



Insurance Resolutions, Inc.

Re-Insight

Ceded reinsurance process leakage & controls assessment
US Property/Casualty Industry

Re-Insight Presentation Outline

- IRI Background
- The Ceded Reinsurance Process
- Our Value Proposition
- Our Methodology
- Our Track Record
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Insurance Resolutions, Inc.

Insurance Resolutions, Inc. (IRI), established in 2001, is an independent consulting organization providing specialized services exclusively to the insurance industry. IRI, along with its strategic alliance partners, provides a range of technical insurance and reinsurance services, including:

- Audit and Inspection
- Ceded Reinsurance Process Leakage Study (Re-Insight)
- Reinsurance System Implementation and Migration Consulting
- Forensic Accounting Investigation
- Actuarial Consulting
- Finance, Accounting, and Business Process (including internal control) Consulting
- Staff Augmentation

Our Vision - We strive to be distinctive among our competitors for:

- the strength of our insurance and reinsurance business expertise,
- our ability to leverage information technology to perform our work, and
- the audit discipline to ensure that our findings withstand challenge.

For further information see our website at www.ins-resolutions.com

The ceded reinsurance process in the US property/casualty Industry

Recently, insurers collectively spend an average of \$60-\$70 billion* every year on reinsurance contracts. Almost every company (no matter the size) will be a regular buyer of reinsurance, and...

Insurers collectively hold (recognized only) reinsurance assets of more than \$130 billion* on their balance sheets arising from reinsurance contracts purchased over preceding decades. This is one of largest assets held by insurers.

*Source: SNL Financial - note: unaffiliated only

However there is considerable risk present in the ceded reinsurance process

Insurers face the following challenges in ensuring the accuracy, completeness, and contract compliance of ceded premiums and losses:

- The process depends on the flawless operation of extensive cross departmental communication (underwriting, finance, claims)
- There can be an extended time span between the reinsurance purchase and recovery.
- The process can be compromised by organizational changes over time (mergers/acquisitions, changes in management, staff, systems, etc.)
- Non-standard and complex contract terms are not uncommon
- Many companies have difficulties in implementing information systems (if any) to handle the process
- Smaller companies may not have access to staff with sufficient experience and technical expertise in reinsurance

Process risk generates ceded reinsurance leakage

- We define “ceded reinsurance leakage” as any error or omission in the financial recognition of ceded premiums and losses based on the applicable reinsurance contract terms and conditions
- Given the high dollar value of transactions passing through the reinsurance process and the process risks described above, reinsurance process leakage is virtually unavoidable, will be present in most companies, and will usually be undetected.
- Furthermore, the ability of companies to identify and recapture the leakage will gradually slip away over time.

Types of Leakage we find

- Reinsurance rating basis overstatements due to process weakness in handling exclusions, inuring, definition of subject business, package policy extraction factors, and even clerical errors which can lead to undetected overpayment of reinsurance premium
- Reinsurance adjustable premium true-ups (profit sharing, etc.) are overlooked or incorrectly calculated resulting in overpayment of reinsurance premium
- Claims - loss of complete direct claim financials due to claim system migrations, incomplete interfacing to reinsurance process of multiple claim systems , and fragmented claim processes (for example: separation of ECO/XPL payments)
- Claims – aggregation issues – one of more claims and/or policies involved in one occurrence are not capable of being associated for reinsurance purposes
- Claims – incorrect interpretation or application of reinsurance contract terms (dates, limits, treatment of LAE, etc.)

The Re-Insight Value Proposition

Discover and realize **unrecognized** reinsurance recoverable assets caused by ceded reinsurance process leakage

- **Track Record:** we have discovered a total of \$6.8 million across 6 clients to date

Increase earnings, surplus, and/or cash flow

- **Track Record:** our findings have created \$6.1 million in earnings/surplus/cash flow for our clients (net of our fees)

Identify control issues and opportunities for operational improvements

- **Track Record:** our findings exposed control issues that were addressed, preventing further recurring leakage

All of which results in a “Win-Win” scenario for our clients and our firm

Re-Insight Methodology

- IRI methodology emphasizes conducting all of our work in order to be as unobtrusive to our clients normal operations as possible.
- Most of our analysis is conducted by gaining authorized access to your records
- When more client involvement is required we will carefully weigh the expected benefits before approaching for assistance.

In keeping with this over-arching philosophy we conduct our work in 3 phases:

- Feasibility & Discovery
- Validation & Recovery
- Improvement

Each of these phases is further described in the following slides

Re-Insight Methodology

PHASE 1.1: FEASIBILITY

This phase is conducted primarily through interviews and includes a brief evaluation of the format(s) and contents of clients policy, premium, claims, and related reinsurance records, together with a consideration of the structure and basic components of the clients reinsurance program over time.

