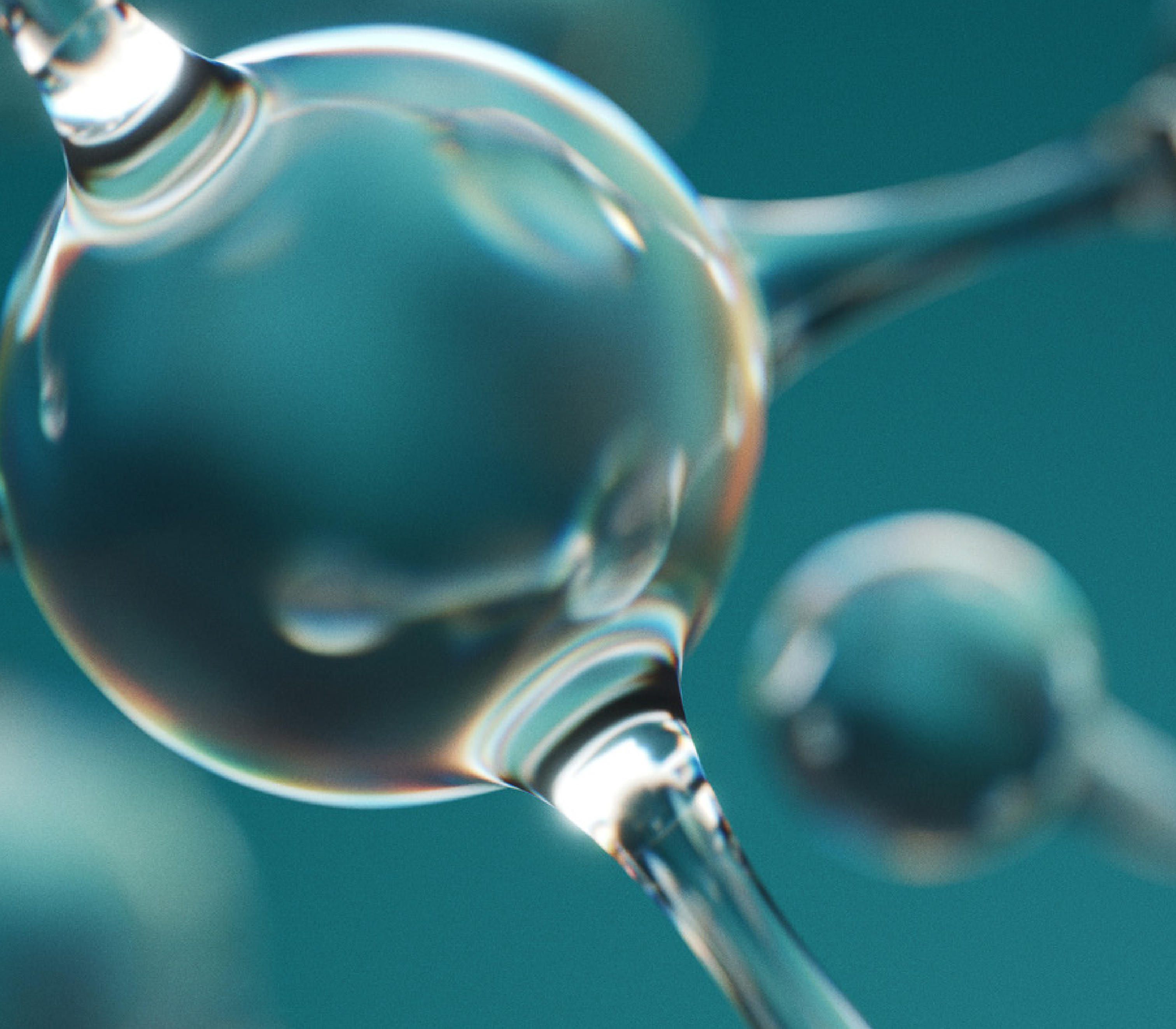
LOCKTON

REINSURANCE

Market Update from the Accident, Health & Life team

Capital Motivated Reinsurance: **Why Experience and Market Access Matter**



Capital Motivated Reinsurance (CMR): **Why Experience and Market Access Matter**

The CMR Market Has Evolved Rapidly

What was once a niche solution has become an increasingly important strategic tool for health insurers seeking to address balance sheet, growth, and liquidity challenges. Over the last 24 months, the Capital Motivated Reinsurance (CMR) market has experienced notable growth and innovation, driven by increasing interest from regional health plans and large national health plans.

While market activity has accelerated, CMR is not a one-size-fits-all solution. The suitability, economic value, and capital impact of a transaction depend on an organization's unique financial profile, regulatory environment, growth strategy, and stakeholder objectives. Successful transactions require careful evaluation of both the benefits and potential trade-offs associated with reinsurance structures.

At Lockton Re, our Accident, Health & Life (AHL) team has been actively involved in numerous CMR transactions, helping clients assess whether reinsurance is an appropriate tool and implementing solutions aligned with their financial objectives.

Growing Appeal of CMR Solutions

Key CMR benefits include:

- Typically, a more economical source of capital compared to debt or equity financing
- Meaningful Risk-Based Capital (RBC) enhancement
- Improved capital efficiency for product lines that consume significant amounts of regulatory capital
- Additional RBC capacity to support strategic initiatives such as acquisitions, business expansion, or shareholder dividend programs
- Improved liquidity and financial flexibility

Increasing Reinsurer Participation Expands Opportunities

Historically, the CMR market was dominated by a small group of established reinsurers. Today, additional global reinsurers have entered the space, with further market entrants expected.

Growing participation is creating:

- Increased solution flexibility
- Greater structuring innovation
- Enhanced market competition
- Additional options for health insurers pursuing capital and liquidity objectives

