

Understanding Facultative Reinsurance

Thursday, March 2, 9:50 a.m.

Vince Friscia
Senior Vice President
Berkley Re Direct
Stamford, Conn.

Vince Friscia is a senior vice president for Berkley Re Direct and leads the company's casualty facultative operation. Vince's experience spans more than 30 years and includes various management positions at Swiss Re and Fireman's Fund. He earned his undergraduate degree in economics from Iona College and an MBA from Golden Gate University.

Kelli Kukulka, CPCU, ARe, AFIS
Senior Vice President – U.S.
Renaissance Reinsurance U.S., Inc.
Schaumburg, Ill.

Kelli Kukulka joined Renaissance Reinsurance U.S., Inc. in 2015 as senior vice president. She is responsible for writing regional and multiline reinsurance.

Prior to this, Kelli spent three years as a senior treaty underwriter with SCOR Reinsurance Company, specializing in regional property/casualty and agricultural risks. Before that, she worked at Munich Re for 17 years, where she was responsible for treaty and individual risk facultative underwriting for agriculture specialty risks. Kelli began her insurance career in The Hartford's livestock department.

Kelli has earned the Chartered Property Casualty Underwriter, Associate in Reinsurance, and Agribusiness and Farm Insurance Specialist designations. She is the past president of the Chicago chapter of the CPCU Society. She maintains memberships in the CPCU Society and the National Association of Insurance Women. She holds a bachelor's degree in agriculture from the University of Illinois.

Session Description:

This session will feature two speakers with two different perspectives: casualty and property facultative reinsurance. These two perspectives will shed light on why underwriters buy fac and give examples of losses and scenarios to support these explanations. Many people think they know why fac is purchased, but there is more to it than meets the eye. Attend this session to dig deeper into facultative reinsurance.

Understanding Facultative Reinsurance

Session Outline

Property Reinsurance

Definition of Reinsurance

Main Functions of Reinsurance

Functions Unique to Fac

Characteristics of Fac Placement

Fac Placement Process

Property Risk Information

Pricing Using Property Loss Curves

Sample Risks

Casualty Reinsurance

Summary of Operations

Loss Summary

Additional Information

Current Casualty Fac Market

Automobile Liability

Workers Compensation

Umbrella/Follow Form Excess

Carve-out Placements

Online Platforms

Auto Fac Placement Example

GI Placement

Q & A

Understanding Facultative Reinsurance

Kelli Kukulka & Vince Friscia



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JUST THE FACTS About Property Reinsurance

Kelli Kukulka



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Definition of Reinsurance

Reinsurance is the **transfer of insurance risk** from one insurer to another through a **contractual agreement** under which one insurer (**the reinsurer**) agrees, in return for a **reinsurance premium**, to **indemnify** the other insurer (the **primary insurer** or **ceding company**) for some or all of the financial consequences of certain **loss exposures** covered by the primary insurer's **policies**.



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Main Functions of Reinsurance

- Increase underwriting capacity
- Provide catastrophe protection
- Stabilize loss experience
- Increase insurers' solvency thru surplus relief
- Manage financial ratio's



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Functions Unique to Fac

- Protect the company net or the treaty
- Reinsure unique risks
- Reinsure risks excluded by a treaty
- Underwriting assistance



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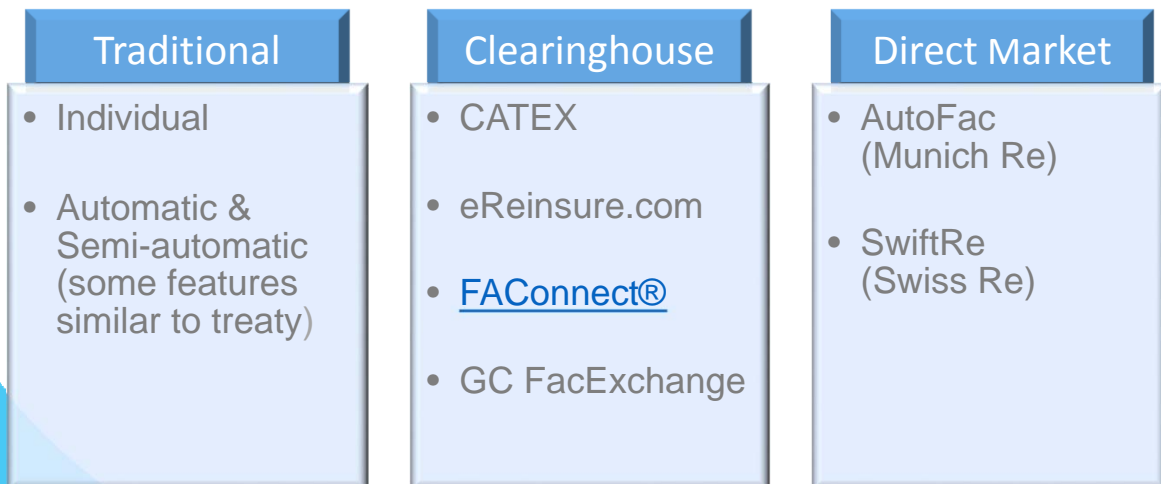
Characteristics of Fac Placements

