Solvency II drives demand for new Maiden Re product

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A new product launched by Maiden Re that allows insurers with limited access to the capital markets pre-committed access to subordinated debt funding will be particularly valuable to companies because regulations such as Solvency II force insurers to disclose their solvency ratio, according to the reinsurer’s CEO.

Patrick Haveron, the president of Maiden Re, explains that this causes what he calls a ‘relativity problem’. “You might be a perfectly healthy European mutual, but if your competition is running at a higher solvency capital ratio (SCR) everyone can now see that,” he said. “It will drive more companies to think about their capital management and to look at ways of supporting their balance sheet in a cost effective, flexible way.”

The new product, called Maiden Libra, has been launched by Bermuda-based Maiden Re, in collaboration with its Dublin based debt capital unit. It is specifically designed to manage an insurer’s solvency capital ratio (SCR) and its volatility and enables them to achieve their capital management objectives over a range of scenarios.

The product combines a multi-year quota share contract with variable cession rates and a flexible sub debt facility matched to the reinsurance contract. The sub debt facility provides the insurer with the option to issue Tier 2 debt at any time, and has a ten-year final maturity.

This enables insurers to apply enhanced risk management measures through the flexibility to utilize reinsurance to address premium risk and reserve risk or utilize sub debt to address market risk. The components of Libra can be utilized separately, together or sequentially and gives management the discretion to create their own bespoke capital optimization to address their unique objectives.

The sub debt facility element is particularly useful for smaller insurers that are new to sub debt and prefer to avoid the complexity of a listed issuance, Haveron said. “It’s completely optional - if circumstances require additional capital this option enables insurers to respond quickly and in a cost
effective way,” Haveron explained. “Further, we can offer solutions in smaller sizes and privately, both of which are plusses for insurers.

“Having the option of pre committed access to sub debt funding without making the decision right now can be very attractive to a broad range of companies.”

He added that being able to access “just in time capital” is another advantage, for example in situations where key stakeholders, whether it be the Board or a regulator has expectations about a company’s target solvency ratio and its acceptable variability, Libra provides the right type of capital at the right time.

Alternatively, an insurer might be presented with a growth opportunity but it doesn’t want to strain its capital by growing too fast. Through Libra, Maiden can provide a flexible quota share on a standalone basis or in combination with the sub debt option.

“At Maiden we’ve listened to what our clients and prospects said about what they need - and not simply try to sell them the solution we want. We think that’s what differentiates Libra,” Haveron said.