CARe Presentation Reps & Warranty Reinsurers' Perspective

June 3-4, 2019

Rick Ramotar, FCAS, MAAA

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Before we begin…

- Different words, Same thing
  - Transactional Liability = Transactional Risk Insurance = Reps & Warranties = Mergers & Acquisitions
- 1st Party cover
  - Essentially guarantee cover
- Deductibles
  - Typically 1% of Deal Price, but reduces after 1st year
- Usually 6 year terms
- Subject to Non-Disclosure Agreements

Source of reinsurance

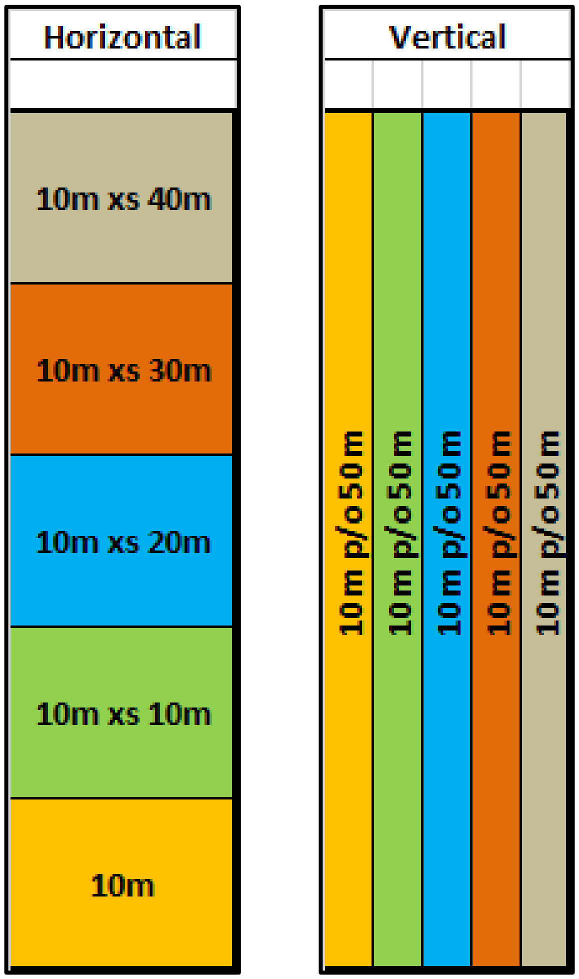
- Some standalone
  - Coverholders/Large established carriers
- Usually packaged with other lines
  - Typically financial/professional lines
  - Difficult to exclude from package programs in current market
  - Usually small % of premium relative to total program
    - But grows very fast…

Let’s talk reinsurance

- Simply put: Large Limits are involved so need reinsurance to control risk/potential downside

- What type of reinsurance
  - Majority of business comes via Quota Share
    - Sharing of risk
    - But, it can be QS of excess layers
  - Excess of Loss / Aggregate covers
    - Less common but it may be coming....

Aggregation



- Horizontal
  - Multiple layers from different cedents
- Vertical
  - Multiple shares from various cedents
- Combo of both

