

CLRS – Asbestos Risk Transfer Presentation (Concurrent Session LOB-6)





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Section 1 – Why Consider Risk Transfer?



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Why Consider Risk Transfer?



- » Core business vs. run-off
- » Capital allocation
- » Future business transactions / combinations
- » Management support / focus
- » If you're going to do something do it as best as possible:
 - › mediocrity (or less) will yield mediocre (or worse) results

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Why Consider Risk Transfer?



In what to invest?

- › People - - with proper skills, experience, incentives; also need appropriate resource levels
- › Process - - controlled, timely and efficient to span all counterparties with necessary systems, infrastructure, etc.
- › Data - - comprehensive and with sufficient detail to effectively manage the run-off book

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Why Consider Risk Transfer?



To be or not to be...

- › If you make the appropriate investment why not consider leveraging it by taking on additional asbestos or other mass tort exposures (turn it into a growth opportunity)?
- › If you don't grow it will you maximize your return on investment?

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Why Consider Risk Transfer?

To be or *not to be*...

- › If you don't want to make the investment - - you may instead prefer to seek alternatives for risk transfer
- › Often internal issues impede an insurer from objectively evaluating issues and alternatives

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Section 2 – Considering A Counterparty



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Considering A Counterparty

- » If risk transfer is choice, what issues might a risk owner consider?
 - › What do I want in a counterparty:
 - Size
 - Financial rating
 - Flexibility / tailored solution
 - Security of reserves / reserves held in trust

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Considering A Counterparty



- » If risk transfer is choice, what issues might a risk owner consider?
 - › What do I want in a counterparty:
 - Confidentiality
 - Understanding of outcome on prior transactions
 - Short-term – first 1 to 3 years
 - Long-term – 10+ years
 - Seller perspective
 - Buyer perspective

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Considering A Counterparty



- » If risk transfer is choice, what issues might a risk owner consider?
 - › Am I seeking a defined financial limit of protection?
 - In relation to current reserves?
 - Am I willing to pay a premium over current reserves?
 - If so, how much?
 - › Am I seeking cover for a defined period of time?
 - How long?

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Considering A Counterparty



- » If risk transfer is choice, what issues might a risk owner consider?
 - › Am I willing to cede control of claims / litigation?
 - › Consideration of existing staff?
 - Opportunity to continue in same capacity on current book(s)
 - Opportunity to assist on other books
 - Other opportunities (e.g., evaluate prospective transactions)
 - › Other considerations?

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Considering A Counterparty



- » If risk transfer is choice, what issues might a risk owner consider?
- » How will a counterparty address my risk transfer objectives?
 - › Financial rating / other guarantees or indemnifications
 - › Contractual terms for:
 - Security of reserves
 - Claims management
 - Staff disposition / levels
 - Other

Section 3 – Counterparty View of Your Book – General



Counterparty View of Your Book – General



- » What are the characteristics of the book?
 - › Insured profile (e.g., middle markets vs. Fortune 500)
 - › Are inward exposures primarily direct or assumed?
 - › Are direct exposures mainly primary or excess?
 - › How much inward exposure is ceded vs. retained?
 - › What is profile of reinsurers? Relationship with reinsurers?

Counterparty View of Your Book – General



- » What are current reserving levels?
- » What recent / historic reserving movements have been made?
- » How will those be viewed by prospective acquirers?
- » How organized are my operations? (i.e., inward claims, ceded reinsurance, etc.)
- » How cost efficient is my operation?

Section 4 – Counterparty View of Your Book – Inward Claims



Counterparty View of Your Book – Inward Claims



- » **Inward claims issues**
 - › **Data**
 - Underwriting the data - - is it an asset or a liability?
 - Does it produce superior intelligence on exposures?
 - Does it assist in enhancing decision-making process?
 - Does it enable superior analyses on exposures?



» *Inward claims issues (continued)*

› *Data (continued)*

- Is it sufficiently detailed?
 - Policy database
 - Does it contain analyzable data on all policies for accounts with open / noticed claims (dates, limits, attachments, co-insurance, defense provisions, exclusions, etc.)?
 - Does it contain current aggregate limit exhaustion?
 - Is aggregate limit exhaustion supported by transaction level detail?
 - At what point in the claim (or account) lifecycle is this information gathered?
 - Do we have hard/digital copy of original policy records?





