

# Investigations of Reinsurance Accounting

## Potential Impact on the Reinsurance Market

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Casualty Actuarial Society  
Spring Meeting, 2006

# The Investigators

- The New York Attorney General (what's-his-name)
  - Investigations, lawsuits.
- The Securities & Exchange Commission
  - Subpoenas, Wells notices.
- FBI assigns 50-75 agents in the Financial Crimes Section to probe finite reinsurance.
- State Insurance Regulators
- U.S. Attorneys
  - Southern District of New York
  - Eastern District of Virginia

# The Investigations

- Most common issue is improper use, accounting, disclosure of “Finite Reinsurance”
  - Side agreements
  - Risk transfer
  - Accruals in multi-year contracts
- Investigations, inquiries, subpoenas may be fact-finding – not necessarily implying misconduct or expected to lead to charges.
- Many companies investigated, including:

# Some companies investigated (in alphabetical order)

- Ace
- Acordia Re
- AIG
- Alea London
- Axa
- Benfield Re
- Berkshire Hathaway
- BIG Re
- Chubb
- Converium
- Everest Re
- General Electric
- General Re
- Hanover Re
- Lloyds of London
- MBIA
- Met Life
- Munich Re
- One Beacon
- Platinum Underwriting
- Prudential Financial
- Renaissance Re
- St. Paul Travelers
- Swiss Re
- TIAA-CREF

# Internal Investigations and Restatements

- Many companies launched internal audits/investigations.
  - Sometimes after being informed of external investigations.
- A number of companies issued restated financial statements for several prior years.
- Have restatements had significant impact on reputation and/or stock price?

# Restated Financial Statements

Some specific examples (in time order):

<b>Company</b>	<b>Month of Announcement*</b>	<b>Years Affected</b>	<b>Approximate Cumulative Impact**</b>
<b>Renaissance Re</b>	<b>2/05</b>	<b>2001 - 2003</b>	<b>\$ +10 million</b>
<b>MBIA</b>	<b>3/05</b>	<b>1998 - 2004</b>	<b>\$ - 50 million</b>
<b>AIG</b>	<b>5/05</b>	<b>2000 - 2004</b>	<b>\$ - 1.2 billion***</b>
<b>Ace</b>	<b>8/05</b>	<b>2000 - 2004</b>	<b>\$ +1 million</b>
<b>Converium</b>	<b>12/05</b>	<b>1998 - 2004</b>	<b>\$ +70 million</b>
<b>CNA</b>	<b>2/06</b>	<b>2001 - 2004</b>	<b>\$ - 200 million****</b>
<b>Odyssey Re/Fairfax</b>	<b>2/06</b>	<b>2000 - 2004</b>	<b>\$ - 30 million</b>
<b>Max Re</b>	<b>3/06</b>	<b>Announced internal investigation</b>	

