


# The Challenges of Trapped Capital

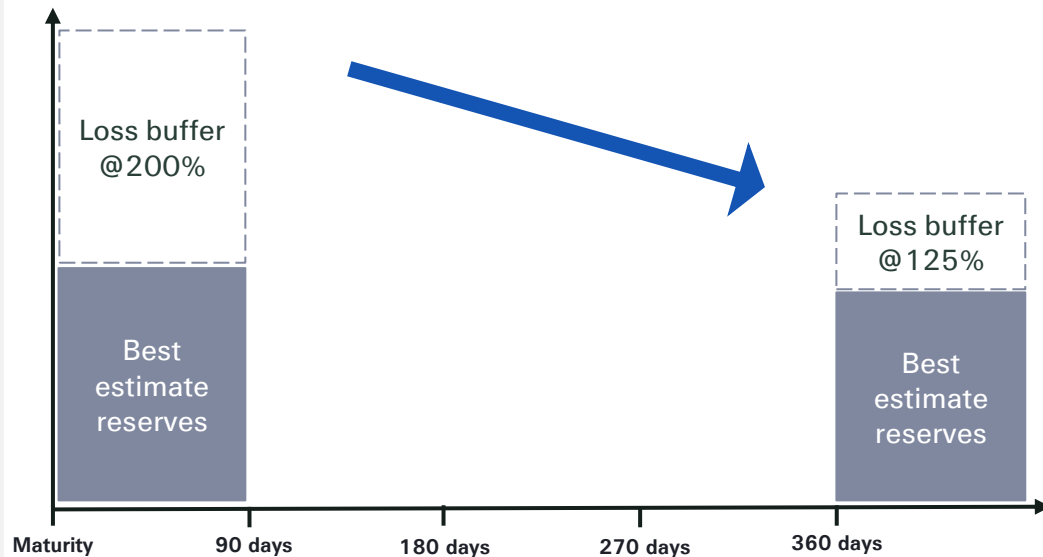
And how SRILIM succeeded in mitigating them

It's a matter of **when**,  
not if,  
a loss event will affect your portfolio

 How exposed are you to trapped capital?

# Trapped capital as consequence of loss buffers

## Illustration: Development of loss buffers over time



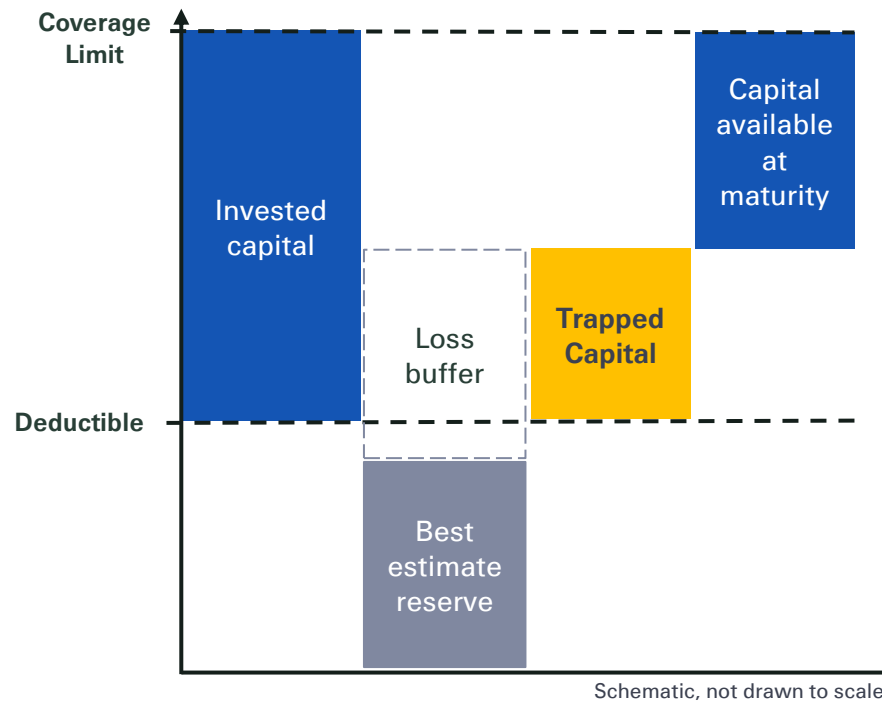
Loss buffers increase the best estimate reserves significantly

