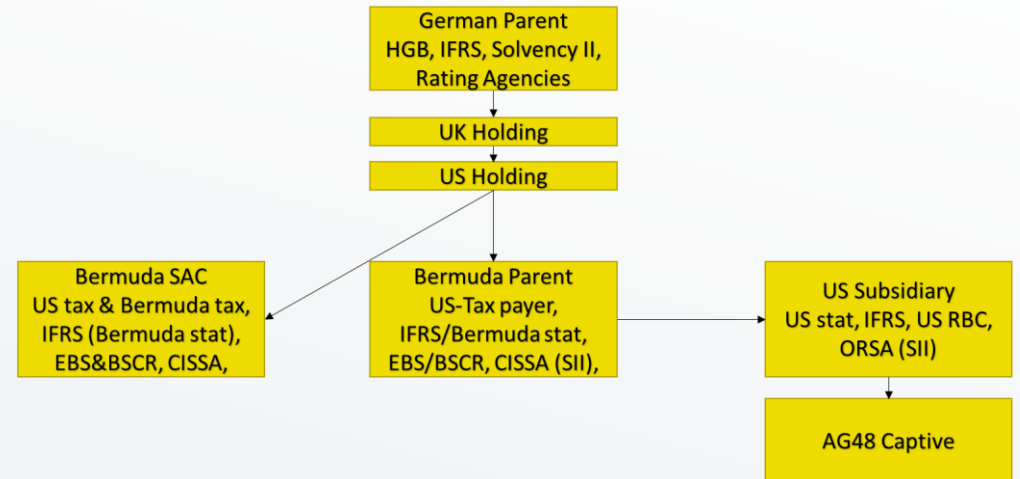
## Where should it go?

- Economically, the most diversified balance sheet is best – German Parent
  - Solvency II Cost of Capital = Risk Margin based on legal entity
- Lots of “Buts” at the German Parent
  - BEAT (and its potential successor) – prevents sizable volumes ceded out of US tax
  - Collateral Requirements: (Covered Agreement? State’s Implementation?)
  - HGB – could lead to similar strain as US statutory
  - Client preference to face legal entity
- US tax paying parent in Bermuda - main go-to place
  - Economic Balance Sheet, BSCR (formulaic) and CISSA (internal model)
  - Solves many US stat and RBC redundancy problems but brings new ones:
    - Limited diversification and not a lot of retro options
      - Far out tail risk ceded to German parent helps
    - Economic Substance, Head Office, CFC - regulation not as clear as we wish
    - Collateral Requirements: NAIC Credit for Reinsurance implementation
      - AG48 Captive for collateralization of US stat reserves independent of rating

# Ceding Business around the World

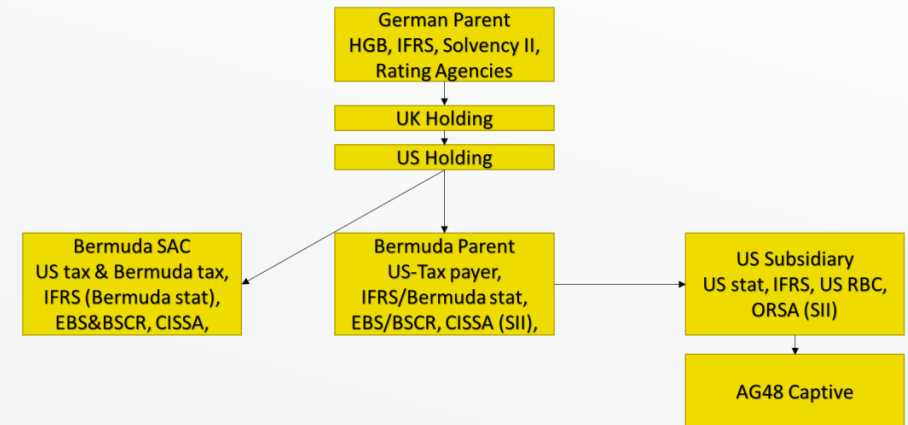
## Each Box serves a purpose (often more than one)

- AG48 captive: collateralizes stat reserves independent of anyone's rating
- US operating sub, more than acquisition
  - Economically redundant (RBC) capital also supports Bermuda requirements
- Bermuda parent: certified reinsurer, US tax
  - Collateral based on rating
  - No BEAT
  - Economic balance sheet
- US holding: need a US owner to pay US tax
- German parent: best diversified balance sheet – can take tail risk
- Bermuda SAC: other investors, risks not suitable in SII environment



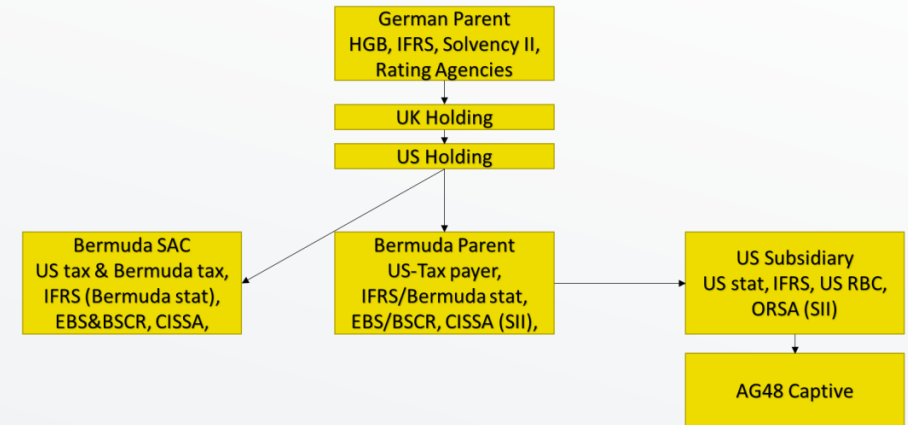
# Now that we placed the Business Where do the Profits come in? Where do they go?