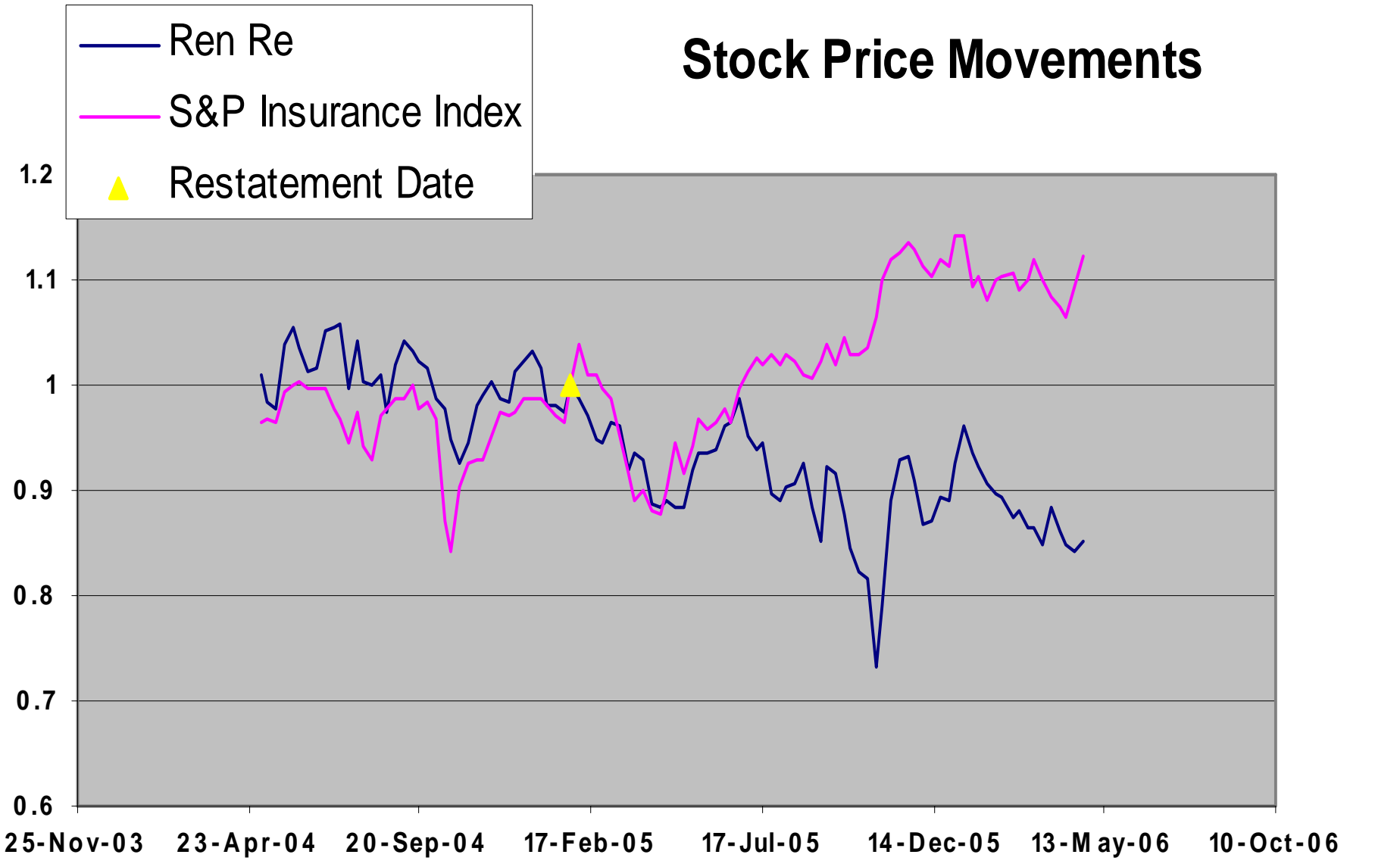
\*In some cases there were earlier announcements of internal or external investigations and/or anticipated restatements

\*\* Impact on reported income