

Kerper and Bowron LLC Unveils Patent-Pending Method To Transform Service Contract/Extended Warranty Accounting

Method Transforms Service Contract/Extended Warranty Accounting for \$250 Billion+ Global Industry; Projected To Unlock Over 20 billion In Lending Capital In USA

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[Kerper and Bowron LLC](#) today announced a breakthrough in service contract and extended warranty accounting that fundamentally changes how the global service contract industry recognizes revenue, manages reserves, and unlocks billions in lending capital in the United States. The global service contract industry is expected to [reach \\$259 billion in annual sales by 2030](#).



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The Kerper Bowron Method (patent-pending) replaces industry-standard aggregate earnings curves with precise, month-by-month probabilistic cash-flow projections for every individual contract. Using only point-of-sale data (term, mileage, coverage, deductible, vehicle profile, price, and additional factors), the method generates auditable, contract-specific accounting that adapts to actual experience rather than relying on backward-looking industry averages.

The method underwent a rigorous six-month technical review by the Casualty Actuarial Society, the leading professional organization for property-casualty actuarial practice, with no methodological objections raised. The authors chose to release the method publicly to encourage broad industry adoption and peer discussion, submitting the full technical paper to *Risks*, an international peer-reviewed journal.

The method addresses longstanding challenges across multiple regulatory frameworks, including:

- Exact Solvency II Equivalence: First method to mathematically satisfy the EU's "ideal equation" (Article 77) for finite, predictable risks – previously considered unsolvable for insurance exposures.
- Perfect IFRS 17 Alignment: Insurance-contract cash flows that meet international standards without conservatism adjustments.
- ASC 606 Compliance: Contract-level revenue recognition that ties exactly to U.S. revenue-from-contracts rules, eliminating subjective management judgments.
- Real-Time Equity Visibility: Enables proactive monitoring of claims, cancellations, and emerging equity for reinsurance trusts and regulatory reporting.

The method applies to virtually all service contracts covering repair, maintenance, or accidental damage, from vehicle service contracts and phone protection plans to appliance warranties and home system coverage. Developed by actuaries John Kerper, FSA, MAAA, and Lee Bowron, ACAS, MAAA, the approach is a substantial advance from the original paper published by the Casualty Actuarial Society in 2007. The new approach exactly matches multiple regulatory requirements across the globe, enhances precision, and provides new accounting, synthetic lending, and other applications.

A significant extension of the method enables lending applications, unlocking the difference between projected losses and required reserves as compliant capital for trusts. Developed over many years, the method exemplifies Birmingham's emerging fintech innovation.

"For decades, the service contract industry has relied on aggregate methods that couldn't provide contract-level precision or adapt quickly to changing conditions," said Lee Bowron. "The Kerper Bowron Method changes that fundamentally, giving companies the ability to project losses and recognize revenue with actuarial accuracy for every individual contract."

Early implementations demonstrate projection accuracy typically below 3% and often under 1% over 6-12 month horizons under stable conditions with sufficient contracts, significantly outperforming traditional aggregate methods.

The method is currently running full contract projections for one Canadian administrator, with additional implementations planned for 2026.

"I have been a client of Kerper and Bowron LLC for a number of years," said Mick Vassilev, FCAS, FCIA. "I have found these techniques more accurate and explainable, especially when the book of

service contracts is constantly shifting, which is the norm for many extended warranty providers."

Beyond improved accounting precision, the method's contract-specific projections unlock new financial applications. By quantifying the difference between projected losses and required reserves with actuarial certainty, the method creates access to an estimated \$20+ billion in lending capital within existing U.S. dealer-owned reinsurance structures, secured solely by the contracts themselves, without consumer credit checks or changes in tax treatment.

"This method offers financial institutions and service-contract providers a rare opportunity to turn rigorous accounting into a competitive advantage through superior data-driven decision-making," said John Kerper. "The contract-level visibility enables everything from better pricing and product development to more efficient capital deployment and regulatory compliance."

About Kerper and Bowron LLC and Irish Trinity LLC

Kerper and Bowron LLC is an actuarial, accounting, and insurance consulting firm located in Birmingham, Alabama. The firm was founded in 2003 by John Kerper and Lee Bowron. Irish Trinity LLC is a related company which was formed in 2024 to develop this intellectual property.

The firm offers deep expertise in the F&I industry and proven skills in reinsurance, pricing, loss reserving, cash flow projections, and financial reporting. For more information, visit www.kerper-bowron.com.

- Full Paper: <https://tinyurl.com/KBMethod>
- SSRN Preprint: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5973054#
- IP Overview & Demo Request: <https://calendly.com/lee-bowron/meeting-30-minutes-or-less>

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