- No obligation to purchase reinsurance or to reinsure
- Detailed risk information required by reinsurer
- Small premium volume
- Customized underwriting for each individual risk
- Labor intensive – individual uw, admin, & claims
- Facultative certificate is the contract defining the terms - Separate agreement for each risk

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Fac Placement Process



Types

Non-proportional
(Excess of Loss)

Proportional

SS

QS



Property Risk Information

- Construction
- Occupancy
- Protection
- Exposure

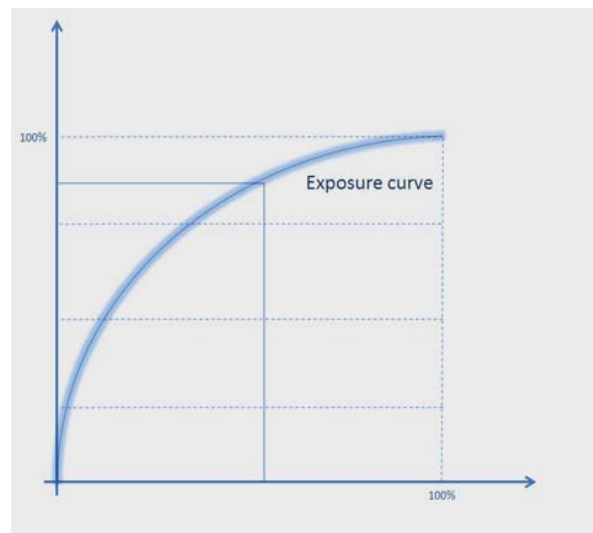


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Pricing Using Property Loss Curves

- Lloyds
- Reinsurer curves (Munich Re, Swiss Re, etc.)
- ISO's PSOLD



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Sample Risk #1

Midpoint Office Tower

TIV: \$100,000,000 single location

123 Midway Blvd

Noncat, MN

PML = \$20,000,000

Ground-up Premium: \$100,000

1987 Fire resistive, fully sprinklered, 25 story high-rise office bldg., ordinary office tenancy

Building: \$75,000,000

Layer 1: \$23,818

Rents: \$25,000,000

Layer 2: \$17,300

TIV \$100,000,000

Ret 82.7%*71.2% Cede 82.7%*28.8%

Ret 82.7% Cede 17.3%

Layer 1: \$25,000,000 xs \$25,000,000

Layer 2: \$50,000,000 xs \$50,000,000



Sample Risk #2

OK Metalworking

TIV: \$20,000,000 with 3 locations

Mountainview Ave. Location 2: TIV \$4,000,000

Misty, TN Location 3: TIV \$4,000,000

Ground-up premium: \$40,000

Key – TIV: \$12,000,000

PML = 100%

2005 Non-combustible, Non-sprinklered, heavy metalworking

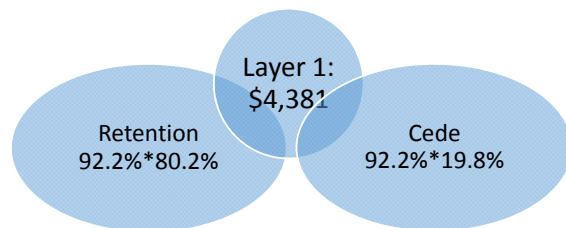
Building: \$4,000,000

Machinery & Equipment: \$6,000,000

BPP & Stock: \$2,000,000

\$12,000,000

Layer \$5,000,000 xs \$5,000,000



Sample Risk #3

SeedVenture, LLC

TIV: \$50,000,000

9999 Airport Road, Princeton, IN

Ground-up Premium: \$150,000 Key loc: \$50,000,000

1995 mixed construction, seed processing, cleaning & bagging, and warehouse

Building: \$5,000,000

BPP & Equipment: \$5,000,000

Stock: \$5,000,000

Peak Season: (12/1-3/1) \$30,000,000

BI: Actual Loss Sustained

TIV \$45,000,000

Layer 1: \$25,950

Ret 82.7% Cede 17.3%



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Sample Risk #4

'Henrietta'

