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# Europa Reinsurance Facility Ltd.

First Regional Europa Re Insurance Conference

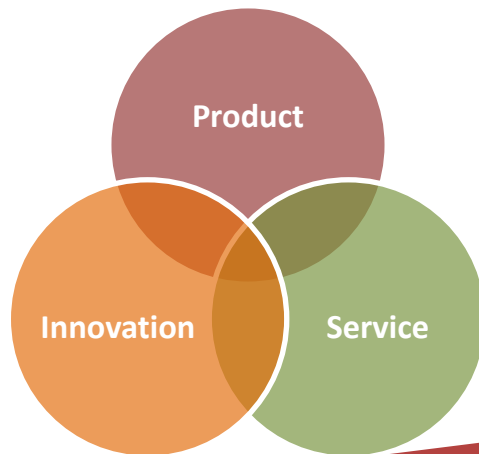
## **Developing Catastrophe and Weather Risk Markets in Southeast Europe: From Concept to Reality**

12-14 October 2011  
Ohrid, FYR of Macedonia

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**Exploring alternative product distribution channels  
for Europa Re products**

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Insurers

## Distribution Channels

- Limited channels
- Conservative buying patterns
- Tied agents dominate personal lines and small commercial accounts
- Increasing role of brokers though still far less important than in developed markets
- Direct sales dominant in industrial sales
- Internet gaining importance as information tool but not yet a well exploited sales channel
- Other communication mediums like mobile phones, etc., need to gain ground

Insured Subjects

LEVERAGE

- In Europa Re's business model, locally licensed private insurance companies in participating countries will issue catastrophe insurance policies
- Existing distribution channels on their own pose a threat to reaching market penetration goals
- Europa Re will not simply act as a reinsurer and product originator
- Well structured products, innovation and superior service will positively leverage the whole chain
- Europa Re will take a pro-active stance in:
  - making efficient use of current local distribution arrangements
  - suggesting/supporting member insurance companies in exploring alternative distribution channels