» *Inward claims issues (continued)*

› *Data (continued)*

- Is it sufficiently detailed (continued)?
 - Claim database
 - Does it contain analyzable data on all claims for all accounts with open / noticed claims (unique identifiers, exposure details, disease details, settlement details, etc.)?
 - Does it contain exposure details sufficient to identify products / non-products status?
 - At what point in the claim lifecycle is this information gathered? Is it early enough to facilitate appropriate initial case assessment, opportunities for early dismissal, etc.?
 - Do we have hard copy of underlying claim details?





» *Inward claims issues (continued)*

› *Data (continued)*

- Where is the data collected?
- How is it collected (how accurate, how costly, etc.)?
- How tightly is the data integrated into a systems platform?
 - Is the systems platform a third party, commercial grade system?
 - Designed specifically to meet the needs of asbestos or other mass tort claims from a data gathering, data refinement, analysis, allocation, etc. standpoint?
 - Who supports the system platform?
 - At what cost?
 - With what risks (e.g., obsolescence, supportability, etc.)?





» *Inward claims issues (continued)*

› *Process*

- Underwriting the process - is it an asset or a liability
- Are the processes standardized for all claims on all accounts?
 - How are they scripted / controlled?
 - Systematically, by management, by account handlers, etc.?
- How efficient is the process?
 - Does it require labor intensive efforts?
 - If so, at which stage(s)?





» *Inward claims issues (continued)*

› *Resources*

- Underwriting the resources - are they an asset or a liability?
- Level of resources
- Skills / experiences
- Internal resources
- External resources
 - Subcontractors
 - External vendors





» *Inward claims issues (continued)*

› *Effectiveness*

- Book strategy
- Account by account evaluation
- Defense costs
- Claim strategy / outcome
- Previously agreed settlements
- Ongoing CIPs – what portion of total exposure, what costs to run, etc.?



Section 5 –
Counterparty View of Your Book –
Ceded Reinsurance



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Counterparty View of Your Book – Ceded Reinsurance



» *Ceded reinsurance issues (many in common with inward claims)*

› *Data*

- Does sufficiently detailed data exist to support robust / persuasive ceded presentations?

› *Process*

- How timely is the process from the point of payment of inward claim:
 - To billing of ceded claim?
 - To collection of ceded claim?
- How labor intensive is the process?

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Counterparty View of Your Book – Ceded Reinsurance



» *Ceded reinsurance issues (continued)*

› *Resources*

- What team member(s) perform this process?
 - Do they present risks?
 - Or opportunities (e.g., do they have capacity to take on additional workload through consolidation of other ceded reinsurance books?)?
- Are there external parties involved?
 - If so, when?
 - What are the costs?

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» *Ceded reinsurance issues (continued)*

- › *Effectiveness*
 - Book strategy
 - Account by account evaluation (are some counterparties more problematic than others?)
 - Are there disputes - - Ongoing? Anticipated?
 - What operational costs are incurred to provide this function?
 - Discounts? If so under what circumstances and on what basis?
 - Other aspects of ceded reinsurance operational effectiveness?





- › Mr. Petersen is a Managing Director in the Chicago office of PACE Claims Services, a subsidiary of Navigant. PACE specializes in mass tort claims administration and related services and has been at the forefront of asbestos services to insureds, insurers and other interested parties for more than 25 years. PACE administers essentially every asbestos claim filed in every jurisdiction.
- › Since joining the Firm in 1990, Mr. Petersen's practice has spanned insurance / reinsurance, risk mitigation / risk transfer, litigation, operations, outsourcing, information technology, business intelligence, management consulting, and information management / analysis matters with a particular emphasis on mass tort claims.
- › Mr. Petersen has assisted clients in the development, evaluation and execution of risk transfer strategies and has also provided operational services to clients in advance of contemplated risk transfers (to enable / enhance risk transfer), as well as after risk transfers (to optimize integration). He has also assisted in pre-transaction due diligence on behalf of risk aggregators.
- › Mr. Petersen is regularly retained to assist clients in developing data and performing analysis to provide intelligence on mass tort exposures, in particular asbestos, to enhance clients' decision-making processes. These services often encompass development of client internal data sets and leverage PACE's industry-leading proprietary data sets.
- › Mr. Petersen received a BBA in Finance and minor in Communications with Honors and Distinction from Iowa State University.

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