Asian Actuarial Conference

2025 Bangkok

Capital Management Reinsurance Solutions: Is Asset-Intensive Taking Over?

13 Nov | 16:10-16:50

Helbert Tsang

FIA, Capital Solutions Leader, Life & Health, APAC, Aon Reinsurance Solutions

Platinum sponsors

Swiss Re PartnerRe RGA

Gold sponsors

Society of Actuaries SCOR Milliman MunichRE Institute and Faculty of Actuaries AON Canada Life Reinsurance KPMG

Silver sponsors

Actuaries Institute Casualty Actuarial Society Gen Re

Exhibitor sponsors

Pacific Life Re AKUR8 MOODY'S FIS

Media & Supporting event partners

Asia Insurance Review actuview

Capital Management Reinsurance Solutions

Is Asset-Intensive Taking Over?

November 2025

1

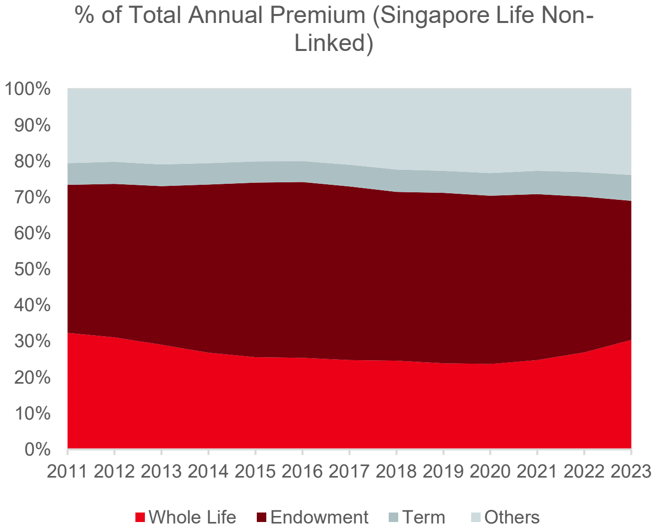
Introduction

AON

Overview

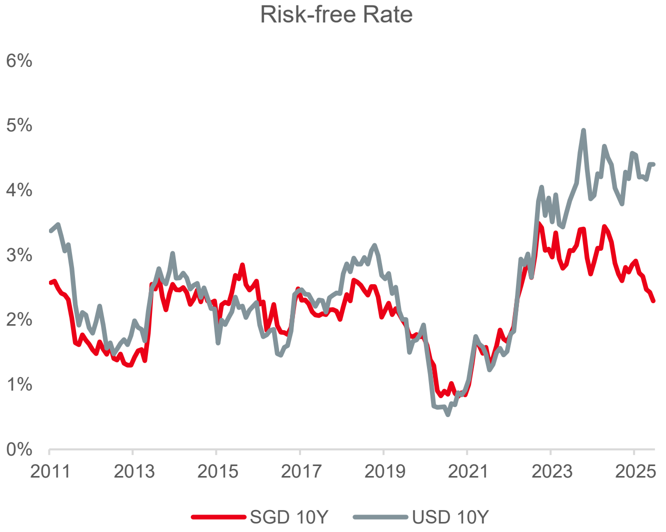
Operating Environment for APAC Life Insurers

Liability Profile / Product Strategy



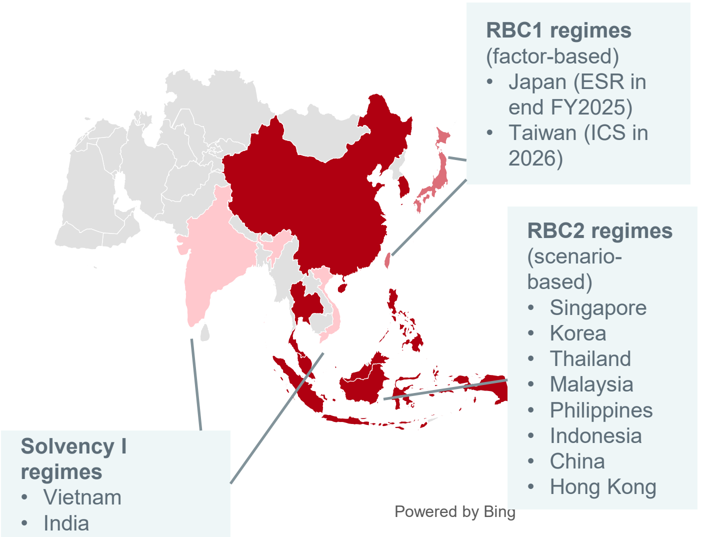
In-force block and new business sales across APAC are generally **dominated by savings products**, which contribute to the investment risk exposure (i.e. market risk, ALM risk) of life insurers writing that type of business.