in the applicable periods may have been greater.

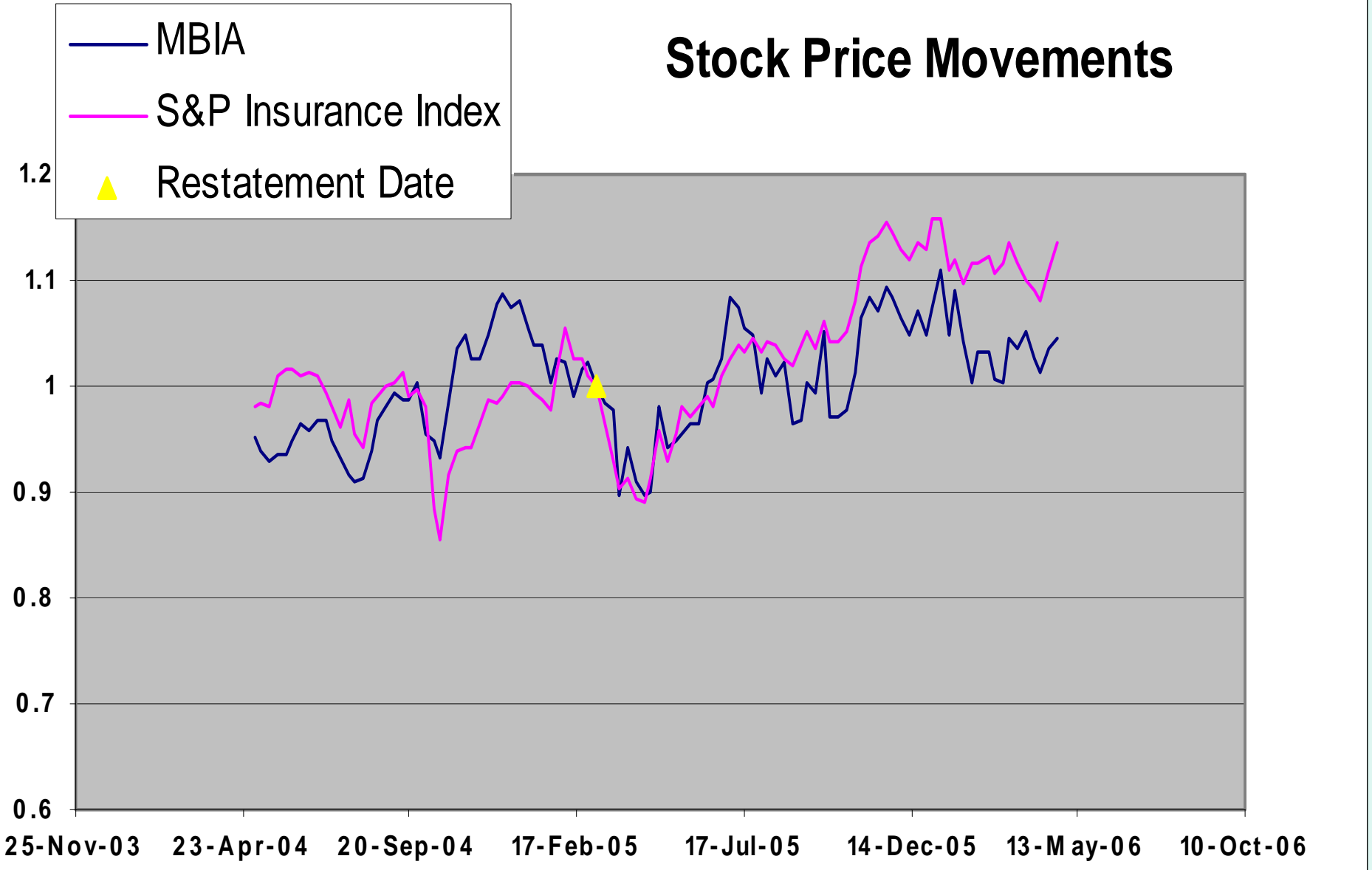
\*\*\*Adjustment attributed to risk transfer out of a total announced adjustment of \$-2.7 billion.