Indemnity Insurance

Parametric Insurance

Technical Assistance

Capacity Building

Insurers

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Insured Subjects

Awareness & Education

### Benefits to Insurance companies from Europa Re membership:

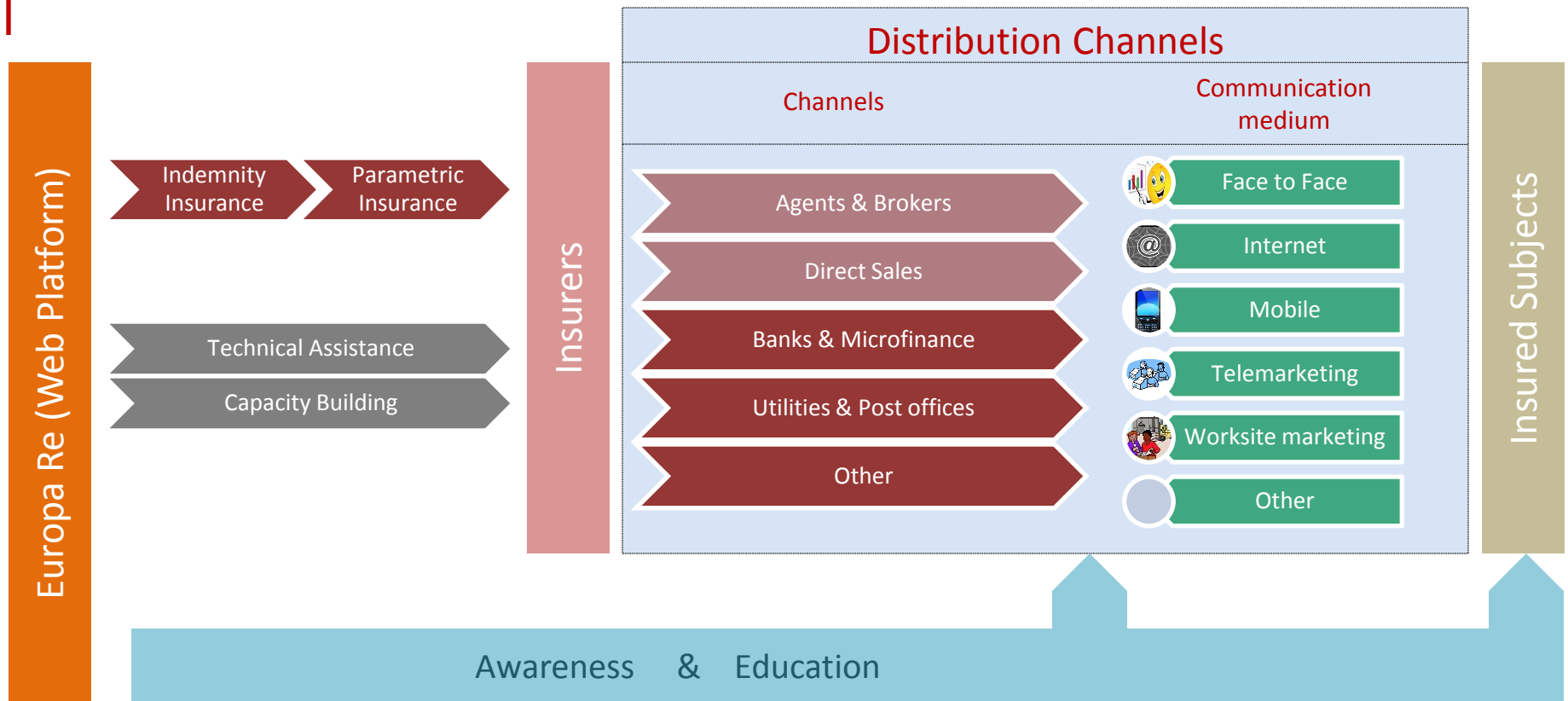
- Free technical assistance in designing new catastrophe insurance products
- Access to a dedicated web-based underwriting and pricing.
- Access to dedicated competitively priced reinsured capacity.
- Reinsurance commissions.
- Additional risk premium.
- Potential sale commissions
- Access to new clients (facilitated by a public information campaign and government policy actions).
- Improved technical pricing of cat. risk across the board due to regulatory reform

### As result insurance companies can focus on:

- Reducing inefficiencies and enhancing the existing distribution channels.
- Developing alternative distr. channels

### Europa Re will play an active role in nurturing and stimulating the efforts:

- *Supplying ideas and knowledge*
- *Providing capacity building*
- *But also education and awareness to the middle and base part of the channel*



## What do we mean by alternative distribution channels?

- There is no fixed definition as it is, in fact, the diverse, innovative and evolving nature of such channels that defines them.
- For our purposes, **alternative distribution is defined as voluntary insurance models utilizing partnerships with institutions traditionally not in the insurance space**

## ALTERNATIVE DISTRIBUTION CHANNELS

The alternative distribution channels need to demonstrate the following characteristics in order to be deemed attractive:

