

# Accident, Health and Life

Capabilities Brochure



*Empower Results*

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# Accident, Health and Life

Accident, Health and Life (AHL) insurers are facing a host of challenges and opportunities against a backdrop of market uncertainty, increasing legislation, low interest rates and emerging risks.

As the life insurance world evolves, Aon Benfield empowers its clients to boost their market share in a competitive market and secure optimal reinsurance through treaty, facultative or capital markets. This in turn enables insurers to offer the best products to their clients while preserving an acceptable level of risk on their balance sheet.

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## Introduction

Aon Benfield's global team translates risk appetite, analytics and access to markets into effective reinsurance strategies. We work hand in hand with AHL insurers throughout the tender cycle and can assist during every step of the journey from risk quantification and capital optimization to placement and post-tender analysis to give them the edge at tender stage and beyond.

We are focused on demonstrating the benefit of risk transfer by calculating the reduction in the volatility of your earnings, identifying the capital freed-up by reinsurance and comparing the cost of transferring those risks to your own internal cost of capital. Reinsurance remains the most cost effective method to mitigate most insurance risks at a cost well below the internal cost of capital for insurers.

A passionate advocate for our clients' needs and capital, we build valuable partnerships and bring a fresh perspective to differentiate insurers' business to ensure the best terms are achieved. We support AHL insurers through:

- Evaluation and optimization of your reinsurance structure using our proprietary dynamic financial analysis tool ReMetrica®
- Advice on a range of risks including mortality, morbidity, longevity and lapse risks
- Access to reinsurance markets worldwide

- Pandemic, terrorism and earthquake modeling
- Capital market based solutions such as extreme mortality bonds
- Support on Solvency II and rating agency capital requirements
- Negotiating a competitive reinsurance proposition with the best terms and conditions
- Going beyond the liability side and also looking for optimal asset allocation strategies based on your liability profile

## Experience Analysis

Aon Benfield offers an independent experience analysis service to give clients more confidence in the quality of their data for reinsurance purposes. This enables reinsurance markets to obtain a better grasp of the risks and in turn leads to preferential rates.

It means we have a strong understanding of reinsurers' rates and are able to challenge pricing that is not in line with the data and the underlying risks. As part of the ongoing partnership, Aon Benfield will continue to analyze a client's portfolio and recommend changes to improve the reinsurance terms.

# Managing Catastrophic Risk

## Catastrophe Modeling

Terrorism attacks, earthquakes, tsunamis and pandemics are key drivers for most AHL insurers' catastrophic losses. In order to grasp the impact of major natural and man-made events, the use of catastrophe modeling is becoming more prevalent for AHL insurers. In addition, Solvency II in Europe will require life insurers and reinsurers to hold capital against those risks.

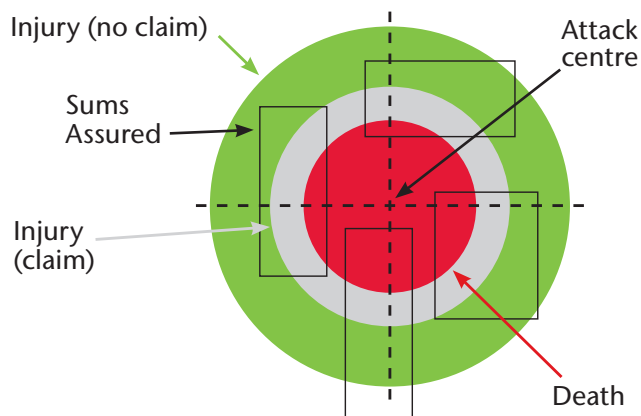
Working with all major catastrophe models—including terrorism, pandemic and earthquake—Aon Benfield Analytics' Catastrophe Management team overcomes data and model limitations to provide clients with a comprehensive view of their portfolio and determine an appropriate reinsurance strategy.

## Multi-model Approach

The team is in regular dialogue with all major modeling firms, and provides clients with detailed explanations for model changes and interpreting their potential effect on results. As part of the multi-model approach, the team also runs tools from Impact Forecasting—Aon Benfield's catastrophe model development center of excellence—which comprises scientists with extensive Life catastrophe modeling expertise.

For example, Impact Forecasting has updated its UK terrorism catastrophe model that assists AHL insurers to estimate the financial loss from potential events and consequently consider their reinsurance buying strategies. The model is fully transparent and can help management gain a better understanding of their exposures which is an important requirement of the proposed European Union Solvency II regulation. The model has been developed through a unique collaboration with Aon's counter-terrorism experts, who have provided input on credible attack types and damage profiles for various scenarios.