\*\*\*\* Additional loss of \$200+ million on commutation of finite reinsurance during 2005.

# Stock Price Movements



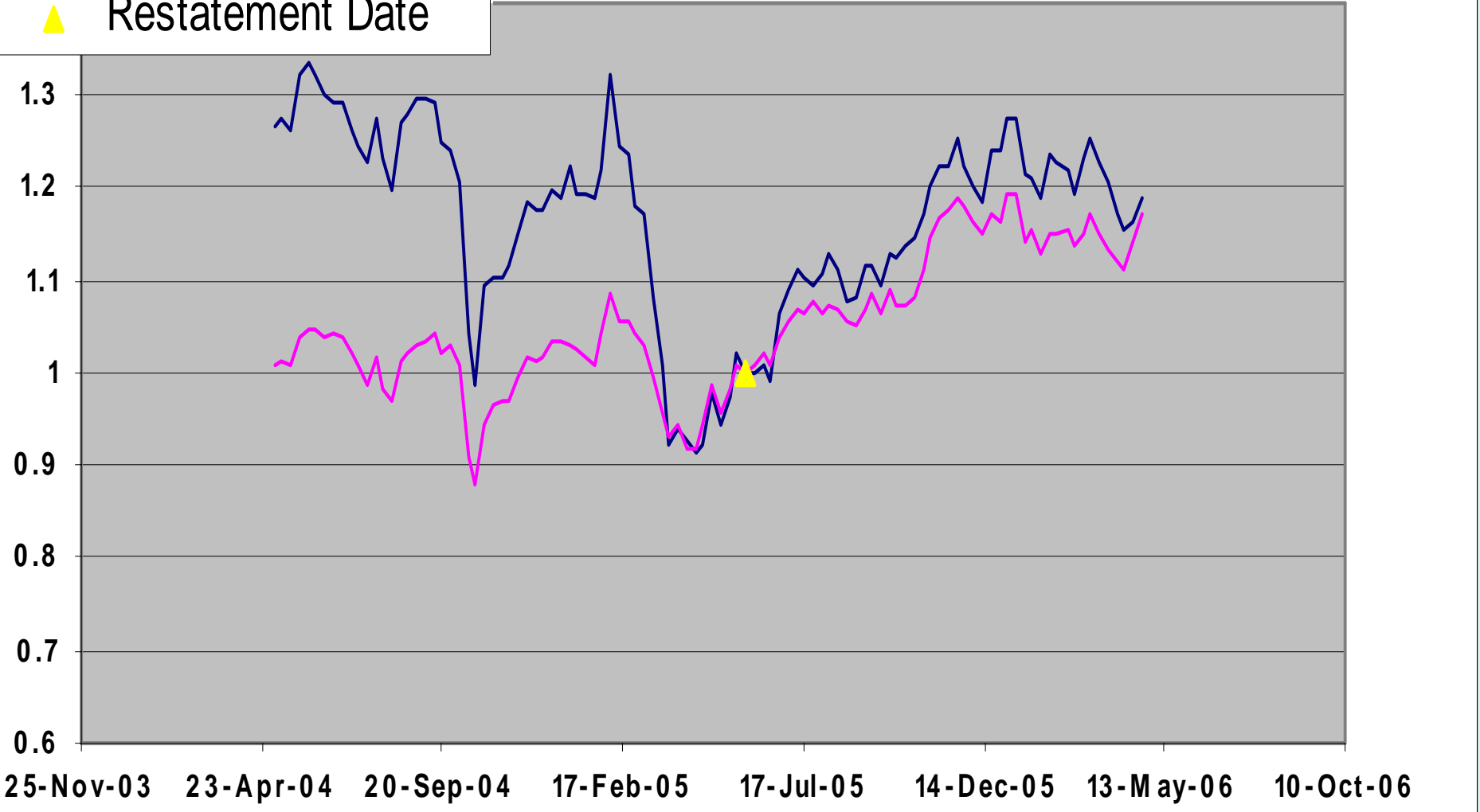
# Stock Price Movements





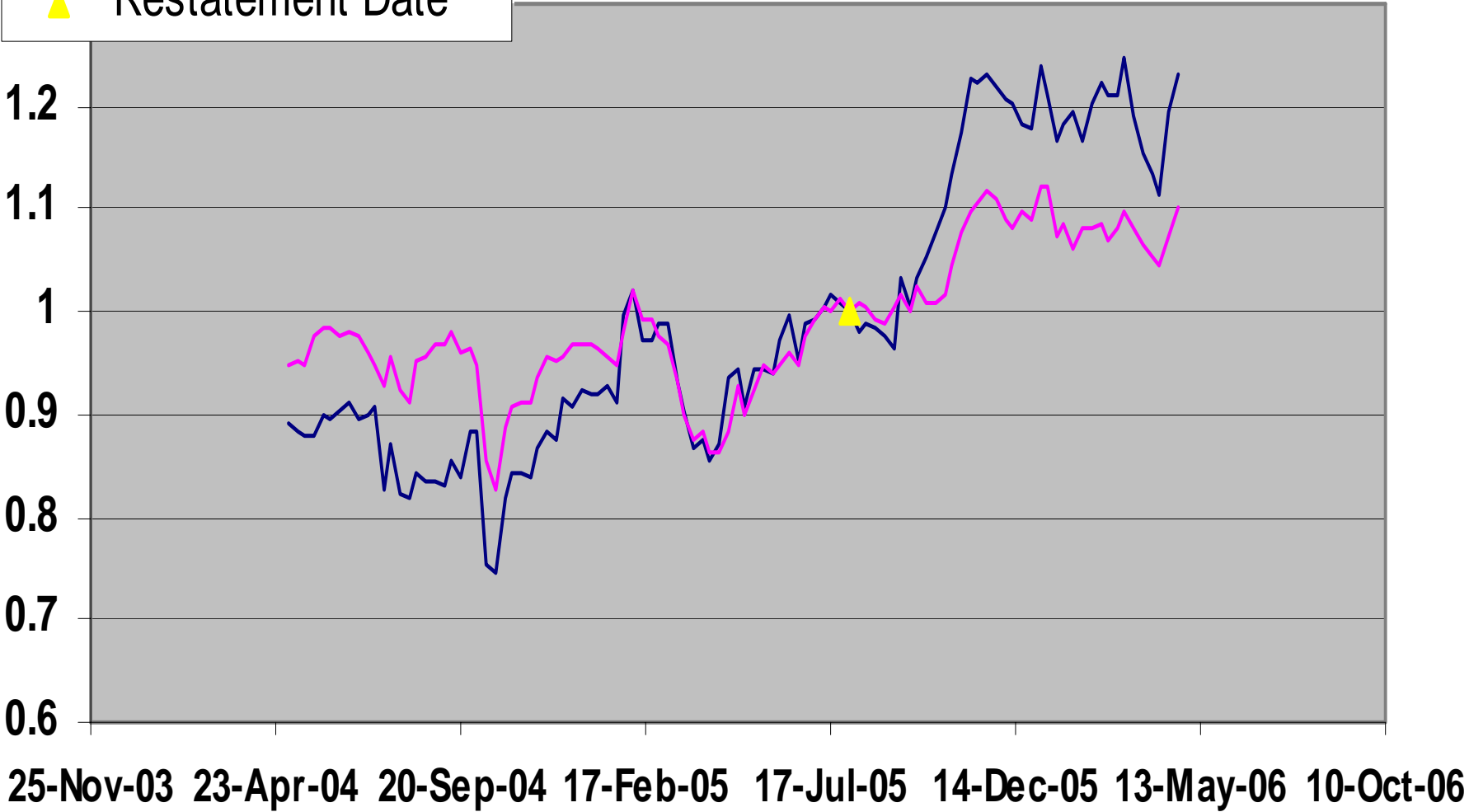
# Stock Price Movements

- AIG
- S&P Insurance Index
- ▲ Restatement Date