As a result, reinsurers may have more exposure than primary companies

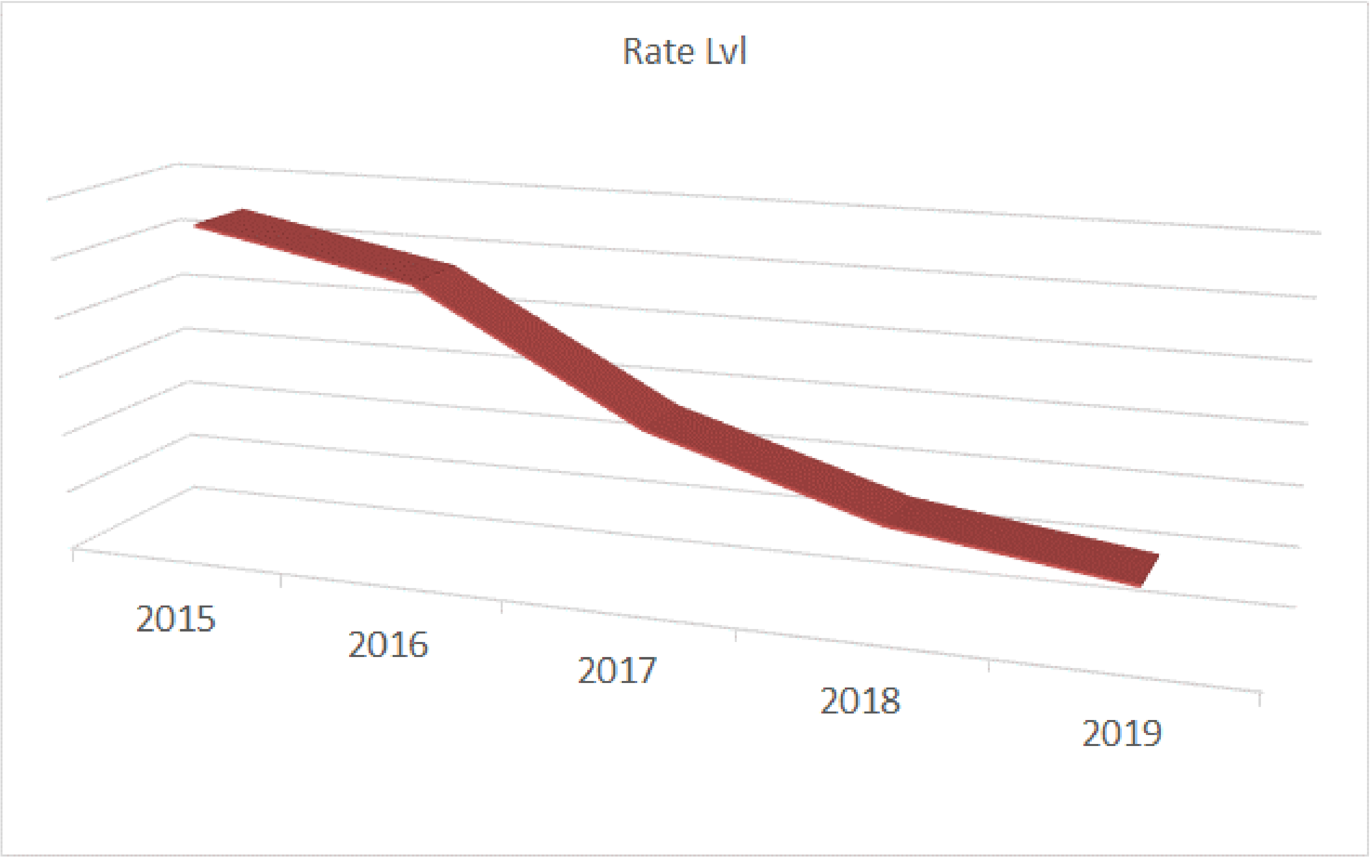
Control Aggregation

- The easy part
  - Can monitor which cedants are participating on which coverholders
- The hard part (or rather the unknowns)
  - Non-recurring business: every deal is new
  - Can only monitor aggregation after the business is written
    - May not even be possible if deal names are not provided with bordereau
- Know your cedents, their risk tolerances and appetites

Let’s talk Pricing - early days

- Niche Product
  - Few players: AIG, coverholders
- Healthy rates
- Tight terms
- Performance
  - Very good: LR in the 40’s and lower