1234 Sandy Lane, Sumner, IL

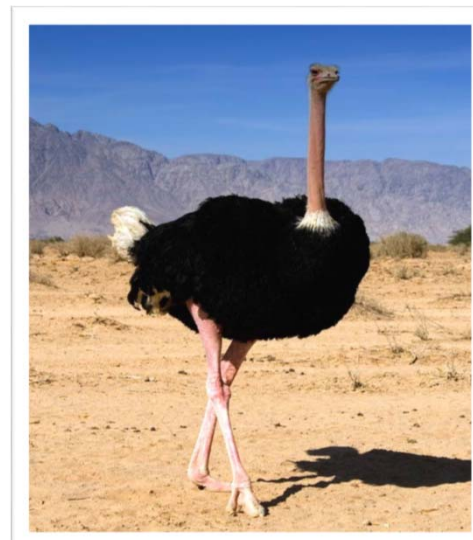
3-year old female ostrich

Purchase price \$25,000

Ground-up premium: \$3,000

Layer: \$20,000 xs \$5,000

Layer 1: \$2,400



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Casualty Reinsurance

Vince Friscia



Casualty Risk Information

- Summary of Operations
 - Locations, operations by named insured
 - Fuller explanation of unique exposures
 - Larger accounts - Historical exposures
 - Any loss control info
- Loss Summary
 - Aggregate losses by year
 - Large losses broken out with description



Casualty Risk Information



- **Additional Information**
 - Client's Rating worksheet
 - Terms and Conditions
 - Excess placements
 - U/L company information and premium
 - Layered placement – pricing of the entire placement
 - Target Pricing



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Current Casualty Fac Market

- **Automobile Liability**
 - Heavier units and larger fleets
 - Primary Buffer Layers - \$500K x \$500K & \$1M x \$1M
 - Umbrella/Follow Form Excess - typically, the lead \$1M
 - Carve-out of specific classes
- **Workers Compensation**
 - Larger risks, typically construction
 - \$500K x \$500K, \$1M x \$1M, and \$3M x \$2M
- **Umbrella/Follow Form Excess**
 - Capacity Excess of \$10M or \$15M



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Current Casualty Fac Market

- Carve-out Placements
 - Specific auto units
 - Specific coverages - Products only, Liquor Liability...
- On-line Platforms
 - Click/Quote/Bind
 - Reduces the transaction friction
 - Need to monitor the pricing on mid-size to larger placements



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Auto Fac Placement #1

- Mfg of fire fighting equipment - wrenches, strainers, valves
- \$18M in sales
- Fleet - 2 PPT, 2 LTS AND 1 MED



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Auto Fac Placement #2

- Trucking service hauling sand and gravel
- \$16m in sales
- Fleet – 3 ppt, 8 lt, 3 med, 9 hvy, 23 xhvy, 9 tt and 3 xhvy tt
- Radius local
- Need support in the lead \$5m



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Auto Fac Placement #2

- 2 notable Primary losses - \$1M open and \$148K closed
- \$5m glp = \$87,000 adequate?
- No
- \$1M x \$1M reference layer pricing = \$385 net per unit



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GI Placement

- “Dist” wide assortment of “as seen on TV” items made in China \$159m in sales
- Sporting goods to vegi scrubbers
- Support needed \$1M x\$1M x \$50K SIR
- 2limits losses in the experience period + other sizable losses



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GI Placement

- Rated the Prem/ops as Dist
- Looked at a blended rate of 6 Mfg codes
- Loss rating
- Our final net price was \$142,000 (\$.89 Per \$1,000)
- Clients Target \$50,000 Net (\$.31 per \$1,000)



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REVISED LLOYD'S 1ST LOSS AND XS OF LOSS SCALE

