

CATALINA HOLDINGS  
(BERMUDA) LTD

Cumberland House  
1 Victoria Street, 7th Floor,  
Hamilton HM11, Bermuda

Tel +1 441 294 6350  
Fax +1 441 294 6390

May 22, 2012

Dear Sir/Madam

Ben Zehnwirth asked me to produce a short note describing how we use ICRFS at Catalina.

Catalina is a non-life run-off acquirer. We due diligence dozens of loss portfolios every year. They vary widely by risk type, location and size. With the exception of very small portfolios with only a relatively few claims left in them we use ICRFS to help us to decide the most likely ultimate cost of settling the outstanding claims.

I think that traditional methods are useful for trending provisions in a live writer where errors in the held reserve can be adjusted in future years and future new business will more than outweigh the cost/benefit of the errors. We don't have that business model at Catalina. We want to profit from every company we buy and we don't have the benefit of future new business premium to offset losses.

The most important things that ICRFS does for me are:

1. Its fast to input, model and get results. We work to tight timetables.
2. I need fewer employees because it does so much quickly and easily.
3. I like the way it calculates and produces reserve variation taking account of observed correlation between lines of business.
4. Because it's a parametric system the parameters show features of the claims that traditional ratio methods cannot.

As I said we use ICRFS in most of our due diligences to guide us on reserve adequacy. We bid more aggressively in situations where we are confident of our reserve adequacy estimates and reserve variation estimates. To date we have bought seven companies and all are performing to our original expectations. Perhaps more importantly we have chosen to not bid when we cannot get ourselves comfortable with the accuracy of our reserve estimates. We are aware that in a couple of cases where we have not bid those loss portfolios have in fact not performed well.

We also use ICRFS in our business to update our estimates of reserve adequacy and reserve variation for the companies that we own.

We are not live writers but if we were I would use ICRFS in order to get more insight into the outstanding claims technical provision, to help me with my capital modeling and to help me decide whether to enter new product areas. Publicly available industry statistics are quickly modeled using ICRFS and the results can sometimes be surprising.

Please dont hesitate to contact me to discuss.



*Sincerely,  
Dean Dwonczyk  
Chief Actuary  
Catalina Holdings (Bermuda) Ltd  
Cumberland House  
1 Victoria Street, 7<sup>th</sup> Floor, Hamilton HM11, Bermuda  
PO Box HM3303, Hamilton HM PX, Bermuda  
tel: +1 441 294 6368  
mob: +44 777 619 6675  
email: [deandwonczyk@catalinare.com](mailto:deandwonczyk@catalinare.com)*