Macroeconomic Environment



Marcroeconomic factors (in particular interest rates) tend to be **volatile over time**, which makes it difficult (and costly) for life insurers to offer investment guarantees to attract policyholders and compete against other retail investment products.

Regulatory Developments



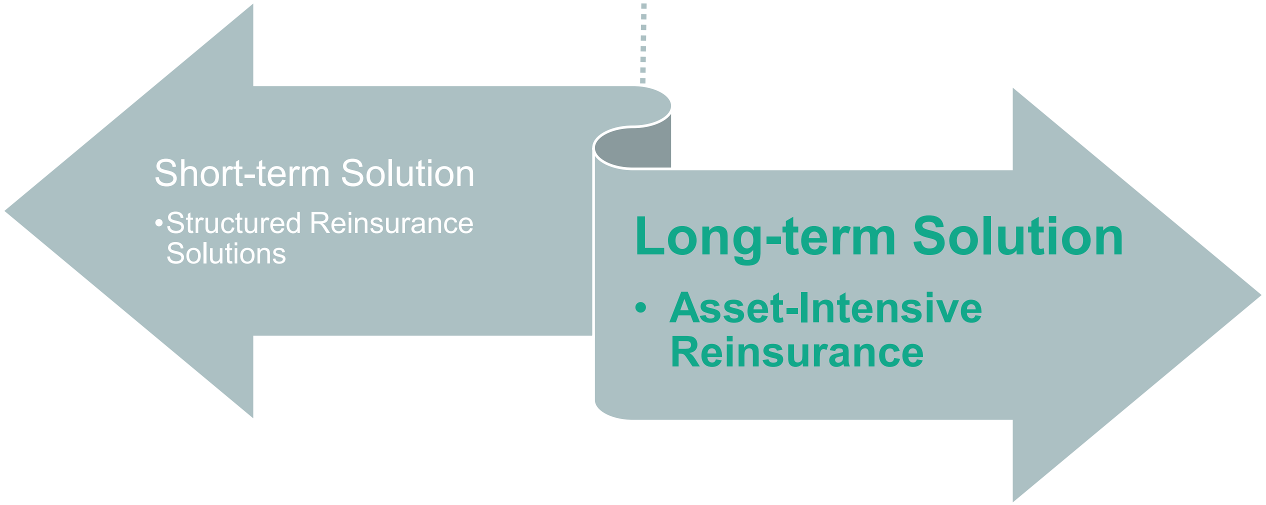
Regulatory capital regimes are trending towards **economic valuation** scenario-based approach with **capital requirements** that are more **commensurate with investment risk exposure** of life insurers.

Life insurers need solutions to manage their investment / market risk exposure to optimise their balance sheet efficiency.

Capital Management Tools

Reinsurance vs Other Solutions

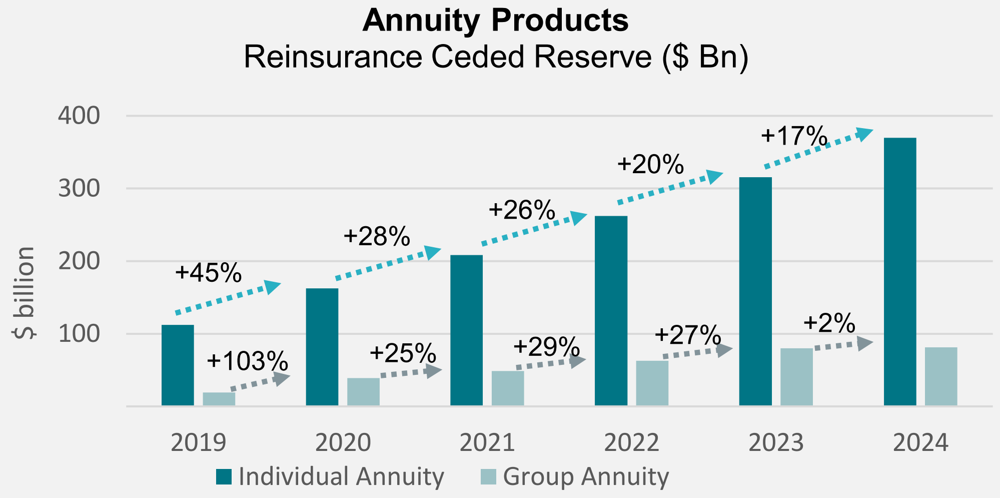
	Reinsurance	Debt Market	Equity Market
Time Needed for Implementation			
Level of Approval Required			
Level of Disclosure Required			

