

Reinsurance Services

Meeting the Challenge of Assumed Reinsurance Portfolios



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Investigations Recoveries Management Self-Insured Claims Services Property and Casualty Professional Liability

Meeting the Challenge of Assumed Reinsurance Portfolios

A growing number of insurance companies today find themselves facing the costly and time consuming dilemma of managing older assumed reinsurance portfolios. These troublesome portfolios usually pre-date 1990, but may extend back 20 or 30 years, some much longer. They typically include long tail casualty claims such as asbestos, environmental, and other mass tort liabilities.

Whether insurance companies currently write assumed reinsurance or are running it off as a discontinued operation, many seek ways to eliminate or significantly reduce both the financial exposures and the administrative cost and complexity that invariably go hand-in-hand with these older reinsurance

portfolios. Cambridge Reinsurance Services, part of Cambridge Integrated Services Group, offers a comprehensive solution that helps these companies meet both objectives.

By selecting the right mix of Cambridge's reinsurance services companies can often realize the dual benefits of improving current operating efficiencies while reducing the risk of future adverse losses. It's a strategic response to a lingering problem that can lead to enhanced growth and profitability by eliminating old problems and focusing resources more intently on current business management and future development.

The Issues

Older reinsurance portfolios raise a complex, multi-dimensional set of issues and challenges.

ADMINISTRATIVE COST

Older portfolios, for example, are typically laden with asbestos, environmental, and other mass tort liabilities that require a highly specialized staff to manage effectively. Companies that choose to manage them internally can pay dearly and face years — perhaps decades — of supporting such resource draining activities.

FUTURE ADVERSE LOSS DEVELOPMENT

Rating agencies continue to predict additional loss development from asbestos and environmental liabilities. These and other latent injury costs — from tobacco, lead paint, and EMF for example — will be ceded to pre-1990 reinsurance coverages.

CRITICAL RATING ISSUES

AM Best has stated that exposure to long tail casualty business, particularly asbestos and environmental claims, constitutes a “critical rating issue” and represents a “significant financial concern” for insurance companies. Numerous companies have already endured qualified ratings or other negative commentary resulting from their exposure to older assumed reinsurance liabilities.

MANAGEMENT DISTRACTION

Older reinsurance business often results in disputed claims involving extended and expensive litigation or arbitration. This means that managers must spend time developing strategy and negotiating settlements instead of focusing their energy and time on achieving current business objectives.

CUSTOMER AND INTERNAL CONFLICT

When an insurance company becomes involved in a dispute with a current or potential client who is a cedent on an older portfolio claim, conflict often arises between the need to minimize the loss and the desire to maintain existing relationships or gain new business. The older business is rarely limited to a single claim, further complicating the situation.

The Answers

Minimizing loss costs on older or discontinued assumed reinsurance portfolios and simultaneously maximizing reinsurance recoveries requires highly specialized expertise and technical capabilities that many insurance carriers simply do not have or are unwilling to fund.

Cambridge Reinsurance Services offers both. As one of the premier providers of specialist and reinsurance services in the US for well over a decade, we successfully manage assumed reinsurance portfolios of all sizes, including some of the most extensive runoffs currently under management.

We have earned the respect and loyalty of our clients through our stringent management controls and our pro-active approaches that result in reducing both administrative costs and ultimate liabilities. Our years of experience, our breadth of market knowledge, and our commitment to the insurance industry give our clients the confidence they need to place the management of their reinsurance portfolios in our hands. In short, they know we get results.

REDUCED CLAIM COST

Companies with exposure to long tail casualty reinsurance claims must ensure that this business is managed effectively. Not only are assumed reinsurance claims complex, they also require a different set of skills than those required to manage direct claims administration business. Without this high degree of specialization, claim costs could easily skyrocket as a result of passive claim management and loss overpayment.

Because Cambridge Reinsurance Services focuses solely on managing reinsurance portfolios, we can offer our clients the advantages of our specialized skills, current and advanced knowledge of industry trends, and extensive experience not often found inside insurance companies today. By applying our capabilities across numerous comparable books of business, we offer synergies and economies of scale that can further contribute to reducing claim costs.

