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
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.

Main Functions of Reinsurance

- Increase underwriting capacity
- Provide catastrophe protection
- Stabilize loss experience
- Increase insurers’ solvency thru surplus relief
- Manage financial ratio’s
Functions Unique to Fac

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

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
Fac Placement Process

**Traditional**
- Individual
- Automatic & Semi-automatic (some features similar to treaty)

**Clearinghouse**
- CATEX
- eReinsure.com
- FACConnect®
- GC FacExchange

**Direct Market**
- AutoFac (Munich Re)
- SwiftRe (Swiss Re)

Types

- Non-proportional (Excess of Loss)
- Proportional
  - SS
  - QS
Property Risk Information

- Construction
- Occupancy
- Protection
- Exposure

Pricing Using Property Loss Curves

- Lloyds
- Reinsurer curves (Munich Re, Swiss Re, etc.)
- ISO’s PSOLD
Sample Risk #1

Midpoint Office Tower
TIV: $100,000,000 single location
123 Midway Blvd
Noncat, MN
Ground-up Premium: $100,000
1987 Fire resistive, fully sprinklered, 25 story high-rise office bldg., ordinary office tenancy
Building: $75,000,000
Rents: $25,000,000
TIV $100,000,000
Layer 1: $25,000,000 xs $25,000,000
Layer 2: $50,000,000 xs $50,000,000
Ret 82.7% Cede 17.3%
Ret 82.7%*71.2% Cede 82.7%*28.8%
PML = $20,000,000

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
Layer 1: $4,381
Retention 92.2%*80.2%
Cede 92.2%*19.8%
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%

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
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

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
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

Auto Fac Placement #1

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

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
Gl 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

• Limits losses in the experience period + other sizable losses

Gl 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)
### REVISED LLOYD'S 1ST LOSS AND XS OF LOSS SCALE

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**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.