

Reinsurance	101	

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Presented by:

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Houston

CCIA - Delta



- This overview presentation is focused on typical uses of reinsurance for products sold in credit-related transactions and auto finance and insurance.
- The 3 day GPW F&I Reinsurance and Product Conference next week in Tempe is an excellent opportunity for in-depth learning.



Reinsurance	101

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### What is reinsurance?

- Transfer of risk from once insurance company to another
- "Insurance for insurers"



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# **Common Uses of Reinsurance**

- Spread Risk
  - Excess over company retention for Life / Disability
  - Catastrophe cover for GAP
- Share Profits (and Losses)
  - Dealer / Agent owned reinsurance company



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# Other Uses of Reinsurance

- Income Smoothing
- Surplus Relief
- Reinsurer Expertise



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# Reinsurance is Global

- Top 10 reinsurers in 2016 ranked by premium
  - Swiss Re (Switzerland)
  - Munich Re (Germany)
  - Hannover Re (Germany)
  - Berkshire Re (US)
  - Scor Re (France)
  - RGA (US)
  - Lloyd's (UK)
  - China Re (China)
  - Everest (Bermuda)
  - MS&AD Ins Group (Japan)

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# Largest Reinsurers

- Combined Premium of top 2 reinsurers (\$65.6 billion) is almost as much as the next 6 combined (\$68.2 billion)
- Swiss Re = \$33.57 billion
- Munich Re = \$31.84 billion



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# Products For Dealer/Agent Owned Reinsurer

- Typical Products include:
  - VSCs (Vehicle Service Contracts)
  - Tire and Wheel
  - GAP
  - Theft Products
  - Credit Life and A&H
- Any product that has a meaningful volume and underwriting margin



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### Financial Example – VSC Sales

Retail Price	2000
Less: Dealer Cost (to TPA)	<u>-1000</u>
Dealer Profit	1000
Reserve (to pay claims)	750
Admin Fee	100
Agent Commission	<u>150</u>
Dealer Cost	1000



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#### VSC Sale with Reinsurance

Ceded Premium (= Re	serve)	750
Less: Cede Fees	10%	(75)
Less: Claims	40%	(300)
Net Profit		375
Total Dealer Profit from	m Sale with R	einsurance
Profit at sale		1,000
Profit from Reinsurand	ce	375

1,375



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#### **Reinsurance Proforma Assumptions**

Contracts sold per month	50
Average Premium	750
Average Refunds	15%
Net Annual Premium	382,500
Startup Cost	6,000
Annual Cost	5,000
Initial Capital	25,000
Investment Rate	3%
Taxes (on investment income)	15%

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# Proforma Earnings Pattern

	40%	60%			
Year	Used	New	Average	Mid Year	Earned
1	30.0%	0.0%	12.0%	6.0%	22,950
2	30.0%	0.0%	12.0%	12.0%	45,900
3	30.0%	10.0%	18.0%	15.0%	57,375
4	10.0%	30.0%	22.0%	20.0%	76,500
5	0.0%	25.0%	15.0%	18.5%	70,763
6	0.0%	20.0%	12.0%	13.5%	51,638
7	0.0%	15.0%	9.0%	10.5%	40,163
8				4.5%	17,213
	100.0%	100.0%	100.0%	100.0%	382,500

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#### **Reinsurance Proforma**

	Year:						
	0	1	2	3	4	5	6
Net Premium		382,500	382,500	382,500	382,500	382,500	382,500
Earned		22,950	68,850	126,225	202,725	273,488	325,125
Unearned		359,550	673,200	929,475	1,109,250	1,218,263	1,275,638
Cede Fees	10%	38,250	38,250	38,250	38,250	38,250	38,250
Claims	40%	9,180	27,540	50,490	81,090	109,395	130,050
Expenses		6,000	5,000	5,000	5,000	5,000	5,000
Total		53,430	70,790	93,740	124,340	152,645	173,300
U/W income		(30,480)	(1,940)	32,485	78,385	120,843	151,825

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#### Reinsurance Proforma - Income

	Year:					
	1	2	3	4	5	6
U/W income	(30,480)	(1,940)	32,485	78,385	120,843	151,825
Invest income	5,686	15,443	24,844	33,681	41,860	49,513
Taxes	853	2,316	3,727	5,052	6,279	7,427
Net income	(25,647)	11,186	53,602	107,014	156,423	193,911
	,					-

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#### Reinsurance Proforma – B/S

	Year:					
	1	2	3	4	5	6
Paid- in Capital	25,000	25,000	25,000	25,000	25,000	25,000
Retained Earnings	(25,647)	(14,461)	39,142	146,155	302,579	496,490
Total Capital	(647)	10,539	64,142	171,155	327,579	521,490
Assets	358,903	683,739	993,617	1,280,405	1,545,841	1,797,128
Liabilities	359,550	673,200	929,475	1,109,250	1,218,263	1,275,638



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# Trends

• PATH Act and Section 831(b)

• GAP Losses



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# Small Reinsurer Domiciles

- Off-shore
  - Turks & Caicos
- Domestic
  - Delaware Indian Tribe
  - Various States

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### Questions?

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