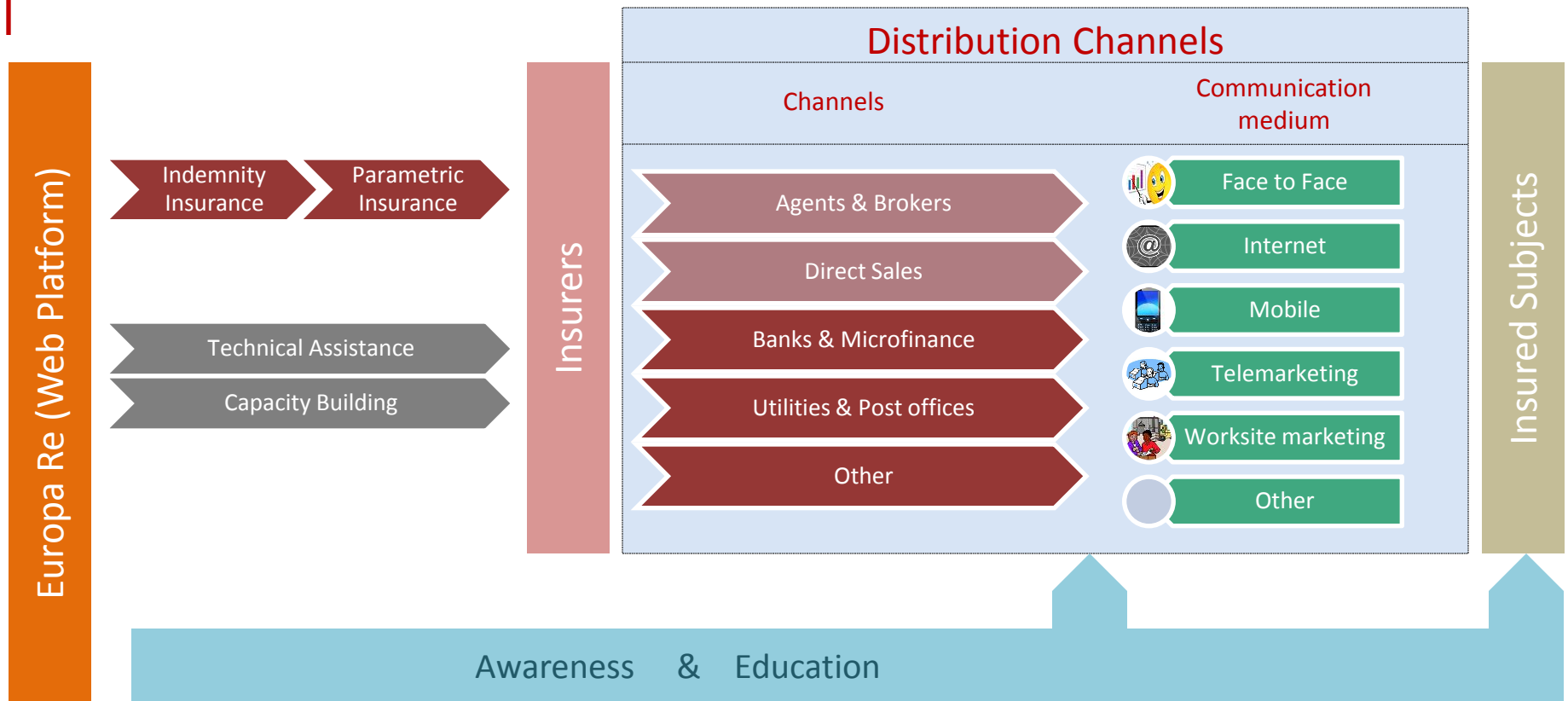
- ***Scale through aggregation:*** Ability to achieve scale by targeting large non-insurance client concentrations such as clients of retailers, cell phone companies, utility companies etc.
- ***Presence of infrastructure footprint:*** typically rely on the presence of an infrastructure footprint that is larger than what could be achieved by an insurance company in isolation. The infrastructure could be physical (e.g. store buildings) or virtual (e.g. a cell phone network).
- ***Transaction platform:*** The distr. channel typically doubles as a premium collection platform, e.g. adding premiums onto a utility bill.
- ***“Opt-in” product:*** Models distribute voluntary insurance products sold on an “opt-in” rather than “opt-out” basis. Buying insurance is an explicit choice by the customer, rather than an automatic addition to another product or service.
- ***Trusted brand:*** The majority of models rely on a distribution partnership with a well-trusted brand.

## ALTERNATIVE DISTRIBUTION CHANNELS

- **Key to success:** distribution partners view the insurance offering as an ***explicit client retention strategy*** and where there is a ***direct link between the insurance and the distributor's core business***
- Insurer and their distribution partners will have to ***carefully consider their commission levels and profit sharing arrangements***
- **But the success** associated with **acquiring new clients** through alternative distribution channels ***will not be sustained*** if it is not accompanied ***by innovation on claims processing and servicing***. In the long run, business partners need an efficient and convenient servicing and claims processing system to increase customer loyalty and retention.