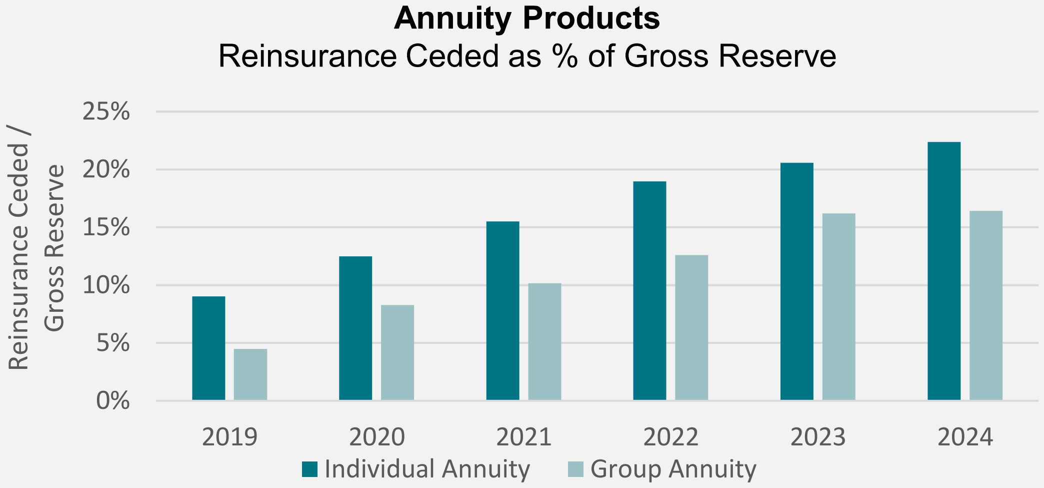


Reinsurance is an essential capital management tool for insurers and can be an effective way of transferring market risk.

Market Trend in Reinsurance as a Capital Management Tool

US Market: Reinsurance Ceded vs Retained





Note: Reinsurance ceded amounts on these charts exclude reinsurers' internal transfer to their affiliates.

> *"Since 2017, the amount of US life insurance and annuity reserves ceded offshore has surged to almost $0.8 trillion, over 40% of the $2.3 trillion of total reserves ceded, with Bermuda the common destination for the offshore reinsured business. These arrangements let insurers exchange the risk related to direct investments, which support their liabilities, for the risk related to the reinsurers' performance in the transaction. If the credit quality of the reinsurers, as counterparties, is strong, this second type of risk can be lower."*
>
> \- Moodys' Rating, 4th February 2025

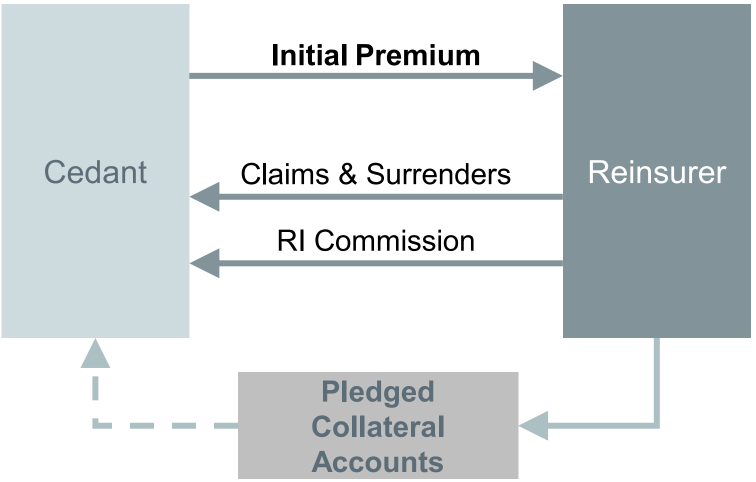
- Reinsurance (in particular asset-intensive reinsurance) as a capital management tool has been very popular in the US market.
- For US individual annuity and group annuity business, the utilization of reinsurance in recent years has been on an upwards trend.
- In the past 5 years, the level of reinsurance ceded reserves for US annuity products has seen a CAGR of 27% for Individual Annuity and 33% for Group Annuity.