## What leads to trapped capital?

- After large loss events, uncertainty around the accuracy of loss estimates prevails.
- Loss buffers, applied to the best estimate reserves, reflect this uncertainty.
- To ensure protection against adverse loss developments, cedents will retain investor funds amounting to the loss buffers as trapped capital.
- **Loss buffers decrease over time as reserves become more certain. They also tend to be higher, the closer the event date is to maturity.**

# Trapped capital and its implications for investors

## Reduction of available capital through loss buffering



Significant amounts of capital can become unavailable for reinvestment

## What is the impact of trapping capital?

- When parts of the invested capital are trapped at maturity, they cannot be reinvested as planned.
- Trapped capital dilutes investment returns.
- The release timing of trapped capital is independent of renewal dates, i.e. the opportunity to deploy the funds.
- **Trapped capital has a negative effect on the IRR.<sup>1</sup>**

<sup>1</sup> Internal Rate of Return

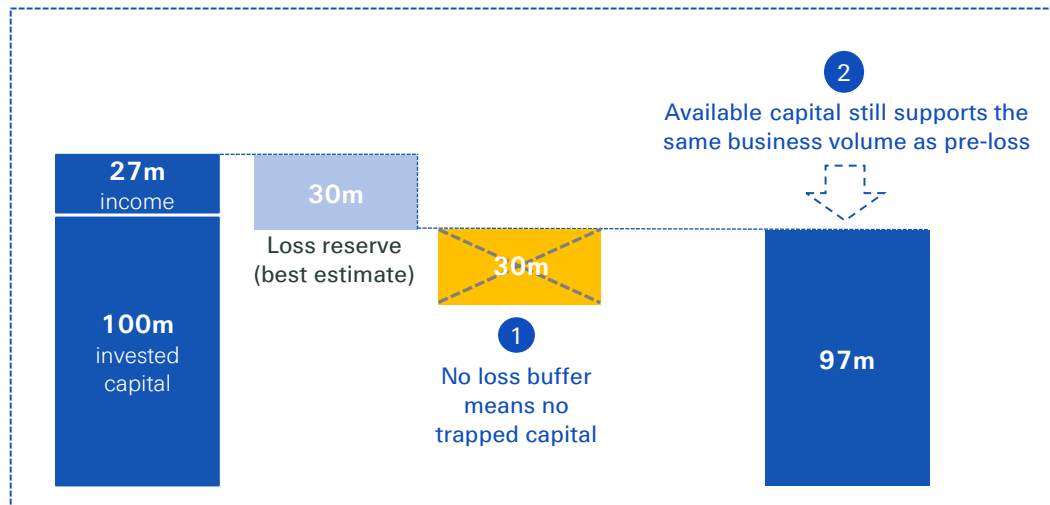
## Mitigation of trapped capital through choice of business model

Traditional  
reinsurance  
model

Strategic  
reinsurance  
partnership

Fronting  
arrangement

# Overcoming structural inefficiencies of trapped capital in a partnership



**1 No trapped capital**

- No loss buffering is required on loss reserves due to the open-ended fund structure. Potential reserve developments are absorbed without setting aside additional capital.

**2 No reduction in exposure post loss**

- Participation in the same business volume.

## Advantages from a strategic partnership with a reinsurer:

- No loss buffers due to open-end relationship, despite partial collateralization.
- Low costs on fund level and for underlying risk transfer.
- **Efficient capital structure for the benefit of investors.**

The background features a gradient of blue tones, from a deep navy blue at the bottom to a lighter, sky blue at the top. Two large, overlapping, glossy spheres are prominent. The sphere on the left is a vibrant, saturated blue and is partially cut off by the edge of the frame. The sphere on the right is a slightly darker, more muted blue and is also partially cut off. Both spheres have a smooth, reflective surface that catches the light, creating bright highlights and soft shadows. The overall composition is clean and modern, with a focus on geometric shapes and color gradients.

To what extent are you affected  
by trapped capital?



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