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Hybrid Insurance Structures
“Helping each other”

Zainal Abidin Mohd Kassim, FIA
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Structure of Stock Insurance Companies

- Leverages on the concept that
  1) There is a ‘price’ for taking on risk.
  2) For the right price there is capital willing to undertake the risk.
  3) Risk can usually be mathematically modeled with some degree of certainty.
  4) There is a secondary market to “off load” excessive insurance risk (the reinsurance market).

- Total capital invested in insurance companies and reinsurers globally is estimated to be USD3.4 trillion* and USD480 billion* respectively.

* Aon Benfield research 2012
Proprietary Insurers and Mutuals

- While stock insurers seeks to maximize its profits, Mutuals seek to benefit its members rather than maximize its profits.

- Insurance is a service. It is intangible and difficult to assess. Can buyers of insurance be really sure what he is buying is what he needs?

- Difficulty for the public to compare premium rates. This asymmetry in information puts the insurer at an advantage as compared to the policyholder.
Hybrid Insurance Structures

Ownership

- Owned by Shareholders
- Owned by Policyholders

Risk Transfer

- Modern Takaful
- Stock Insurers
- Mutals

Risk Sharing

?
Guarantees & Surplus Sharing

Guarantees

No guarantees

Stock Companies

Modern Takaful

Discretionary Mutuals

Policyholders do not share in surplus

Policyholders share in surplus

Actuarial Partners
## How risks are distributed

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Operational Risk</th>
<th>Underwriting Risk</th>
<th>Investment Risk</th>
<th>Expense Risk</th>
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<tbody>
<tr>
<td>Stock insurer</td>
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<td>Mutuels</td>
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<td>Modern Takaful</td>
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- Shareholders/management company
- Policyholders/participants
Choice is driven by

- Beliefs
- Trust
- Price
- Convenience