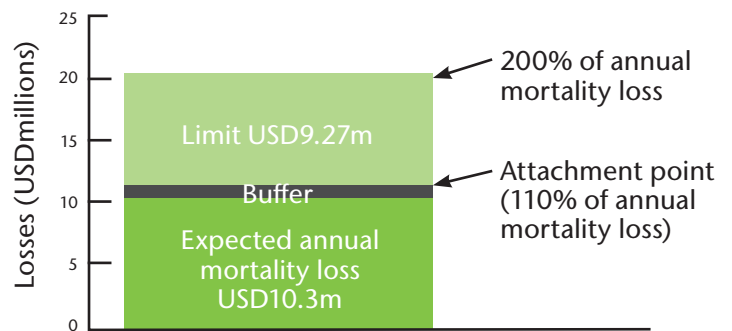
## Attack Illustration in Terrorism Modelling Process



## Pandemic Model

Pandemic exposure has become increasingly important for life insurers in the last few years. Firstly, it forms part of the Solvency II capital requirement under the Life Catastrophe component. Secondly, the widely publicized H1N1 influenza pandemic in 2009 has led to more life insurers examining their pandemic exposure and risk mitigating strategies. To help our clients, we have developed our own probabilistic influenza pandemic model which is capable of producing estimated losses at different return periods (e.g. 1 in 200 year event). The modeled loss at a chosen return period enables us to determine the level of reinsurance cover required.

## Illustration of Innovative Approach to Design Pandemic Cover



## ImpactOnDemand

ImpactOnDemand® is a highly innovative and versatile platform which enables clients to visualise and quantify their exposures to life and accident risk, in addition to performing sophisticated, detailed data analysis to drive insightful business decisions.

ImpactOnDemand assists clients in global individual risk mapping, pre-binding underwriting analysis, risk driver analysis, claims planning and preparedness, post-catastrophe analysis, identifying exposure accumulations around terrorist targets, and a host of other functions.

## Death and Disability Catastrophe Benchmarking

Aon Benfield's annual survey of global AHL insurers sets out to understand reinsurance purchasing patterns and help benchmark retention, quantity and price of death and disability catastrophe reinsurance covers within their country and amongst global peers.

This enables actuaries to compare XL layers on the market price curve and verify pricing calculations for alternative reinsurance pricing structures, according to AHL insurers' risk appetites. The survey results also give brokers the ammunition to place and negotiate the most effective and fair reinsurance terms and conditions.

- > How capital efficient is your life reinsurance program?
- > How do your reinsurance premiums compare to those of your peers?
- > What is your optimal Solvency II or rating agency reinsurance program?
- > Is your asset manager fully up to speed on how your liabilities move in today's challenging economy?

Aon Benfield is uniquely positioned to help you understand the questions and challenges faced by Accident, Health and Life insurers in today's markets and optimize risk transfer on both the asset and the liability side of your balance sheet.

## Innovation for Life

Aon Benfield goes beyond broking expertise and access to markets to also provide an integrated approach with analytical and capital strategy tools, data and advice.

### Insurance Asset Solutions

Solvency II and rating agencies could penalize insurers that are not efficiently managing their ALM risk. Aon's aim is to optimize asset allocation strategies for insurers through a proprietary optimization algorithm. Aon Benfield brings the expertise on the liability side and combines this with Aon Hewitt's investment consulting excellence. Aon Hewitt advises pension funds, asset managers and insurers on more than USD3.5 trillion of assets.

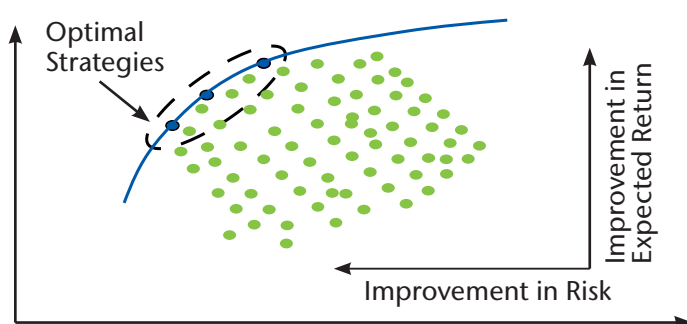
### ReMetrica

AHL insurers are being driven to develop a stochastic view of their key risks, rather than traditional scenario-based modeling, by Solvency II and equivalent regulatory regimes.

In response, Aon Benfield has developed a suite of new life components in ReMetrica, its award winning dynamic financial analysis tool, to help insurers and reinsurers better determine optimal reinsurance strategies for life-related insurance products. This is a fully stochastic framework for evaluating the economic benefits of life reinsurance and capital markets solutions. The new Solvency II-focused components also enable re/insurers to improve their internal models and deliver accounting reports for regulators.

The key components enable insurers to evaluate the premiums, reserves and losses for term assurance, disability insurance and annuity payments.