INCREASED ADMINISTRATIVE EFFICIENCY

Cambridge Reinsurance Services helps lower administrative costs and increase management efficiency by reducing the time and money required to train and maintain the qualified staff needed to manage long tail casualty business. These savings can be even more significant for companies that are no longer in the reinsurance business.

Cambridge also contributes to administrative savings by offering services such as claim audits or negotiating commutation that often creates cost sharing opportunities among multiple clients.

ACCELERATION OF FINALITY

Companies with older reinsurance contracts must be highly focused on closing claims as quickly as possible. This sometimes proves elusive when internal staff, perceiving accelerated claim resolution as a threat to their personal career, fail to aggressively pursue commutation opportunities. Because Cambridge Reinsurance Services is focused solely on meeting our clients' business objectives, we not only eliminate such potential roadblocks, we also enhance our clients' prospect of accelerating claim finality.

IMPROVED RETROCESSIONAL RECOVERIES

Cambridge can help ensure more prompt and complete recovery of reinsurance (retrocessional) recoverables. By aggressively managing claims and making sure that all available defenses are raised, we can give retrocessionaires a greater degree of confidence that their interests are being adequately protected.

LESSENERED BUSINESS CONFLICTS

Insurance carriers sometimes sacrifice opportunities to minimize loss on an assumed reinsurance portfolio when their strategies create potential conflicts with others. These conflicts could be with other business objectives, such as maximizing reinsurance recoverables on their direct book of business, or with pursuing new business opportunities. As a more distant participant in the process, Cambridge can help reduce such perceived conflicts and ensure the consideration of all valid assumed reinsurance defenses related to issues such as aggregation, allocation, trigger, expense, and notice.

IMPROVED CONTROL

As an external provider of services, Cambridge offers clients greater control over their older assumed reinsurance business. We provide our services in accordance with thoughtfully drawn contracts that set performance criteria and benchmarks. In addition, service fees may often be linked to results giving clients greater confidence that their objectives will be met.

SHARPER BUSINESS FOCUS

By outsourcing assumed reinsurance portfolios to Cambridge, insurance companies can eliminate the distractions such business causes and instead focus more tightly on their core business strategies. As specialists in this specific discipline, Cambridge helps companies fully leverage their internal claims departments' skills and expertise for meeting current needs.

The Total Cambridge Solution

To deliver on our promise to help reduce both the financial exposure and administrative costs associated with older assumed reinsurance claims, Cambridge Reinsurance Services offers not only comprehensive reinsurance claims management, but also a highly developed set of additional service capabilities from which our clients may choose.

PORTFOLIO TRANSFER

In this service, Cambridge combines stop loss protection with administrative outsourcing focused particularly on pre-1990 assumed reinsurance portfolios. By arranging the transfer of the portfolio, we offer a practical, viable solution to the complex problems of managing long tail casualty liabilities that could otherwise continue to threaten or impede a company's organizational efficiency.

ON-SITE AUDIT AND DUE DILIGENCE

Cambridge Reinsurance Services offers on-site audits for a number of reasons including verification of an appropriate performance level by the ceding company or ensuring that the reserves are correct. The audit process may involve reviewing claims and accounts, interviewing management, and testing administrative controls and procedures to make certain that the underlying claim administration is performed with the appropriate skills and competence.

In claim submissions involving a settlement rather than a court decision, we thoroughly review the settlement agreement against the facts and circumstances to verify the propriety and reasonableness of the submission. And we compare various alternative methods of allocation to evaluate the cedent's request for recovery. We also offer related due diligence services, in the case of a merger or acquisition for example, to assure that the representations being made are accurate.

RETROCESSIONAL COLLECTIONS

In managing assumed reinsurance portfolios, simply ensuring that claims and billing are in order is not enough. Companies must pursue retrocessional collections aggressively. Cambridge Reinsurance Services maintains a full time group of insurance professionals whose sole focus is the persistent pursuit and recovery of balances and a demonstrated history of generating impressive cash flow results for our clients' runoff businesses.

**To learn more about Cambridge Reinsurance Services,
contact your Cambridge representative.**

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