



Yes, there is life after runoff!

Joanne Spalla, FCAS, MAAA
CAS Seminar on Reinsurance
June 6, 2013
Southampton, Bermuda

1



Agenda

- Regulatory Considerations
- Operational Issues
- Impact on Reserving
- Divestiture Process


2



Regulatory

- Memorandum of Understanding
- Runoff Business Plan
- Ongoing Monitoring

3



CT Department of Insurance Memorandum of Understanding

- Quarterly Conference Calls with Senior Management
- Prior Written Approval for Commutations with Negative Surplus Impact
- Monthly Report on Commutation Activity
- Quarterly Reserve Monitoring Report
- Annual Reserve Payout Schedule

4

CT Department of Insurance Reserve Monitoring Exhibit

Line:	Umbrella						
	9/30/2007	As of 12/31/2004			As of 9/30/2007		
UW	Earned	Apriori	Indicated	Booked	Indicated	Booked	
Year	Premium	ELR	ULR	ULR	ULR	ULR	ULR
1993	23,833,364	66.3%	55.5%	57.1%	104.6%	114.5%	
1994	25,376,792	73.4%	54.2%	59.6%	53.5%	57.0%	
1995	44,898,995	69.9%	55.7%	66.4%	46.9%	52.2%	
1996	39,518,611	78.6%	87.3%	105.0%	92.6%	105.4%	
1997	14,656,726	92.4%	128.9%	148.7%	63.1%	67.4%	
1998	15,639,446	150.0%	144.4%	157.3%	145.0%	168.4%	
1999	18,272,213	145.0%	181.4%	207.4%	126.9%	139.7%	
2000	15,072,738	124.3%	95.8%	110.6%	54.1%	68.0%	
2001	8,609,431	112.0%	106.9%	104.0%	78.9%	103.9%	
2002	-	59.7%	60.9%	59.7%	0.0%	0.0%	
2003	-	61.6%	61.6%	61.6%	0.0%	0.0%	
2004	<u>3,586,104</u>	<u>63.6%</u>	<u>63.6%</u>	<u>63.6%</u>	<u>65.6%</u>	<u>66.2%</u>	
Total	209,464,420	91.2%	89.3%	101.3%	80.5%	90.8%	

5

Regulatory Runoff Business Plan

- Company Background
- Governance
- Operations
- Financial Projections
- Assets
- Capital Adequacy

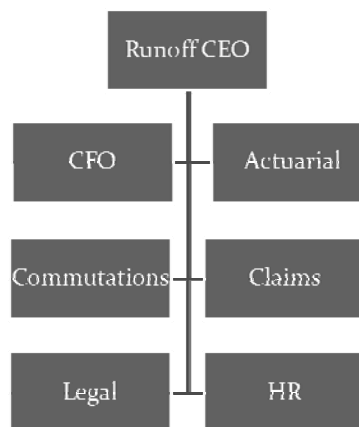
6

Runoff Business Plan Operations

- No New Business
- Special Termination Clauses
- Special Funding Clauses
- Staffing
- Commutation Plan

7

Runoff Business Plan Staffing



8

Commutation Plan

- Prioritization of Targets
 - Large Reserve Balances
 - Class of Business
 - History of Adverse Development
 - Disputes
- Special Commutation Unit
- Audits