2

Asset-Intensive Reinsurance (AIR)

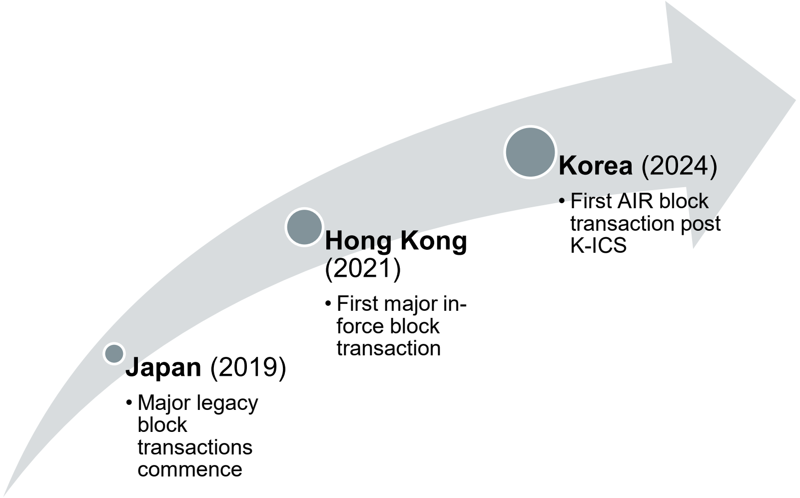
Asset-Intensive Reinsurance

What is Asset-Intensive Reinsurance (AIR)?



- **Coinsurance** transaction that usually involves a substantial amount of **initial premium** (i.e. asset) transferred from the cedant to reinsurer at inception of reinsurance.
- In return, the reinsurer **guarantees payment of policyholder benefits** (e.g. mortality, surrender, maturity) and provides **guaranteed returns**.
- Guaranteed returns in excess of policyholder benefits can be paid to cedant through reinsurance commissions.
- AIR will usually require some **mitigation of counterparty risk** (from exposure to reinsurer) such as reinsurer pledging collateral to cedant.

- AIR is widely adopted in the US market (for savings products) and UK Pension Risk Transfer market for many years.
- AIR activity in APAC started in around 2020 beginning in Japan and slowly spreading across the region.
- APAC insurers have been using AIR to support both in-force block and new business.



Asset-Intensive Reinsurance

Key Benefits of AIR

Access to Guaranteed Yields

- Yields from AIR are **guaranteed** and would not be subject to future market volatilities.
- AIR may provide **yields higher than what can be achieved by cedants' investment** function.
- For portfolios with **negative spread** issue, AIR can help lock in cost of funding negative spread.

Optimise Capital Efficiency

- **Asset, liability and ALM risks transferred to reinsurer** hence balance sheet will be less impacted by market volatilities.
- **Capital consumption from market and ALM risks (and associated cost of capital) would be reduced** as a result of said risks being ceded out.
- Other risks (e.g. lapse, biometric) are also transferred to reinsurer thus reducing capital charge.

Reduce P&L Volatility

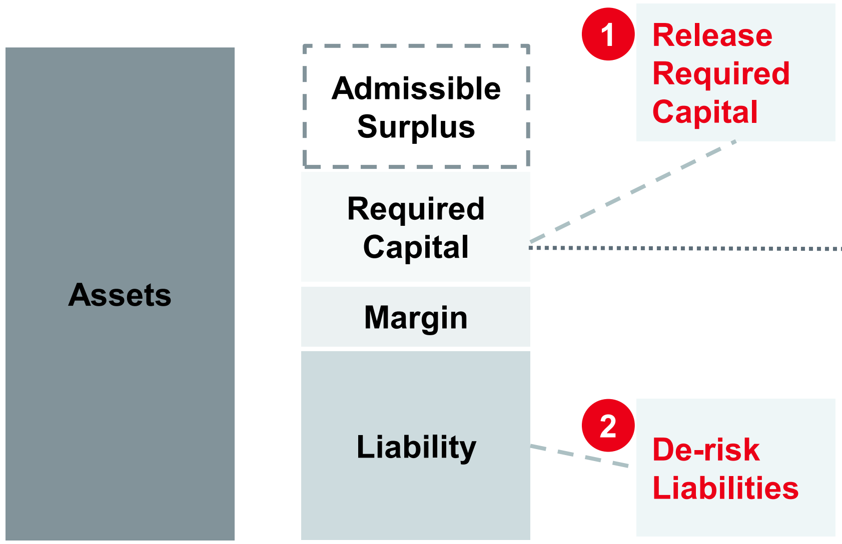
- Volatilities in asset and liability value from market movements may be reflected in P&L.
- AIR would **reduce asset and liability volatilities in P&L** as the assets and liabilities are effectively off the cedants' balance sheet.
- Investment profits would also be stabilised due to guaranteed nature of yield.