Rates going down



Business Growing Fast…

INCREASING USE OF R&W INSURANCE IN DEALS

SIGNIFICANT GROWTH IN NORTH AMERICA IN LAST 7 YEARS

2017
- $8.83 billion in limits / 303 closed deals

2016
- $6.03 billion in limits / 212 closed deals

2015
- $4.26 billion in limits / 159 closed deals

2014
- $2.73 billion in limits / 130 closed deals

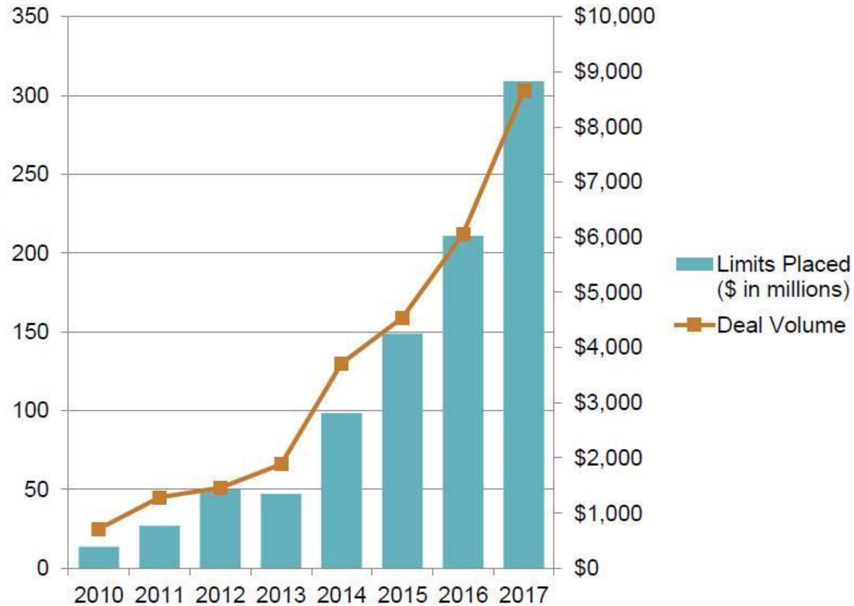
2013
- $1.34 billion in limits / 66 closed deals

2012
- $1.43 billion in limits / 51 closed deals

2011
- $767 million in limits / 45 closed deals

2010
- $387 million in limits / 25 closed deals

North America Market Statistics for Marsh only



Development - short or long

- Market chatter is this has a short tail as claim will be made once 1st audit cycle is complete
  - 20% frequency
- Based on Swiss Re internal analysis, the average development is longer between 3 to 5 yrs
  - Given the rapid growth in this business and the length of development, **losses have not caught up to premium**

R&W -Other Pricing Aspects

- Non-Renewable business
- Market Pricing – ROL based on what price would get the deal done
- Are all deals the same?
  - Industries, States, Countries
- Terms & Conditions are key drivers
  - Very different today than when product started
- How are excess layers being priced?
  - No credible increased limits factors

Tax Opinions

- Specific form of cover
  - Meant to cover tax treatment
  - Pricing is an issue
    - How does one price for tax risks
    - We're reinsurers, not tax experts
  - Bigger issue is potential for aggregation
    - Copy cat world
    - Multiple companies following the same tax advice could face similar issues if tax authorities rule against a particular tax treatment

Contingency Deals

- Meant to cover adverse development on a specific item preventing a deal from closing
  - Almost a facultative type cover
  - Could be anything: pollution, pension, underfunding, IP rights, liability/asset valuation
- Pricing is market driven
  - Very low rate on lines for high limits
  - Akin to taking a bet: “Pick a ROL and pray”
- Large Potential for aggregation

Key Take-Aways

- Still Green: Losses haven't caught up to premium
- Aggregation
- Market penetration increasing (Growth)
- Pricing / Rates going down
- Terms/Conditions expanding

Important to be realistic about this business and understand the risk

And Finally…

- It’s not necessarily bad, it’s just a mystery
  - Actuarial View: This product is still in its infancy
  - Losses have not caught to premium
    - Losses are also subject to Non-Disclosure Agreements
- Evolving product
  - Lots of benefits for buyers/sellers so not going away
  - Being involved → Gain experience/knowledge
- Be part of the market; but be realistic
  - Knowledge → power to make better decisions and inform your company decision makers

Casualty Actuarial Society
4350 North Fairfax Drive, Suite 250
Arlington, Virginia 22203

www.casact.org