- Ultimate Goal (for now): Dividends to German Parent
  - Receive dividend prior to HGB cut off date
- UK Holding
  - Receive and pass on dividend
  - Cut off year end
- Bermuda parent
  - Bermuda (~IFRS) earnings
    - Won't know prior to year end
- US operating sub and AG48 captive
  - US statutory earnings and state statutes
    - Won't know prior to year end
- Play safe (and disappoint) or develop a Risk Appetite
  - What happens if/when we pay dividends and something unexpected happens?



# Now that we placed the Business - Where do the Profits come in? Where/How do they go?

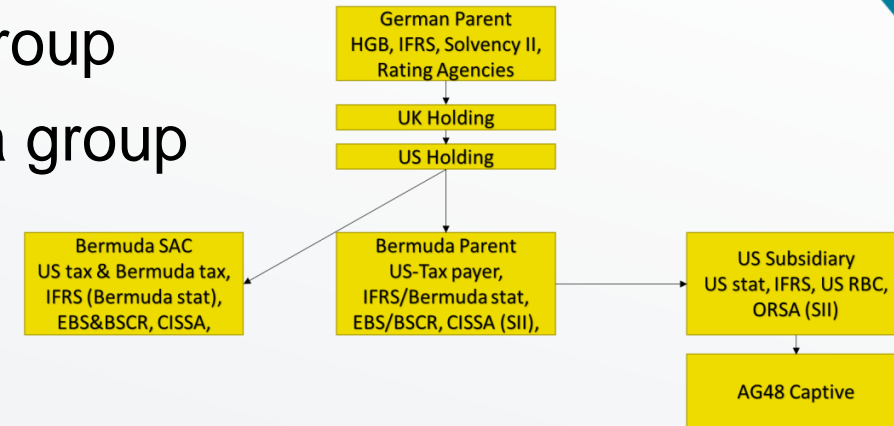
- Ultimate Goal (for now): Dividends to German Parent
  - Receive dividend prior to HGB cut off date
- UK Holding
  - Receive and pass on dividend,
  - Cut off date closer to year end
- Bermuda parent
  - Bermuda (~IFRS) earnings
    - Won't know prior to year end
- US operating sub and AG48 captive
  - US statutory earnings and states' statutes
    - Won't know prior to year end – approval for realized earnings of 3 quarters
- Play safe (and disappoint) or develop a Risk Appetite
  - What happens if/when we pay dividends and something unexpected happens?



# Now that we placed the Business - continued

## Where do the Profits come in? Where/How do they go?

- Metrics beyond profit
- Legal entity (what if we weren't family?) vs sub-group
- Solvency/Capital fungibility - a sub-group within a group
  - Different regulatory regimes
    - EBS recognizes future profits
    - US stat does not
  - Capital fungibility
    - Future profits
    - Trapped in subsidiaries
- Liquidity
  - Future profits can't be wired
- Volatility from reasonably expected events (new bus, retro, rates)

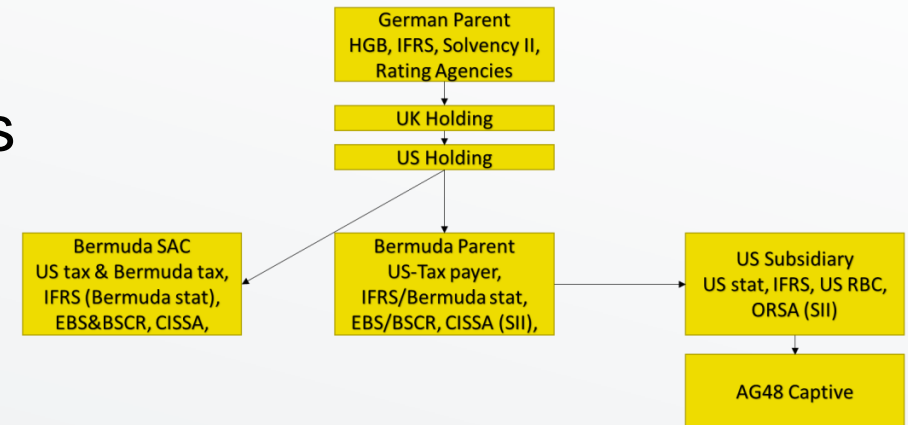




# Risk and Capital Management internationally

## Personal take away

- Risk Management connects many dots
- Risk Management includes way more topics
- Good Bye to being an Expert
  - But try to understand (or trust and verify)
  - And sometimes things turn out differently
- Reserve time to listen and time to explain



*Thank you*