9

Reserving

- Impact of Commutations
- Workflow Issues
- ULAE

10

ULAE Analysis

	2013	2014	2015	2016	2017	2018	2019	2020
Runoff Staff	955,769	984,442	1,013,975	1,034,623	1,051,814	1,073,003	1,104,183	1,137,308
Allocations from Stamford	222,523	220,843	227,469	234,293	241,321	248,561	256,018	263,698
NICO Allocations from Home Office	45,156	46,511	47,906	49,343	50,824	52,348	53,919	55,536
Total Salaries	1,223,447	1,251,796	1,289,350	1,318,259	1,343,959	1,373,912	1,414,120	1,456,543
Total AIP, Stock Comp and Sign on	-	-	-	-	-	-	-	-
Total Other Employee Relations	-	-	-	-	-	-	-	-
Total Travel (mostly Friedman)	2,800	2,884	2,971	3,060	3,151	3,246	3,343	3,444
Total Training	1,500	1,545	1,591	1,639	1,688	1,739	1,791	1,845
Total Building	52,000	52,000	52,000	52,000	52,000	52,000	52,000	52,000
Total Telephone	6,000	6,180	6,365	6,556	6,753	6,956	7,164	7,379
Total Office Supplies	3,650	3,760	3,872	3,988	4,108	4,231	4,358	4,489
Total IT Costs (licenses, breakage costs, hosting, consulting)	139,780	143,973	148,293	152,741	157,324	162,043	166,905	171,912
Total Legal	35,000	36,050	37,132	38,245	50,000	51,500	53,045	54,636
Consulting	149,000	155,000	160,000	165,000	170,000	175,000	180,000	185,000
Data and File Storage	119,000	122,570	126,247	130,035	133,936	137,954	142,092	146,355
Total Audit and Outside Services	148,000	100,940	103,968	107,087	110,300	113,609	117,017	120,528
Total Bank Expenses	36,900	38,007	39,147	40,322	41,531	42,777	44,061	45,382
Total State, Local Taxes and Filing Fees	136,500	117,240	120,757	124,380	128,111	131,955	135,913	139,991
Total Other Misc. Expenses	-	-	-	-	-	-	-	-
Total Allocations Net	-	-	-	-	-	-	-	-
Investment Allocations	(25,000)	(25,750)	(26,523)	(27,318)	(28,138)	(28,982)	(29,851)	(30,747)
Total	2,028,577	1,926,195	1,980,170	2,025,995	2,079,724	2,127,940	2,186,958	2,248,757
Headcount								
Runoff Staff	3.9	3.9	3.9	3.8	3.8	3.8	3.8	3.8
Internal Consulting	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Allocations from Stamford	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
NICO Allocations from Home Office	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Total	5.5	5.5	5.4	5.4	5.3	5.3	5.3	5.3

11

ULAE Analysis - Staffing

Group	2013	2014	2015	2016	2017	2018	2019	2020
Employee #1 Home Office	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee #2 Stamford	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee #3 Stamford	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee #4 Home Office	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Employee #5 Stamford	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Employee #6 Home Office	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Employee #7 Runoff	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Employee #8 Stamford	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee #9 Runoff	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Employee #10 Stamford	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Employee #11 Runoff	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Employee #12 Runoff	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Employee #13 Stamford	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee #14 Runoff	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee #15 Home Office	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Employee #16 Runoff	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Employee #17 Home Office	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Employee #18 Home Office	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Employee #19 Stamford	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee #20 Home Office	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee #21 Stamford	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee #22 Home Office	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Employee #23 Home Office	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Employee #24 Stamford	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Employee #25 Runoff	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee #26 Home Office	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Employee #27 Stamford	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee #28 Stamford	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Employee #29 Runoff	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Employee #30 Stamford	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee #31 Stamford	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Employee #32 Home Office	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee #33 Runoff	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Employee #34 Stamford	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee #35 Runoff	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Employee #36 Home Office	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Employee #37 Runoff	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Employee #38 Home Office	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Employee #39 Home Office	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Employee #40 Home Office	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Employee #41 Home Office	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Employee #42 Stamford	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee #43 Home Office	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Employee #44 Home Office	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee #45 Home Office	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Employee #46 Home Office	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Employee #47 Home Office	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Employee #48 Home Office	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTALS	5.7	5.5	5.5	5.4	5.4	5.3	5.3	5.3
CNA Employees	3.9	3.9	3.9	3.8	3.8	3.8	3.8	3.8
Other Stamford	1.3	1.1	1.1	1.1	1.1	1.1	1.1	1.1
NICO Allocations	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4

12



Divestiture

- Due Diligence
- Valuation
- Transition
- System Issues