At the same time, expanded market participation does not necessarily translate into universally favorable terms or broad availability for all insurers. Reinsurer appetite, pricing, transaction complexity, market conditions, and regulatory considerations can vary significantly by organization.

As a result, health plans considering CMR should evaluate not only the potential economic benefits of a transaction but also counterparty strength, execution risk, ongoing reporting requirements, and long-term strategic implications.

Choosing the Right Intermediary Is Critical

As the CMR market expands, so does the number of intermediaries operating within it. However, not all intermediaries offer the same depth of expertise, market access, transaction experience, or strategic advisory capabilities.

Successful CMR transactions often require an intermediary that:

- Acts as an extension of the client's team
- Maintains broad relationships across the global reinsurance marketplace
- Evaluates a wide range of viable market options
- Provides objective analysis of both opportunities and limitations
- Brings creativity and innovation to complex capital challenges

Beyond transaction placement, experienced advisors can help organizations assess whether a proposed structure is achievable, economically justified, and aligned with broader financial and strategic goals.

The Lockton Re Difference

Lockton Re's advantage lies in the collaboration between our AHL team, Capital & Ratings Advisory team, and Actuarial team.

When organizations identify an RBC, a growth, or a liquidity objective, our integrated team works together to evaluate how reinsurance may support those goals. This multidisciplinary approach provides clients with a more comprehensive understanding of the potential capital, financial reporting, ratings, and operational implications of a transaction.

Why Clients Choose Lockton Re

Clients value Lockton Re for:

- Its deep expertise in health insurance and reinsurance markets
- Global reinsurer relationships and broad market access
- Integrated capital, ratings, and reinsurance advisory capabilities
- One P&L alignment across teams that drives collaboration
- A privately held business model focused on long-term client relationships
- A client-centric approach to evaluating complex capital solutions