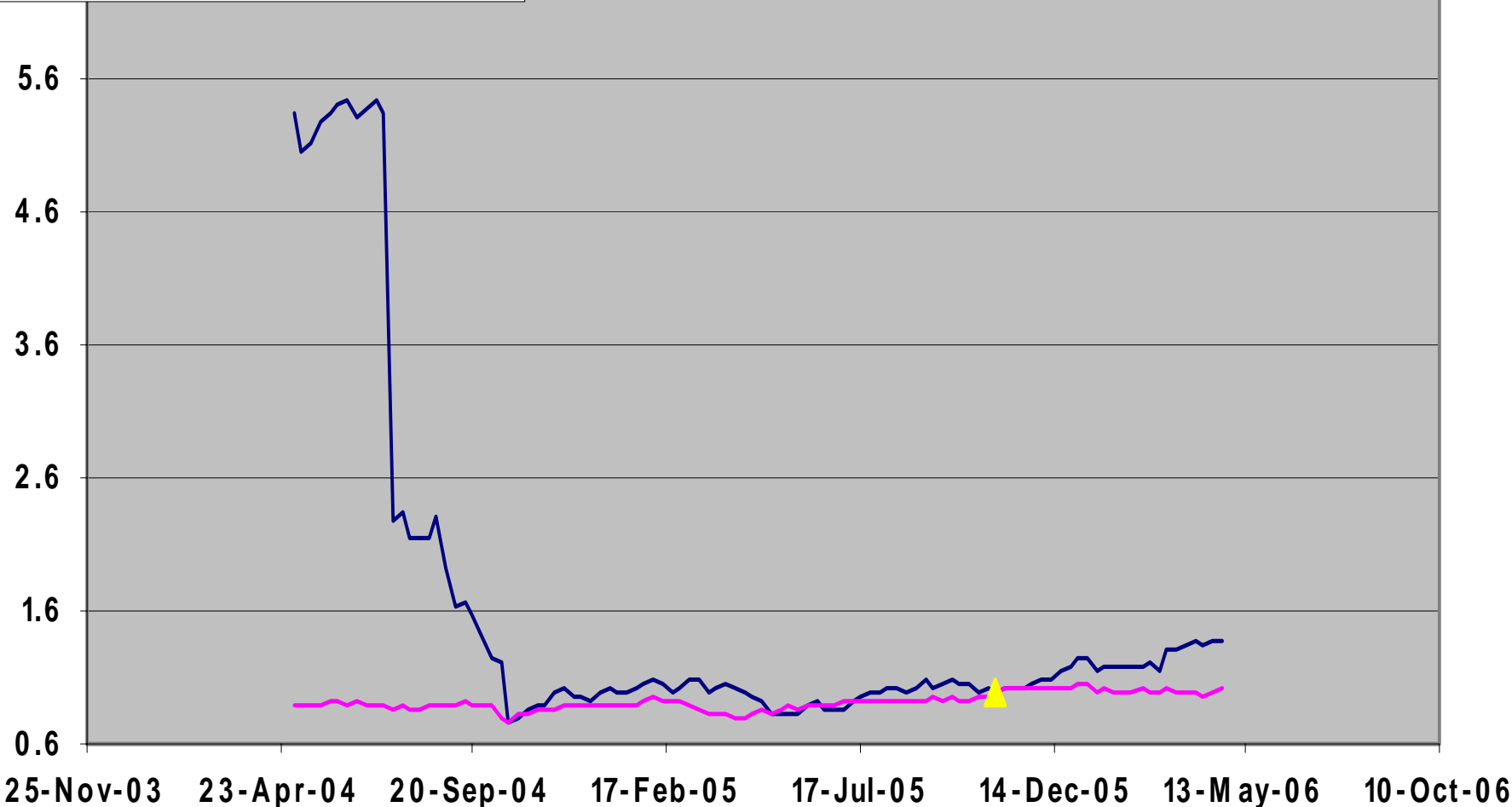
# Stock Price Movements

- ACE
- S&P Insurance Index
- ▲ Restatement Date



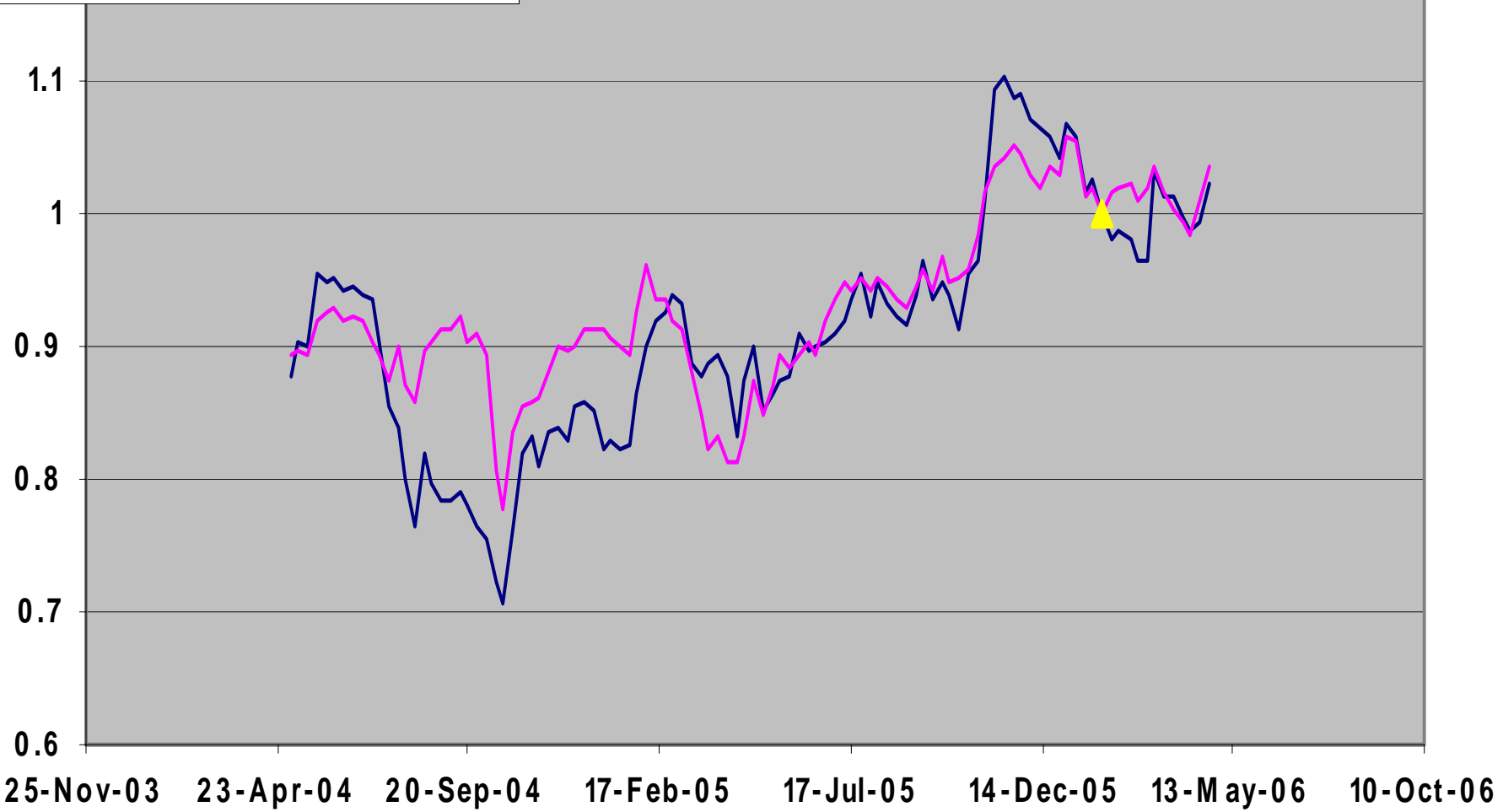
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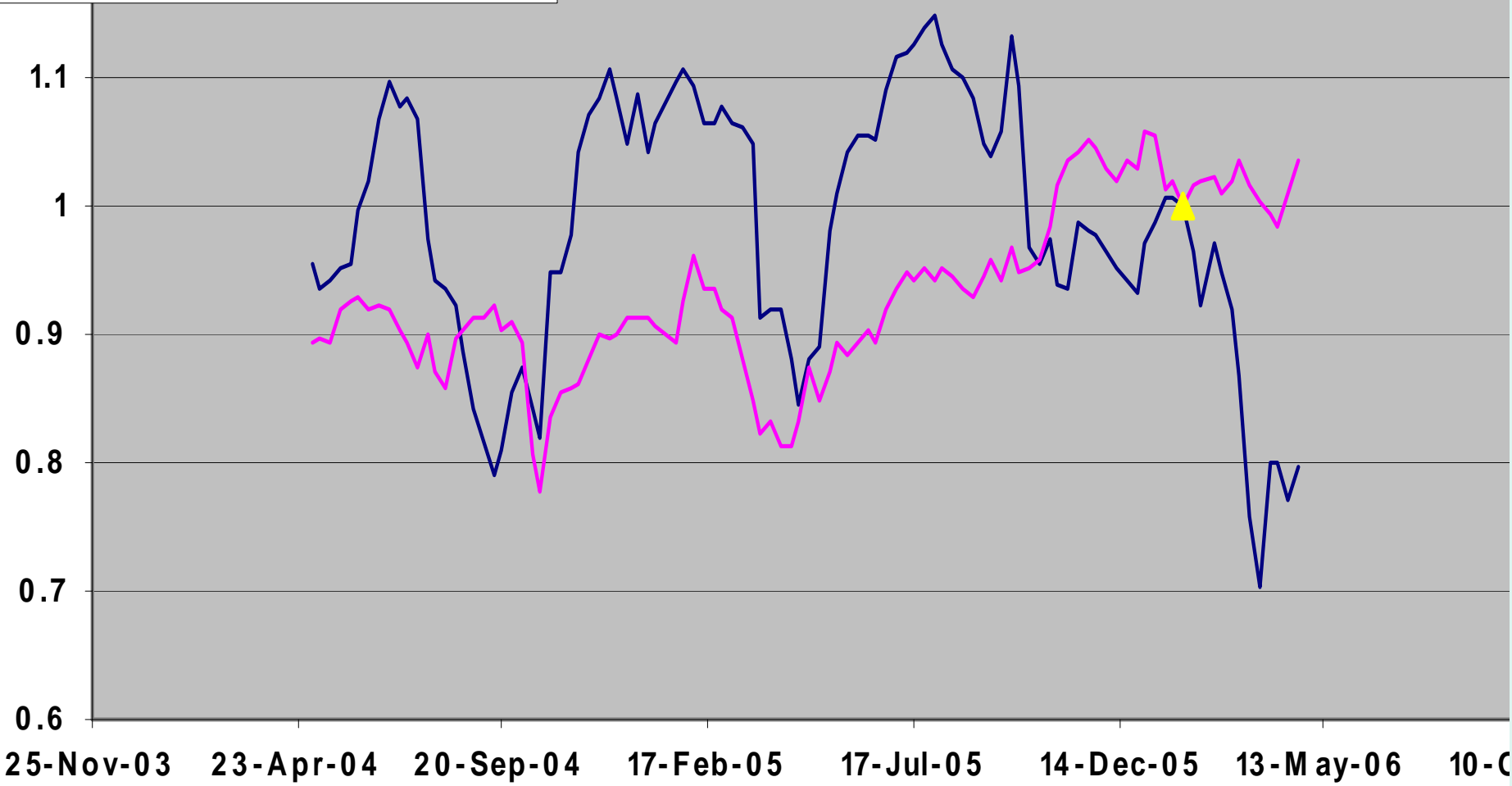
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