

Sch F – Part 4 Aging of Ceded Reinsurance

☉ Schedule F, Part 4: Aging of Ceded Reinsurance Recoverables on Paid Loss and LAE

The aging schedule is used to determine:

- a. what % of a reinsurer's recoverables are > 90 days overdue and
- b. whether the reinsurer should be classified as slow paying.

1. Difficulties in determining Due Dates/Aging Schedules

- Many reinsurance treaties do not specify a "due date" for reinsurance recoverable on paid losses
- Ceding companies often do not bill their reinsurers immediately for small losses. Rather, they may wait until the recoverable losses accumulate above a certain level, such as \$100,000, and then bill the reinsurer for the total amount. This procedure is used to avoid excessive transaction expenses on small claims.

2. Current procedures for determining the due date for a paid loss/ LAE recoverable:

- a) Where the reinsurance agreement specifies a date at which claims are to be paid by the reinsurers (a due date), **the aging period shall commence from that date:**

Example:

The reinsurance contract specifies that paid loss and LAE recoverables are due "thirty days from the time of notice to the reinsurer."

- a loss occurs on March 15, 1993,
- the loss is paid by the ceding company on August 15, 1993,
- the ceding company bills the reinsurer on September 15, 1993 (the date of notice),
- then the recoverable is due on October 15, 1993 (30 days from the date of notice). If not paid by December 31, 1993, the recoverable is 75 days (two and a half months) overdue.

- b) Where the reinsurance agreement does not specify a date for payment by the reinsurer (a due date), but does specify a date at which claims are to be presented to the reinsurer for payment (a presentation date), the aging period shall commence from **the date the claims are presented to the reinsurer (a.k.a. the date of notice)**. This type of provision is often used in reinsurance contracts to reduce late reporting of claim payments to the reinsurer.

Example:

The reinsurance contract does not specify a date by which time recoverables are due, but the reinsurance contract says that claims are to be presented to the reinsurer for payment within 30 days of the date the loss is paid by the ceding company.

- a loss occurs on March 15, 1993,
- the loss is paid by the ceding company on August 15, 1993,
- the ceding company bills the reinsurer on September 15, 1993 (the date of notice),
- then the recoverable is due on September 15, 1993 (0 days from the date of notice). If not paid by December 31, 1993, the recoverable is 105 days (three and a half months) overdue.

Background/history:

Current dating rules (1993 and subsequent) differ from the previous dating rules (1992 and prior). The prior dating rules provided for a 30-day grace period as follows:

"In the absence of a specific contract date, a paid loss recoverable will be deemed due thirty (30) days after the date demand or proof of loss is provided to the reinsurer."

Example:

- A loss occurs on March 15, 1993,
- the loss is paid by the ceding company on August 15, 1993,
- the ceding company bills the reinsurer on September 15, 1993 (the date of notice),
- then the recoverable is due not on September 15, 1993, but on October 15, 1993 (30 days from the date of notice) . If not paid by December 31, 1993, the recoverable is 75 days (two and a half months) overdue.

According to this definition, if a demand for payment (or proof of loss) is not presented until September 1, the recoverable would not be 90 days overdue by December 31, regardless of when the loss was paid by the ceding company or the reinsurance recoverable was entered on the ceding company's books.

- c. Where the reinsurance agreement does not specify either date (due date or presentation date), ***the aging period shall commence on the date on which the ceding company enters in its accounts a paid loss recoverable*** which, with respect to the particular reinsurer, exceeds \$50,000. If the amount is less than \$50,000 it should be reported as currently due.

Example 1:

The reinsurance contract specifies neither the due date nor the presentation date.

- a loss occurs on March 15, 1993,
- the loss is paid by the ceding company on August 15, 1993 for \$100,000,
- Also on August 15, 1993, the ceding company enters a paid loss recoverable of \$100,000 on its books from a particular reinsurer
- then the recoverable is due on August 15, 1993. If not paid by December 31, 1993, the recoverable is 135 days (four and a half months) overdue.

Again, under current aging rules there is no grace period.

Example 2:

The reinsurance contract specifies neither the due date nor the presentation date.

- a loss occurs on March 15, 1993,
- the loss is paid by the ceding company on August 15, 1993 for \$15,000,
- Also on August 15, 1993, the ceding company enters a paid loss recoverable of \$15,000 on its books. Assume that this is the only loss recoverable from this reinsurer
- then the recoverable is treated as current through December 31, 1993

Note: In the event that reinsurance is placed through a broker or intermediary, notice to the intermediary shall constitute notice to the reinsurer.