How Lockton Re can help with CMR

Reinsurance Broking & Structuring

- Full service reinsurance intermediary with broking, actuarial, capital modeling, and client services fully integrated across all treaty placements
- Experienced team structuring and executing capital motivated reinsurance transactions
- Demonstrated transaction history with billions of ceded premium placed on behalf of some of the largest and independent health insurers
- Strong reinsurer trading relationships with meaningful negotiating leverage
- Creative structuring approach tailored to client-specific goals while seeking to ensure the most capital efficient transaction attainable in the marketplace

Predictable Placement Process

- Strategic timeline seeks to ensure coverage and contract wording bound in advance of desired effective date
- Lockton Re will facilitate reinsurer interaction including but not limited to:
  - Data intake
  - Submission development and release
  - Q&A due diligence
  - Quote intake and analysis
  - Coordinating finalist meetings
  - Binding coverage & contract review / execution
- Hosting discussions with key stakeholders
- Assist with preparations for reparations for discussions with auditors and regulators

Analytics & Actuarial Support

- Broker negotiations with analytics and capital modeling teams embedded to achieve lowest possible risk charge and most optimal terms and conditions
- Comprehensive deal pre-underwriting assistance based on historical and prospective data provided
- Determine optimal ceded transaction volume to achieve specific client goals
- Assist with RBC forecasting and reinsurance impact to seek to ensure capital relief goals are met
- Identify capital intensive segments to maximize capital relief and reduce cost of capital (e.g., stop loss)
- Produce advanced analytical insights via proprietary platform Lockton Re SAGE™ [1]

Dedicated Post-Placement Engagement

- Continuous capital modeling support through evaluating impact of cession percent changes to RBC forecasts
- Staying informed on changing capital modeling criteria and evaluating potential impact on RBC forecasts
- Year-round Lockton Re client service model: client services that are not outsourced, private ownership which allows for client investment, ongoing strategy meetings, sharing relevant product and industry changes, assistance with underwriting risk selection and evaluation
- Exploring separate monoline excess of loss reinsurance purchases for specific lines of business to hedge volatility

[1] Lockton Re Sage™ Patented: https://global.lockton.com/re/en/sage-patents

Claims & Client Services

- Dedicated onshore claims advocacy and reinsurance recovery support
- Expert client service team members have deep experience with health reinsurance risks
- Lockton Re manages all reporting, billing and payment transactions for claims and premium
- Quarterly stewardship report on settlements and financial impacts
  - Real-time client access
- Strict data-security protocols established for all transactions
- Continuous contract wording review and improvement

Looking Ahead

As CMR continues to gain momentum, health insurers evaluating capital, growth, or liquidity solutions will face an increasingly dynamic and competitive marketplace. While opportunities are expanding, transaction structures, market conditions, regulatory expectations, and stakeholder perspectives are also continuing to evolve.

Organizations that pursue CMR should enter the process with realistic expectations regarding timing, complexity, transaction costs, and achievable outcomes. Early planning, thorough analysis, and engagement with experienced advisors can help improve decision-making and execution.

Lockton Re combines market access, transaction experience, and strategic advisory expertise to help clients identify, structure, and execute solutions that achieve their most important financial objectives.

If your organization is evaluating a CMR transaction, we would welcome the opportunity to discuss how Lockton Re can help.

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Patent Number: 11783427
Title: SYSTEMS AND METHOD FOR CUSTOM AND REAL-TIME VISUALIZATION, COMPARISON AND ANALYSIS OF INSURANCE AND REINSURANCE STRUCTURES
Product(s): Lockton Re SAGE™

Patent Number: 12020333
Title: SYSTEMS AND METHOD FOR CUSTOM AND REAL-TIME VISUALIZATION, COMPARISON AND ANALYSIS OF INSURANCE AND REINSURANCE STRUCTURES
Product(s): Lockton Re SAGE™

Patent Number: 12488398
Title: SYSTEMS AND METHOD FOR CUSTOM AND REAL-TIME VISUALIZATION, COMPARISON AND ANALYSIS OF INSURANCE AND REINSURANCE STRUCTURES
Product(s): Lockton Re SAGE™

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