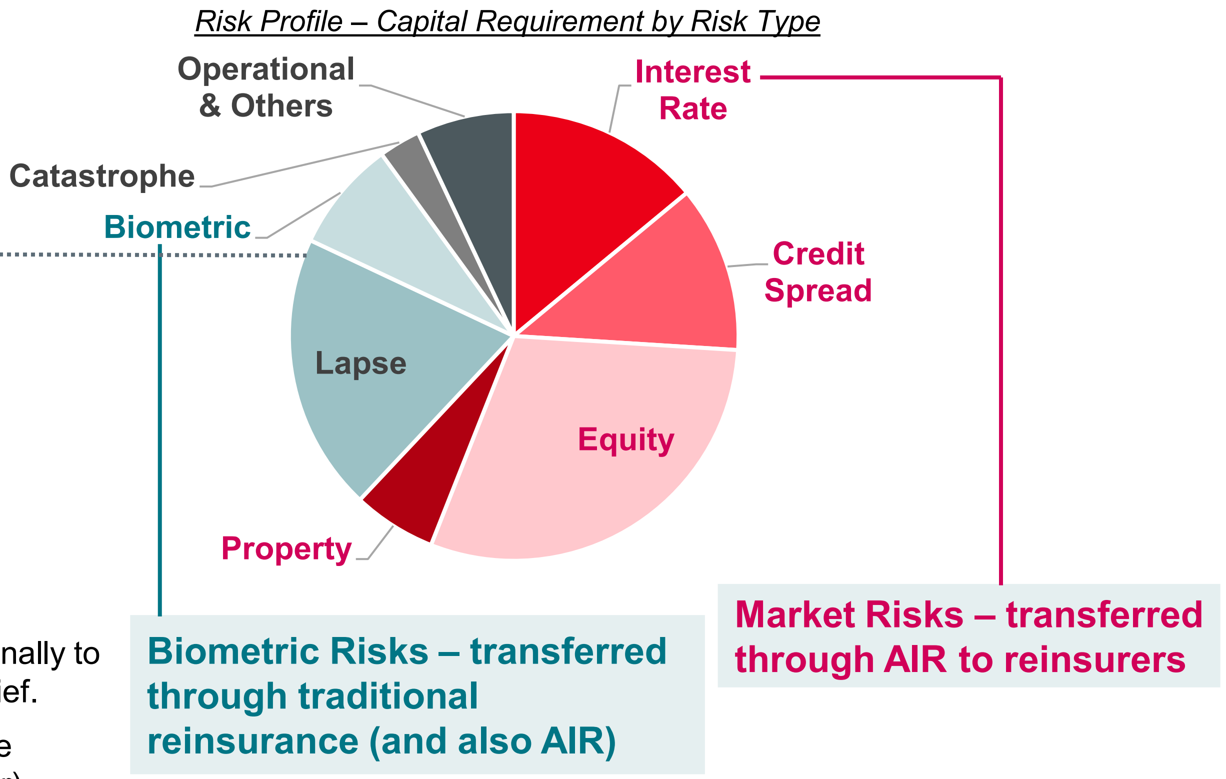
Increase Capacity to Write Business

- **Reduced capital consumption from new business** written allows cedants to write more business.
- **Reduced cost of capital from new business** can allow cedants to price new business more competitively.
- **Balance sheet de-risked from legacy business** will also provide more capacity to write new business.

Balance Sheet Optimisation

AIR can provide support to a diverse range of objectives





1 Required Capital

- Coinsurance transfer most risks (within ceded portfolio) proportionally to reinsurer hence is widely accepted to provide required capital relief.
- Reduction in market risk and insurance risk exposure needs to be balanced with increase in counterparty risk exposure (to reinsurer).
- Traditional reinsurance (e.g. YRT) can provide required capital relief for ceded insurance risks only.

