

# Hawaii Captive Insurance Council 2013 Forum

Extended Warranty Captive Applications  
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# Presentation Outline

- Extended Warranty Background
  - What is Extended Warranty
  - Major Players in the Marketplace
  - Lines of Business Typically Filed
  - Most Popular Products
  - Two Main Types of Warranty
- Extended Warranty Basics
  - Guide to Profitability
  - Pricing
  - Loss Development/Earning Patterns
  - Avoid Adverse Selection

# What is Extended Warranty?

- Extended warranty, sometimes called a service agreement, a service contract, or a maintenance agreement
- Typically longer than one year
- In addition to the manufacturer's warranty
- May be offered by the warranty administrator, the retailer or the manufacturer
- Extended warranties cost extra
- Purchased on automobiles and electronics

# Major Players in the Market

- First Colonial Insurance Company (Allstate)
- Wesco Insurance Company (Amtrust)
- Virginia Surety Company
- American Bankers Insurance Company of Florida
- Heritage Indemnity Company
- Universal Underwriters Insurance Company (Zurich)
- Lyndon Property Insurance Company (Protective)
- Continental Insurance Company (CNA)
- Old Republic Insurance Company
- Courtesy Insurance Company

## Lines of Business Filed

- Other Liability (Line 17)
- Other Lines (Line 33)
- Inland Marine (Line 9)
- Commercial Auto Physical Damage (Line 20)
- Warranty (Line 30)

# Most Popular Products

- Auto Warranty/Mechanical Breakdown
- Tire & Wheel
- Paintless Dent Removal
- Windshield
- Wireless Communication (Cellphones, IPADs, etc)
- Electronics (Radios, TVs, etc)
- Appliances (Washing Machine, Dish Washer, etc)
- Home (central heat/air, hot water heaters, etc)
- Guaranteed Auto Protection (similar to warranty)

## Two Main Types of Warranty

- Reimbursement - extended warranty reimbursement insurance policy means a policy of insurance providing coverage for all obligations and liabilities incurred by an extended warranty provider under the terms of the extended warranty sold to a buyer by such provider.
- Excess/Surety/Default – policy providing coverage only if there is failure to pay on obligations and liabilities

# Guide to Profitability

- Understanding the product is key
- Each product is very different
- How to price your new product
- Maintaining flexibility
- When do losses get paid over the life of an extended warranty
- How do premiums get earned
- Why do companies lose money?



# Pricing

- Competition
- Competitive Comparisons
- Rating Manuals/Set Up
- Understanding What is Covered
- Any Historical Data
- Rate Level Indications
- Continuous Analysis/Making Changes

## Loss Development/Earning Patterns

- Losses develop differently depending on the type of extended warranty
- Understanding/obtaining development patterns
- Obtaining these patterns
- How to earn premium (rule of 78ths, reverse rule of 78ths, prorata, following monthly loss development patterns)

# Avoid Adverse Selection

- Time of Sale
- Direct Business
- Agent/Dealer
- Mix of Business
- Product Pricing
- Mindset for Purchase of Contract
- Economy

# Any Questions

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