Maiden Libra – a new way to balance risk and capital

Libra is the well-known astrological symbol of balance. Patrick Haveron, president of Maiden Re, explains how Maiden Libra, its unique hybrid capital solution can help small to mid-size insurers keep their risk/capital balance in an increasingly tough and uncertain operating environment

Challenging underwriting environments led by a perpetually soft market, volatile economic events and Solvency II compliance have combined to create some of the toughest operating conditions for European insurers in a long time. For small to mid-sized insurance companies in particular, the need to achieve the optimum balance of risk, regulatory capital and solvency levels while managing variability under stress scenarios is a new issue for many.

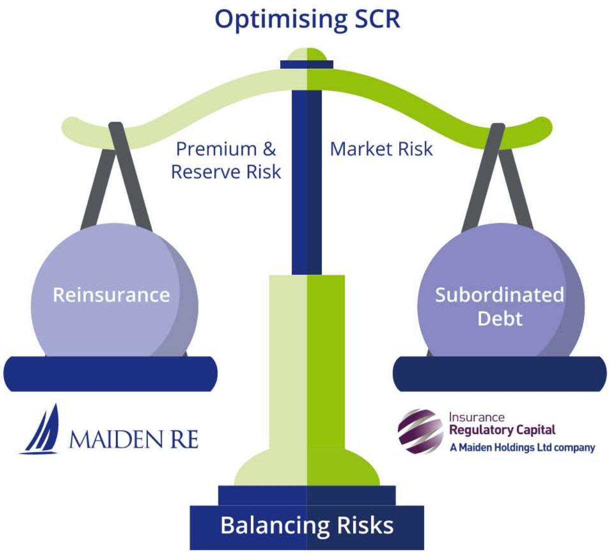
Bermuda-based Maiden Re, in collaboration with its Dublin based debt capital unit, Insurance Regulatory Capital, believes it has an innovative solution to these pressing concerns.

As part of its broader capital solutions offerings, Maiden Libra 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.

Maiden Libra 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.

Libra 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. "It's completely optional – if circumstances require additional capital this option enables insurers to respond quickly and in a cost effective way," Maiden president Patrick Haveron explains. "Further, we can offer solutions in smaller sizes and privately, both of which are plusses for insurers."



Libra gives Maiden a differentiated position in the market – and the reinsurer is getting a good response from the market, according to Haveron.

"Libra is part of a broad array of capital solutions Maiden Re offers to small or mid-size companies in Europe that have limited or no natural access to the capital markets," he says. "Solvency II is causing even well capitalised insurers in Europe to take a more proactive view of capital management. Libra creates a new form of capital management optionality that companies require today."

"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", Haveron says.

"If for instance there is an event and a company desires to maintain its SCR level, they now have a toolkit at their disposal with a partner that is committed to them over a longer period of time," he explains. "Pairing both products allows insurers to optimize a mix of capital and deploy enhanced risk management while minimizing the cost. Both products work effectively independently but we increasingly see a blend of both products as a powerful combination for companies."

For many companies, Maiden Libra can solve what Haveron calls a relativity problem created by Solvency II. It arises because the regulations require insurers to disclose their solvency ratio. "You might be a perfectly healthy European mutual, but if your competition is running at a higher SCR everyone can now see that," he says. "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."

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 says. ●