<u>A</u>	<u>B</u>	<u>C</u>	<u>A</u>	<u>B</u>	<u>C</u>
1.00	22.4	77.6	10.00	54.0	46.0
1.10	22.9	77.1	11.00	55.1	44.9
1.20	23.5	76.5	12.00	56.3	43.7
1.30	24.1	75.9	13.00	57.4	42.6
1.40	24.7	75.3	14.00	58.6	41.4
1.50	25.2	74.8	15.00	59.7	40.3
1.60	25.8	74.2	16.00	60.9	39.1
1.70	26.4	73.6	17.00	62.0	38.0
1.80	27.0	73.0	18.00	63.2	36.8
1.90	27.5	72.5	19.00	64.3	35.7
2.00	28.1	71.9	20.00	65.5	34.5
2.10	28.4	71.6	21.00	66.6	33.4
2.20	28.7	71.3	22.00	67.8	32.2
2.30	29.0	71.0	23.00	68.9	31.1
2.40	29.3	70.7	24.00	70.1	29.9
2.50	29.6	70.4	25.00	71.2	28.8
2.60	29.8	70.2	26.00	72.0	28.0
2.70	30.1	69.9	27.00	72.7	27.3
2.80	30.4	69.6	28.00	73.4	26.6
2.90	30.7	69.3	29.00	74.1	25.9
3.00	31.0	69.0	30.00	74.8	25.2
3.10	31.6	68.4	31.00	75.6	24.4
3.20	32.1	67.9	32.00	76.3	23.7
3.30	32.7	67.3	33 1/3	77.0	23.0
3.40	33.3	66.7	34	77.3	22.7
3.50	33.9	66.1	35	77.6	22.4
3.60	34.4	65.6	36	78.0	22.0
3.70	35.0	65.0	37	78.4	21.6
3.80	35.6	64.4	38	78.8	21.2
3.90	36.2	63.8	39	79.2	20.8
4.00	36.7	63.3	40	79.5	20.5
4.10	37.3	62.7	41	79.9	20.1
4.20	37.9	62.1	42	80.2	19.8
4.30	38.5	61.5	43	80.4	19.6
4.40	39.0	61.0	44	80.8	19.2
4.50	39.6	60.4	45	81.1	18.9
4.60	40.2	59.8	46	81.5	18.5
4.70	40.8	59.2	47	81.8	18.2
4.80	41.3	58.7	48	82.1	17.9
4.90	41.9	58.1	49	82.4	17.6
5.00	42.5	57.5	50	82.7	17.3
6.00	44.8	55.2	51	83.0	17.0
7.00	47.1	52.9	52	83.2	16.8
7.50	48.2	51.8	53	83.4	16.6
8.00	49.4	50.6	54	83.7	16.3
9.00	51.7	48.3	55	83.9	16.1

INSTRUCTIONS FOR USE:

1. First determine % that underlying layer bears to total value.
2. Find this % in Column A.
3. The corresponding figure shown in Column B represents that portion of the gross premium applicable to the underlying layer.
4. The corresponding figure shown in Column C represents that portion of the gross premium applicable to the excess layer(s).

NOTE: If the line A splits into several layers interpretation might be required.

<u>A</u>	<u>B</u>	<u>C</u>
56	84.1	15.9
57	84.4	15.6
58	84.6	15.4
59	84.8	15.2
60	85.0	15.0
61	85.3	14.7
62	85.5	14.5
63	85.7	14.3
64	86.0	14.0
65	86.2	13.8
66	86.4	13.6
67	86.7	13.3
68	86.9	13.1
69	87.1	12.9
70	87.3	12.7
71	87.6	12.4
72	87.8	12.2
73	88.0	12.0
74	88.3	11.7
75	88.5	11.5
76	89.0	11.0
77	89.4	10.6
78	89.9	10.1
79	90.3	9.7
80	90.8	9.2
81	91.3	8.7
82	91.7	8.3
83	92.2	7.8
84	92.6	7.4
85	93.1	6.9
86	93.6	6.4
87	94.0	6.0
88	94.5	5.5
89	94.9	5.1
90	95.4	4.6
91	95.9	4.1
92	96.3	3.7
93	96.8	3.2
94	97.2	2.8
95	97.7	2.3
96	98.2	1.8
97	98.6	1.4
98	99.1	.9
99	99.5	.5
100	100.0	.0