2 Available Capital

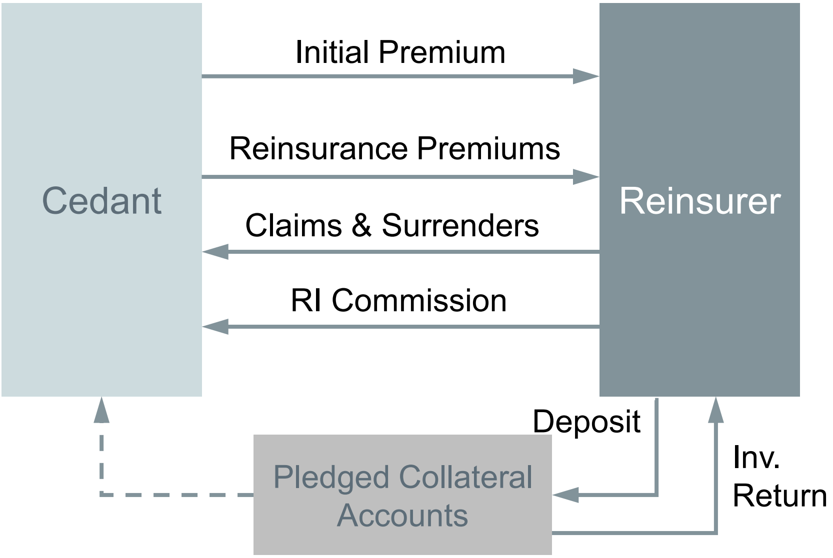
- Coinsurance can potentially provide available capital relief if initial premium (for AIR) is lower than liability value on cedant's balance sheet.

Case Study – Balance Sheet De-risking (Block Reinsurance)

Japan insurers de-risking balance sheet of legacy business with block AIR transactions

Background

- Japan is moving to economic regime (ESR) in FY 2025.
- Japanese insurers had written a lot of business with high guarantees in the 80s-90s when interest rates were high, which resulted in material exposure of **negative spread business** in their in-force portfolio that would be reflected in their ESR balance sheet when the new regime is implemented.
- A number of Japanese insurers have been executing block coinsurance transactions in the past few years to de-risk their balance sheet and cede out the negative spread business to prepare for ESR implementation.



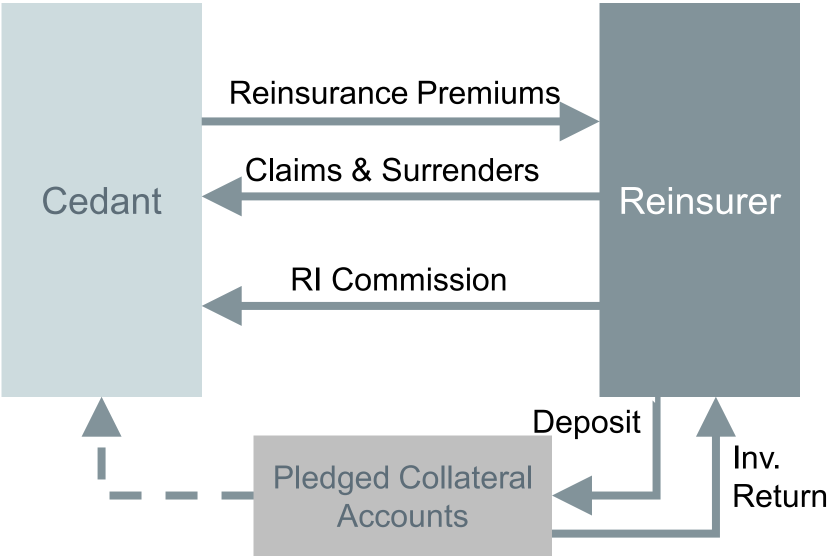
- Cedant will be able to **release reserves** of negative spread business and the associated capital charge under ESR but will need to **hold capital for counterparty risk** exposure with reinsurer
- Transaction price is generally influenced by the investment guidelines and collateral requirements requested by the cedant
- Cedant has to balance transacting at a favourable price with the counterparty risk from the reinsurer

Case Study – Savings New Business Yield Uplift (Flow Reinsurance)

Securing guaranteed returns on savings products with flow AIR transactions

Background

- Insurer developing new endowment product wants to lock in current market returns and cede out market risk and ALM risk to optimize capital consumption of new product and stabilize earnings
- Asset-intensive reinsurers could potentially generate a higher investment return compared to insurer due to their investment expertise and more favourable asset risk charges under their regulatory capital regime



- Reinsurer will invest the premiums as new business is written hence reinsurance pricing may be updated periodically to reflect market conditions if new business is open for an extended period
- Cedant will need to balance favourable returns with counterparty risk exposure
- Initial reinsurance commission could potentially be provided to accelerate profits for cedant and finance new business strain

AIR Pricing Levers

These pricing levers can be explored and negotiated with different reinsurers, to align with the cedant's financial and risks objectives.

