

Ultimate Net Loss Clause

Introduction:

The Reinsurance Research Council is introducing a recommended Ultimate Net Loss clause to better address loss adjustment expenses arising out of catastrophic events.

Reinsurers are prepared to indemnify appropriate catastrophic loss costs. They understand that claims handling during and following a catastrophic event make extraordinary demands on resources, services and materials needed to quickly and fairly resolve claims. Exceptional situations are anticipated, and reinsurers typically apply discretion in their assessment of what constitutes prudent claims handling.

The ice storm of 1998 underscored the need for clarity with respect to industry practices. Issues that were raised within the insurance and reinsurance community following the ice storm led the Reinsurance Research Council to re-examine the Ultimate Net Loss clause. The recommended Ultimate Net Loss clause clarifies the obligations of both the insurer and reinsurer:

- The liability of the reinsurer follows the liability of the original policy. Loss and loss adjustment expenses must arise directly from an insured/reinsured peril.
- Loss adjustment expenses are only those actual expenses directly attributed to a specific claim file. This requires a standard of care on the part of insurance companies to ensure that expenses are properly identified as recoverable from reinsurance contracts.

Ultimate Net Loss Clause:

1. The term "Ultimate Net Loss" means the claim for indemnity including loss adjustment expense paid or payable by the Company on its net retained liability after making deductions for all recoveries, salvages, subrogations and all claims on inuring reinsurance, whether collectable or not.
2. The term "loss adjustment expense" means the actual expenses incurred that can be directly attributed to a specific claim for indemnity, other than office expenses of the Company and salaries of its regular employees. Upon request the Company agrees to furnish the Reinsurer with information relating to loss adjustment expenses including but not limited to the following:
 - Investigation, adjustment, expert and legal expenses,
 - Court costs, pre and post judgement interest,
 - Communication charges,
 - Temporary housing and office space,
 - Travel and meals.
3. Notwithstanding the above, adjustment expenses shall include:
 - (a) when adjustment of a claim is entrusted to employees of the Company employed as experts, or loss adjusters, an appropriate part of such experts' or loss adjusters' salaries and expenses. An "expert" is an individual with special skills or knowledge derived from training or experience;
 - (b) when adjustment of a claim is entrusted to independent adjusters, such adjusters' expenses.
4. The claim for loss adjustment expense is to be reported as a separate amount from the claim for indemnity.
5. Nothing herein shall be construed to mean that losses under this Contract are not recoverable until the Company's ultimate net loss has been ascertained.