### Europa Re leverage to distribution:

- **Web based platform and related applications** : pricing tools, consumers and government web-based risk tools assessment, remote sensing claims management, etc.
- **Technical assistance** in tailoring **bundled products** which benefit the distributor and the consumers
- **Attractive Incentive Structure** along the chain: Europa Re – Insurer – Distributor – Client
- **Awareness, assistance and education** to the customers and distributors



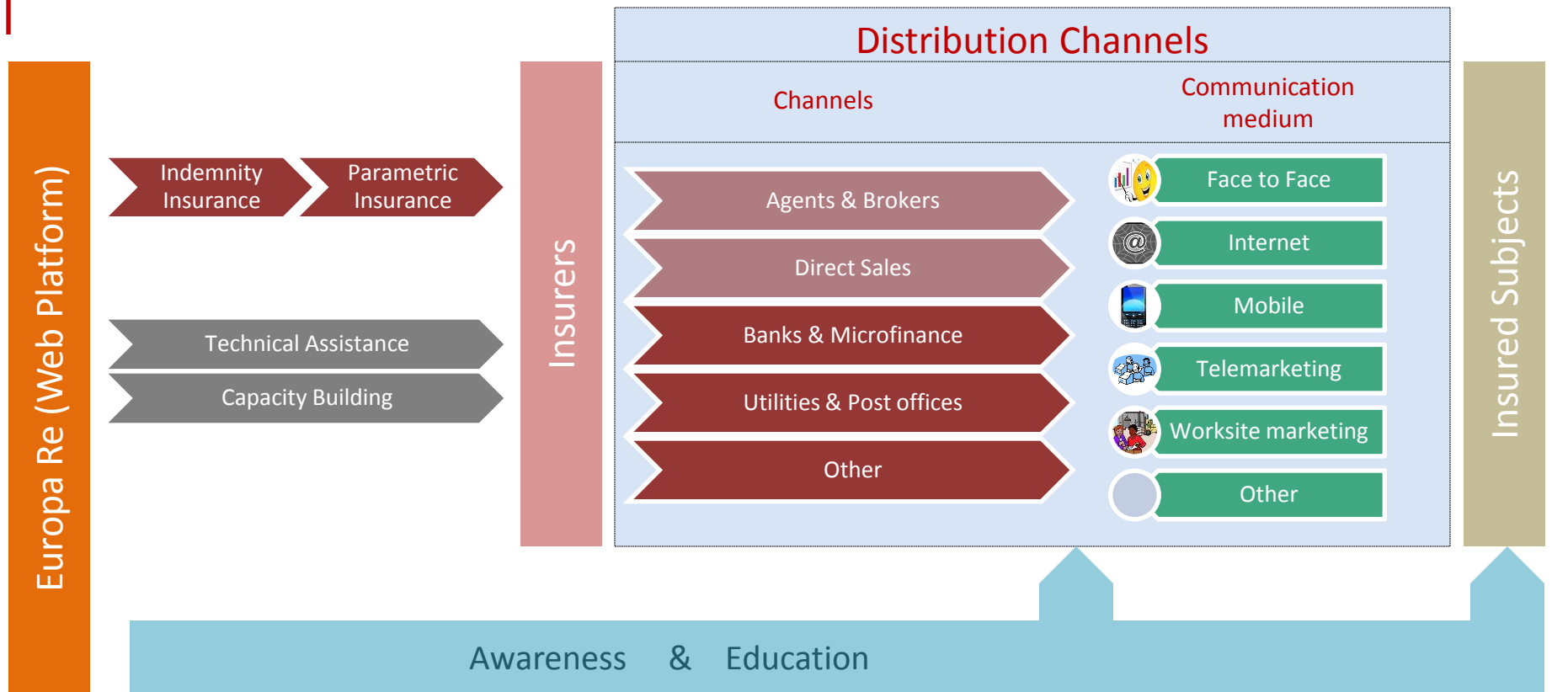
### Banks:

- good reputation thus they are more trusted
- vast customer databases - making it easy for them to reach more people by way of cross-selling/bundling bank products and Europa Re products.
- more advanced technology and resources

### Europa Re to contribute in developing bundled bank loans/cat. & weather ins. products - useful for banks:

- to reduce direct risk of default due to damage of financed properties from natural disasters or extreme weather changes.
- to reduce deposit withdrawals from clients immediately after a natural disaster or extreme weather events
- to maintain bank's liquidity, and guarantee its sound development, but also preserve bank's clients financial wealth.





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| <b>Utilities:</b> <ul style="list-style-type: none"> <li>• Mass reach to customers (households &amp; businesses)</li> <li>• Suitable for weather parametric products</li> <li>• Commonsense product relationship – for ex. energy consumption/unusual temperature</li> <li>• Payment facilitation</li> </ul> | <b>Post offices:</b> <ul style="list-style-type: none"> <li>• Well spread in the country</li> <li>• Especially useful for access in rural areas</li> <li>• Used to handle simple financial services - would welcome simple additions to their services portfolio</li> <li>• Suitable for simple parametric products</li> <li>• Payments facilitation</li> </ul> | <b>Internet:</b> <ul style="list-style-type: none"> <li>• Is perceived to have great potential due to the technological advancements that have seen increasing use of online transactions.</li> <li>• Currently used mostly as a information communication medium</li> </ul> | <b>Mobile Phones:</b> <ul style="list-style-type: none"> <li>• High number of users</li> <li>• Increasingly used as information tool</li> <li>• Less “trusted” by households’ and businesses’ decision-makers</li> <li>• Future potential to serve as a distribution medium, starting from simple standardized parametric products</li> </ul> |
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## Examples

### **Bank sells catastrophe insurance to term deposit holders**

- A term deposit of 10,000 Euro bundled with EQ insurance issued on parametric basis.
- If an earthquake of scale bigger than a given magnitude, the deposit will automatically increase.
- Premium is automatically taken from deposit interest (eg. if annual interest is 3%, the deposit will earn 260 Euro instead of 300 Euro).
- The premium amount of 40 Euro (4 per mille of sum insured) will contribute to double the deposit amount if the catastrophe occurs. For a premium of 40 Euros, the deposit will increase 2 times.

### **In the benefit of client**

- Maintain financial wealth

### **In the benefit of bank**

- Reduce withdrawals in case of catastrophes, commissions, increased loyalty of the clients

## Examples

### **Utility company sell weather parametric insurance to its clients**

- An utility company has sold a freeze parametric insurance policy to an household client (as a matter of fact it can also be a business client) in relation to energy consumption for heating.
- If the winter is colder than usual, then the household client can offset some of the higher energy bill through its parametric insurance policy.
- Event is triggered when temperature goes below temperature threshold (freeze temperature) during the policy period.
- Claim is assessed based on the number and position of freezing days within coverage period. There is no need to assess individual claims of insured.
- Payments are effected quickly, through the utility company (reduced future bills) within few days from the expiry date set in policy

### **In the benefit of client**

- Maintain household financial wealth within reasonable ranges

### **In the benefit of the utility company**

- Satisfied client, commissions, lower risk in payment receipts

## Conclusions:

- Distribution channels are a crucial success factor – deserving proper weight and attention
- Current distribution channels need to be explored and leveraged, but this is not enough
- As a result, development of other alternative distribution channels have to be stimulated and supported – Europa Re arrangements as an advantage
- Availability vs. cost efficiency rationale - identification of channels and mediums that see a value proposition in distributing and/or coupling with cat/parametric products

## Food for discussion:

- How to increase sales of Europa Re products?
- What can motivate insurers and distributors: IT infrastructure, commissions, government regulations, consumer awareness building through public info campaigns, ability to bundle Europa Re own products?