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Reinsurance Section News

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DEAR MS. RE

by Mr. Re

Dear Ms. Re:

We continue to hear that our reinsurers are dissatisfied with the quality of our reporting under our various treaties. There have even been veiled threats of arbitration over our lack of compliance with the treaty reporting requirements, the implication being that they would rescind the offending treaty to inception.

Would they really have a case if we continue to try our best to pay them on a current basis? Why is reporting suddenly becoming such a hot item?

Signed,

Mr. Re

Ms. Re's response:

This is not a new issue. Historically, reinsurance reporting has been given short shrift. It is hard to fault the ceding company's management who are faced with a growing list of marketing, profitability and capital issues. When asked to prioritize projects on a list from one to ten, reinsurance reporting tends to be ranked 12th.

So if this issue has been around for so many years, why the current urgency?

- As is so often true, the change in the cedant/reinsurer relationship can be at least partially attributed to a reduction in reinsurer profitability. Until recently, increased competitive pressures resulted in significant reductions in reinsurance profit margins. This, in turn, resulted in reduced flexibility. The reinsurers' point of view is that they have been unbelievably tolerant, waiting, in some cases, several years for reliable reports. The question seems to imply that the cedant's viewpoint is: "What's wrong with you guys, can't you take a joke?"
- Reduced profit margins make it imperative for the reinsurer to get an accurate fix on their results by client and treaty. Uncertainty causes actuaries to increase margins. This benefits no one.
- XXX has increased the importance of accurate reinsurance reporting. The cost of capital and/or letters of credit is of growing importance in a reinsurer's profitability equation. Reinsurers must have access to capital markets in order to continue to reinsure level term business. This requires accurate, detailed data from the ceding company in order to isolate the business by issue year, contract, etc. Inaccurate reporting may lead to redundant reserves and thus increase costs as well as inhibit the availability of capital. With this in mind, reinsurance partners should strive to correct reporting deficiencies if they exist. Since maintaining reinsurance capacity is in everybody's best interest it is important for reinsurers and cedants to work together to resolve reporting issues, if they exist.
- Retrocessionaires are growing increasingly impatient with the timing and accuracy of the reports they receive from reinsurers. As total industry capacity shrinks, retrocessionaire concerns should be of concern to cedants as well.
- Sarbanes-Oxley has created a new dynamic. The requirement for the CEO and CFO to attest to the accuracy of financial statements makes it more challenging for the reinsurer to continue prior levels of tolerance.
- The E&O clause in the treaty is intended to handle clerical errors, not systemic errors. Poor administration has created instances of denial of liability. This too, is a situation no one should be happy with.
- The New York Insurance Department has not relaxed its requirements on the need for policy-level reporting from reinsurers. Ensuring compliance with regulator demands is also driving increased attention to the quality of reinsurance reporting.

Clearly, some ceding companies are not in compliance with the administrative commitments they made when executing their reinsurance treaties. From the reinsurer's perspective, reinsurers have exhibited a saintly level of tolerance, but the issues cited above make it more challenging for them to continue that position. Expect an increased frequency of arbitrations on this issue if the situation doesn't improve.

Please let us hear your point of view.

Cordially signed,

Ms. Re

Ms. Re would like to extend thanks to Mel Young and Craig Baldwin whose assistance was invaluable in formulating a response to Mr. Re's thoughtful question. ✺