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2	420.00	41	South	1	0/Broker	153.59	0
3	368.91	63	South	1	0/Broker	146.09	0
4	368.15	44	East	1	0/Broker	106.96	0
5	501.74	46	North	1	1/Broker	153.59	0
6	573.48	49	North	0	0/Broker	146.09	0
7	349.67	40	North	0	0/Broker	126.09	0
	171.52	47	East	0	0/Broker	146.09	0

Reinsurance 101

Presented by:

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Reinsurance 101

- 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.



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What is reinsurance?

- Transfer of risk from one 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

VSC Sale with Reinsurance

Ceded Premium (= Reserve)		750
Less: Cede Fees	10%	(75)
Less: Claims	40%	<u>(300)</u>
Net Profit		375
Total Dealer Profit from Sale with Reinsurance		
Profit at sale		1,000
Profit from Reinsurance		<u>375</u>
		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%



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



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

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

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

Line	Amount	Description	Other	Value
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Questions?