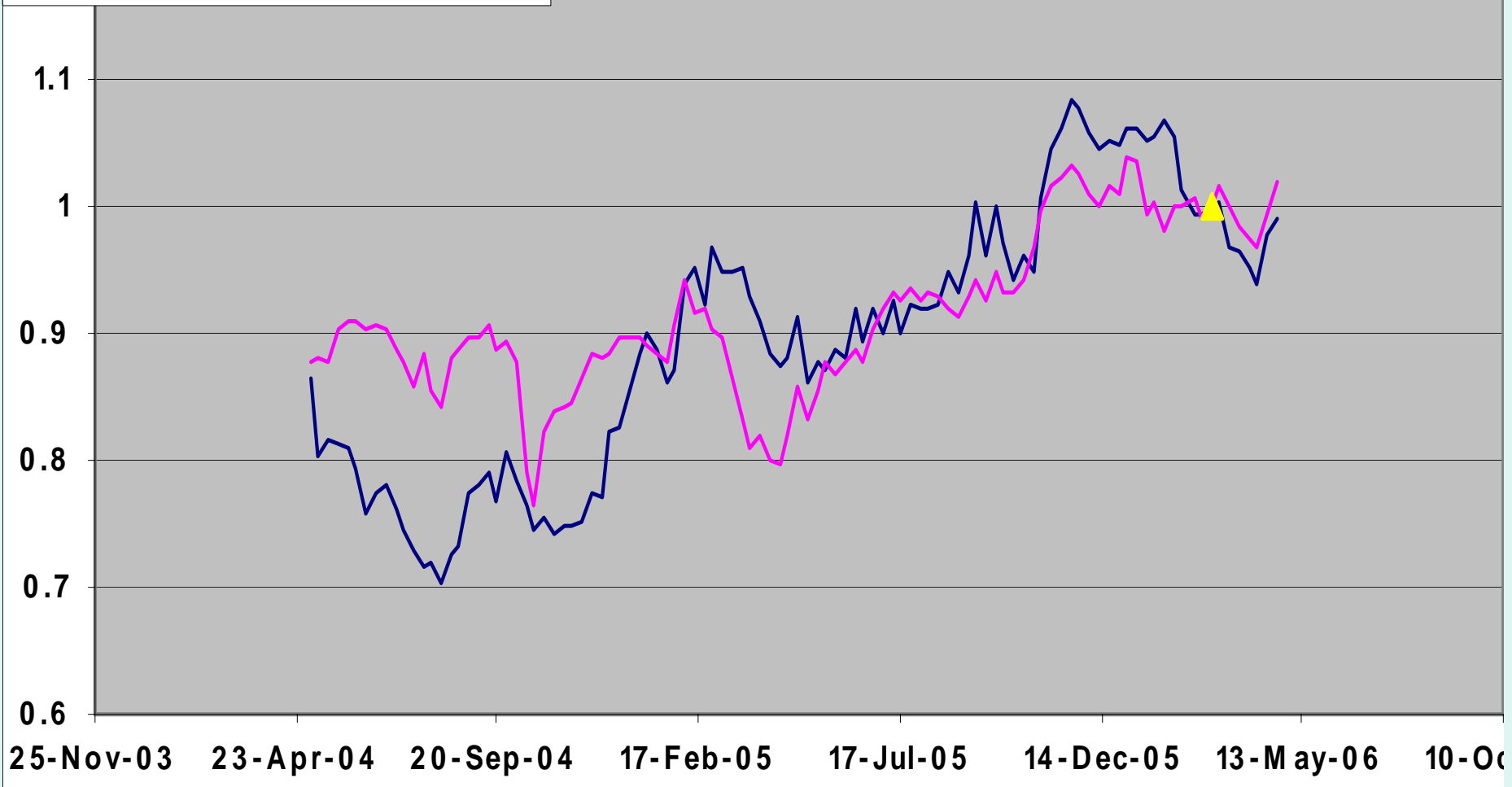
# Stock Price Movements

- Fairfax
- S&P Insurance Index
- ▲ Restatement Date



# Stock Price Movements

- Max Re
- S&P Insurance Index
- ▲ Restatement Date



# Should Accounting be Changed? Fixed? Clarified? Tightened Up?

- NAIC, FASB, looking into it.
- Actuarial opinions sought and received.
- New statutory disclosures and attestation required.
- NAIC and FASB continue to investigate possible accounting changes.

# FASB Meeting of 12/20/05

- Strong sentiments expressed for some form of bifurcation (with one dissent):
  - Confidence level approach -- similar to the New York Insurance Department proposal.
  - Proportion of risk transferred approach -- included in several actuarial proposals.
- Agreed to issue an “Invitation to Comment”
  - A neutral discussion document.
  - Expressed a goal for document to be issued by March 2006.
  - It’s not out yet.