$ Lower price

Risk trade-offs

- More flexible or riskier investments allowed.
- Looser credit protection package (e.g. no collateral).
- Lower counterparty financial strength.

Other drivers

- Ceding more stable liabilities (e.g. no significant lapse risk).
- Ceding longer liability duration (typically).
- Willingness to write at lower margins for some reinsurers.

$$$ Higher price

Risk trade-offs

- Stricter or safer **investments** allowed (e.g. only highly rated assets).
- Tighter **credit protection package** (e.g. over-collateralization).
- Higher counterparty financial strength.

Other drivers

- Ceding less **stable** liabilities (e.g. significant longevity risk).
- Ceding shorter liability **duration.**
- Capital and appetite constraints for some **reinsurers.**

"*Aon can advise on the investment guidelines and credit protection packages proposed by AIR reinsurers, which are typically based on underlying USD assets.*"

"*Aon can help structure a suitable liability portfolio backed by rigorous actuarial analysis, to support a confident view of risk and competitive pricing basis.*"

"*Aon will place you in the best negotiating position, using our global market intelligence and relationships.*"

AIR Network and Counterparties

Market Overview

Very **dynamic** with new entities entering the market regularly.

Traditional reinsurers offer capital relief but usually little economic benefit.

Newer reinsurers are either **private equity, hedge funds** or other investor groups interested **in managing assets.**

Market has developed since its inception, with an **increased number of rated reinsurers** in the market

Current market present **a variety of counterparties**, with a wide range of balance sheet size, different asset management and investment capabilities, as well as varying risk appetite for insurance liabilities.

Typical Characteristics (indicative)	**New dedicated reinsurers** (< 5 years financials)	**PE and dedicated reinsurers** (> 5 years financials)	**Traditional Reinsurers**
Number of counterparties	10-15	7-10	10+
Ownership	Family offices, Trust Funds, Public	PE, Hedge Funds, Banks, Public	Public
Capital	\$0.5m - \$ 1bn	\$0.5m - \$5bn	> €5bn
Location	Bermuda	Bermuda / US/ EU	US / EU / Asia
Competitiveness	Very High	High	Low to Medium
Financial strength	Medium	High	Very High
Rating Range	~NR / BBB / A-	~A- to A	~A to AA
Name recognition	Low	Medium	High
Risk appetite (preferences)			
Market Risk	Y	Y	Limited
Collateral Level	> 105%	> 100%	≤ 100%
Complex Liabilities	Low	Low to Medium	High
JPY Currency	Low	Medium	Medium

Supervisory Views on AIR

Continuous Monitoring of AIR-related Risks

“Supervisory concerns around AIR are multifaceted, including issues related to motivation for AIR, increasing complexity, recapture and concentration risks, and the interplay of profitability goals within corporate structures.

Supervisors have been proactive in addressing these concerns, with many jurisdictions implementing regulatory and supervisory enhancements.”

“In sum, while the adoption of AIR offers potential benefits in terms of risk pooling and capital management, it also introduces significant complexities and supervisory challenges.

- International Association of Insurance Supervisors (**IAIS**), Draft Issues Paper on Structural Shifts in the Life Insurance Sector (March 2025)

“Ensuring that the risks relating to AIR are well understood requires a broader scope of work. Macroprudential risks emanating from cross-border asset intensive reinsurance are rooted in the details of the negotiated reinsurance contracts.

These risks include, inter alia, underestimation of the probability of collateral recapture as well as the loss given recapture.”

- European Insurance and Occupational Pensions Authority (**EIOPA**), Financial Stability Report (December 2024)

- Supervisors are aware of the benefits as well as the risks related to AIR transactions.
- Some of these risks will require further efforts from supervisors and market participants to continuously monitor and find ways to mitigate.
- Given the cross-border nature of most AIR transactions, supervisors have been closely communicating and implementing supervisory enhancements to better understand and manage potential risks related to AIR.