### Economic Capital Optimisation



### Variable Annuities

Aon Benfield has developed the most exclusive variable annuity (VA) hedging platform to help clients develop new VA products and seriatim hedging programs that reduce the basis risk of variable annuity hedging by 50% compared to other hedging providers. The cornerstone of the practice is the PathWise hedging platform that is state of the art and calculates the Greeks in seconds rather than hours.

### Aon Benfield Securities

Aon Benfield Securities is one of the leading investment banks focusing on the insurance markets covering both capital markets and advisory. The capital markets team focuses on both life and non life transactions and is the leading issuer of Insurance Linked Securities ("ILS").

The team has structuring expertise across a range of risk transfer products for the life markets including extreme mortality bonds, longevity swaps and lapse bonds. Our global distribution and trading platform provides us with a unique insight into investor preferences and access to over 100 specialist ILS investors.

### Enterprise Risk Management

Aon Benfield helps life insurers embed ERM best practices that address the broad array of risks in a holistic fashion, while holding value and risk appetite at the forefront. Our specialists advise on understanding and responding to risks that transcend a life insurer's operations. These include those arising from assets such as markets, interest rates, currencies and credit, as well as insurance liability risks such as longevity, morbidity and mortality. In addition, we grasp the complexities that differ between life versus non-life insurers to support your initiatives such as new product development, asset liability matching and liquidity.

## About Aon Benfield

Aon Benfield, a division of Aon Corporation (NYSE: AON), is the world's leading reinsurance intermediary and full-service capital advisor. We empower our clients to better understand, manage and transfer risk through innovative solutions and personalized access to all forms of global reinsurance capital across treaty, facultative and capital markets. As a trusted advocate, we deliver local reach to the world's markets, an unparalleled investment in innovative analytics, including catastrophe management, actuarial and rating agency advisory. Through our professionals' expertise and experience, we advise clients in making optimal capital choices that will empower results and improve operational effectiveness for their business. With more than 80 offices in 50 countries, our worldwide client base has access to the broadest portfolio of integrated capital solutions and services. To learn how Aon Benfield helps empower results, please visit [aonbenfield.com](http://aonbenfield.com).

## Addressing hot topics

### Low Interest Rates Globally

Today's low interest rate environment continues to impact earnings for life insurance companies. Aon Benfield can assist by giving clients access to markets that reinsure blocks of business with interest rate guarantees. This in turn prevents a drain of earnings due to small if not negative spreads.

### Healthcare Reform in the U.S.

U.S. healthcare reform has improved access to cover but struggled to contain costs and created a plethora of hurdles for insurers. In response, there has been a 30% increase in medical reinsurers contributing to the rise in both capacity and new products. These include unlimited cover limits to support the correlation with continuing high value claims. Aon Benfield is working with life insurers to reap the benefits of the reforms with tailored reinsurance and risk transfer mechanisms to manage capital, shift volatility and protect against adverse developments.

### Reinsurance Provisions in China

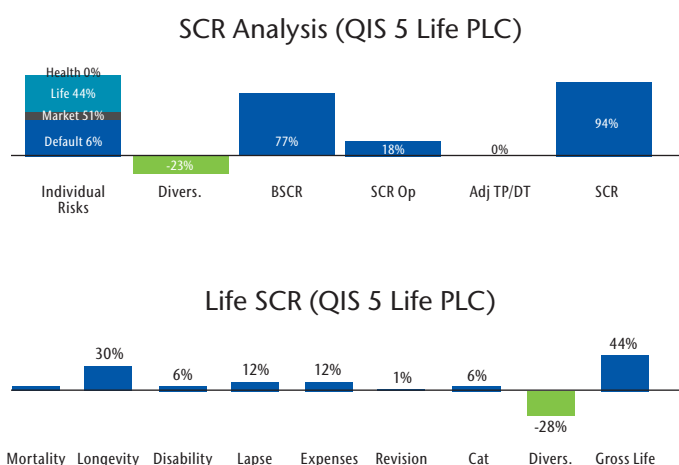
Following the revised Reinsurance Provisions that came into effect in 2010, CIRC (China Insurance Regulatory Commission) requires Life and non-life insurers to arrange their 'catastrophic' reinsurance contracts reasonably and scientifically. Insurers must file these with the CIRC by June 30 each year. Aon Benfield is working with insurers to develop suitable catastrophic protection plans and acquire favourable terms and conditions from domestic and international reinsurance markets accordingly.

### Solvency II in Europe

Under Solvency II in Europe, AHL insurers are facing both higher regulatory capital requirements and the need to have a better understanding of risk. In addition, Solvency II serves as a driver to optimise the purchase of reinsurance to provide maximum benefit where reinsurance capital is most efficient. Specific areas include catastrophe covers, financing treaties, longevity and lapse risk.

By benchmarking your QIS5 results in our Solvency II Dashboard, Aon Benfield can help identify clients' key capital charges – notably for market and lapse risk – and advise on reinsurance solutions to help reduce these capital charges.

### Solvency II Dashboard



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