ACWA/Joint Powers Insurance Authority

2013 Fall Conference

The Power of Pooling …
and How Your Local Water Supply Connects You to New York, London, Zurich, and Back Again

Presented by:
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December 3, 2013

JW Marriott LA Live
Los Angeles, California
The Power of Pooling

......and how your local water supply connects you to NY, London, Zurich & back again.

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ACWA JPIA Fall Meeting
Los Angeles, CA

The Water-Insurance Connection
350 years strong
It all started with salt water

British East India Shipping

- Diamonds
- Pepper
- Silk
- Indigo
- and most importantly…

Coffee & Tea
Back in London HQ

Then like now - No one likes to lose money.
Insurance is Created (circa 1688)

The Basis of Lloyds
Pooling Risk & Pledged Assets

The Syndicates &
The “Names” Behind Lloyds:

- Ascott
- Beazley
- Brit
- Caitlin
- Farraday
- Jansen-Green
- Hiscox
- Pembroke
- RJ Kiln
- Talbot
Personal Liability Means

*Personal Liability!*

The Reinsurance Crisis of the 1980s

- Asbestos
- European Storms
- Piper Alpha Explosion July 6, 1988
- Lloyds Nearly Fails
Audience Participation Session I

*Five audience members selected to participate in a claims scenario. Each member will have a simple script with one or two lines to recite.*

The syndicates bought reinsurance in at least two ways:
1. A reinsurance policy to pay any future claims with a premium equal to the amount of the reserve, often from the same syndicate in a subsequent year.

*Both forms of reinsurance always tended to stay within the confines of Lloyds.*

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Lloyds Reinsurance Reforms

- Introduction of Corporate Capital
- Limit Exposure to US Liability Risks
- Increased Reinsurance Outside of Lloyds
Back in the “New World”
Top US Commercial Insurers

Top Reinsurance Brokers
Top Reinsurers

Reinsurance Case Study

AIG Growth During 1980s:

• Specialization
• Marketing
• Treaty Reinsurance
• Facultative Reinsurance
Audience Participation Session II

Five audience members selected to participate in a reinsurance negotiation. Each member will have a simple script with one or two lines to recite.

Scenario: AIG Develops Product Recall Insurance Post Tylenol Incident

- Management sees an opportunity
- Underwriting, Actuarial & Legal develop rate & form
- Reinsurance Broker finds market support
- Reinsurer sets terms, restrictions & reporting requirements

Reinsurance Concepts

- Facultative vs. Treaty
- Quota Share vs. Excess of Loss
- Bordereau Reporting
- Class Exclusions
- Minimum Retentions
- Ceding Commissions
The Insurer’s Business Plan

Key Considerations

- Target combined ratio below 100
- Target expense ratio below 30
- Target classes & excluded classes
- Underwriting guidelines & capable staff
- Minimum premiums
- Coverage advantages
- But most importantly PREMIUM!!!

The Broker as Distributor

Insurer = Manufacturing & The “Brand”
Reinsurer = Outsourced Manufacturing
Broker = Logistics & Retail Stores
Client = Consumer
Audience Participation Session III

Two audience members selected as underwriters to participate in a budget scenario. Two audience members selected as potential clients. Each member will have a simple script with one or two lines to recite.

Scenario: January 1, 2014 Budget: $3,000,000 Premium
- Target Classes: Public Entities, Utilities, & Higher Education
- T&E Budget Remaining for 2013: $2,500
- You are $1,000,000 behind budget!

JPA & Pools vs. Individual Risks

Why do smart underwriters like to work with JPA & Pooled Risks?

- Rate/Form Flexibility vs. Standard Form
- Substantial Premium vs. Minimum Premium
- Marketing Cost vs. Centralized Distribution
- Faster Growth Potential to Build the Book of Business
- Hanukah & Christmas are more fun at home
The Modern Insurance Market

- AIG & AIG Management Diaspora post 2008
- ACE, Ironshore, AWAC, Berkley, etc.
- The Unique History of the Starr Companies
Pooling & The Market for Large Risks

Evolution of the Direct Reinsurer

- The Continued Importance of Lloyds
- The Impact of Hans und Franz
Pooling & The Market for Large Risks
Where Culture Meets Business

Underwriting Swiss & German Style

The ACWA JPIA Connection to the World Market

Premium Equivalent to some Fortune 500 Companies
Interest &/Or Participation by Direct Reinsurers
Influence of Reinsurers behind Starr & Others
The ACWA JPIA Connection to the World Market

The Power of Pooling
Questions…