- If we conclude that the records cannot be cost-effectively leveraged to perform further assessment or that the clients process risk is exceptionally low we will conclude the engagement at this point with no cost to the client. Both our interests and the clients are well aligned in this respect.
- Otherwise, this phase also includes a preliminary identification of key reinsurance contract/terms based on our evaluation of process risk based on the size of premium and/or claims activity, complexity of contract terms, and/or other attributes based on our experience with other clients.
- It is important to note that our methodology will not review all ceded contract/terms supporting the company's recorded reinsurance assets and liabilities. We will likely evaluate process risk associated with certain contracts as being too low to justify further analysis

Re-Insight Methodology

PHASE 1.2: DISCOVERY

- Gain a very basic understanding of the clients current process flows for recognizing reinsurance premium and claims cessions within its financial statements.
- Establish a cutoff date for our assessment and extract details supporting the clients recognized inception-to-date reinsurance cessions (premiums ceded and paid and incurred Loss and LAE) by reinsurance contract/term/claim at the cutoff date for the preliminary identified key contract/terms.
- Our findings will be measured against this cutoff date “baseline”.
- Obtain authorized access to the clients reinsurance contract documentation for the key contract/terms identified in the Feasibility Phase.
- Analyze contract documentation in order to form an independent view of the applicable contract mechanics for both premiums and claims.

Re-Insight Methodology

PHASE 2.1: VALIDATION

For the key contract/terms identified in Phase 1, we will..

- Independently re-calculate reinsurance cessions based on our reading of the relevant contracts and our application of the reinsurance terms and conditions to the clients underlying policy, premium, and claims records through the cutoff date.
- The resulting re-calculated cession detail is compared to the clients “baseline” cessions and “gaps” between the two are revealed.
- The “gaps” which indicate the possibility of unrecognized reinsurance assets are further reviewed to validate each of the findings.

This phase is typically conducted via two separate tracks:

- A Premium track which generally does not require direct data extracts
- A Claims track which requires direct data extracts (basic but customized claim attribute information and claims financial information at the cutoff date)

Re-Insight Methodology

PHASE 2.2: RECOVERY

For each validated “gap”

- we consult with the clients staff to determine the approach needed to present our findings to the reinsurance market(s) in order to realize the identified reinsurance asset.
- The findings are submitted to the reinsurance market(s) and the related collections are processed.

Re-Insight Methodology

PHASE 3: PROCESS IMPROVEMENT

We can assist in determining root causes for the validated “gaps” and in designing process and control modifications in order to address the weaknesses revealed going forward. Only as and if requested by the client.

Re-Insight Track Record

Engagement Economics collectively (6 clients)

Assets Discovered: \$6.8 Million

Earnings/Surplus/Cash Flow gain (net of fees): \$6.1 Million

		Fees				Earnings, Surplus, Cash Flow Gain	
Surplus Size of client	Assets Discovered	"as if" Full Contingency	Agreed	Hours	Cost	"as if" Full Contingency	Agreed
\$2 Billion	1,998,288	499,652	212,685	500	75,000	1,498,636	1,785,603
\$2 Billion	3,289,672	822,418	294,422	800	120,000	2,467,254	2,995,250
\$250 Million	1,155,444	346,630	86,000	100	15,000	808,814	1,069,444
\$1 Billion	182,027	45,505	45,505	50	7,500	136,522	136,522
\$100 Million	-	-	-	30	4,500	-	-
\$250 Million	200,000	50,000	50,000	50	7,500	150,000	150,000
	6,825,431	1,764,205	688,612	1,530	229,500	5,061,226	6,136,819
Average	1,137,572	294,034	114,769	255	38,250	843,538	1,022,803

Re-Insight Fee Arrangements

Pure Contingency

- fees are payable to IRI only as findings are realized in cash based on a fixed percentage (usually 25%) of the recoveries. No fees are otherwise payable to IRI.

Hybrid Contingency

- fees (based on utilization) are payable to IRI regardless of findings based on a very low set of base rates (25 – 50% of standard). Additional fees (based on utilization) are payable to the extent that findings are realized which fund them but are subject to maximums based on a very high set of rates (300 – 500% of standard)

Hourly

- fees are payable to IRI based on agreed hourly rates.

Marketing Channels

- **Self promotion (internally generated by IRI)**
- **Alliance/Working partners**
- **Introduction/Non-working partners**

Questions and Next Steps