Counterparty Risk Management

Assessment and mitigation of counterparty risk is key to AIR transactions

Primary Risk Mitigant – Reinsurer Profile

Credit Rating
- Rating
- Outlook
- Agency

Balance Sheet
- AUM
- Solvency Ratio
- Capital Surplus

Company Profile
- Shareholders / Asset Management Partner
- Jurisdiction

Track Record
- Transaction Experience
- Types of transactions

Secondary Risk Mitigant – Collateral

Collateral Level
- Any over-collateralisation
- Valuation / Top-up Frequency
- Valuation Basis

Collateral Mix
- Asset Types
- Credit Rating

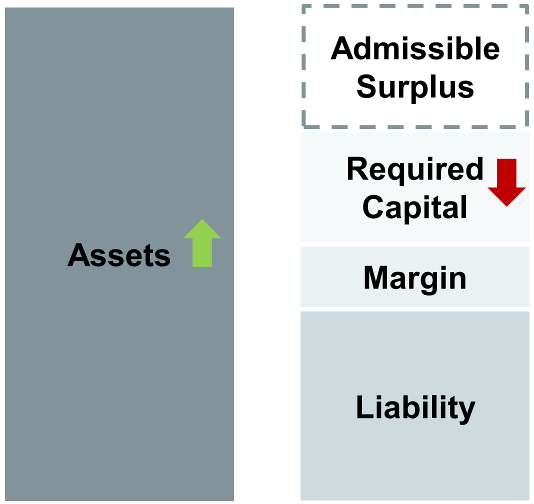
Form of Collateral
- Legal Structure of Collateral
- Jurisdiction of Custodian

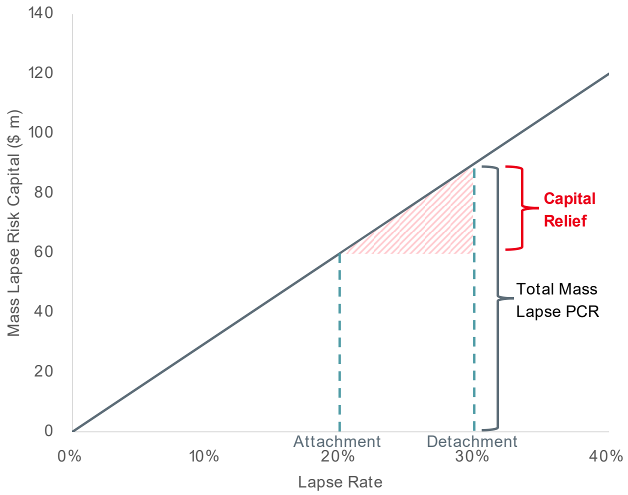
Contingency
- Termination Trigger
- Termination Settlement

Non-AIR Capital Management Reinsurance Solutions

Other structured reinsurance solutions available for capital management

- Besides AIR, there are other structured reinsurance solutions where the main objective for cedant is to obtain some form of capital relief (e.g. reduction of capital requirement, increase in available capital resources).
- Such capital relief is usually limited in term (i.e. non-permanent).
- Generally involves:
    - Release of certain capital requirements where the cost of ceding is less than the cedant's own cost of capital; or
    - Transforming inadmissible items (e.g. negative reserves) into admissible assets (e.g. cash).





- Mass Lapse Stop Loss Reinsurance is one of the most widely recognised structured solution under RBC2 regimes.
- Involves ceding the most remote layer of mass lapse risk for reduction in capital charge.
- Short term cover (1-2 years) allows for flexibility in adapting to evolving capital management needs.

3
Summary

AON

Capital Management Reinsurance Solutions

Summary

Background

- Product strategy, macroeconomic factors and regulatory environment all contribute to a need for capital management tools in the market
- Reinsurance solutions can be an effective capital tool alongside other capital market solutions

Asset-Intensive Reinsurance

- AIR is a form of coinsurance with substantial initial reinsurance premium with proportional risk transfer (incl. investment risk)
- AIR can be used to de-risk legacy in-force blocks and to support new business

Counterparty Risk Management

- Assessment and mitigation of counterparty risk will be essential in AIR transactions
- Reinsurer profile and collateral will be key mitigants of counterparty risk

Other Capital Management Reinsurance Solutions

- There are non-AIR reinsurance solutions with limited term capital relief.
- Mass lapse stop loss reinsurance is one of the most widely recognised structured solution across the region.

Q&A