



SOCIETY OF ACTUARIES

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DEAR MS RE:*by Mr. Re*

I was just recently involved in a very extended treaty negotiation with my reinsurance pool members. They seemed to be bringing up issues that I feel are somewhat perplexing and currently difficult to deal with administratively. Although I can see where they might have issues with things like time limits on the submission of Errors and Omissions, and concentration of risk; so where is this new emphasis on administrative purity coming from? A couple of my pool members cited SOX compliance as one motivator and others said the push is coming from the retrocessionnaires. What's the real story here and what should I do to deal with this 'Brave New World'?

Signed Mr. Re**Dear Mr. Re:**

I remember when the reinsurance world was a simpler, friendlier place—a world without XXX, AXXX and SOX; a place where the rates provided sufficient margin so that reinsurance mortality studies appeared to be an academic exercise; where reinsurance relationships lasted 40 years and the market had a long-term perspective. Where a reinsurer did not need to be 'Brave' and where the 'New World' was not viewed with a great deal of uncertainty.

For some the old world is nothing but a fond memory. In today's world several harsh realities now exist. Reinsurers are required to sign off on the accuracy of their financials. Attempts to retrocede or securitize XXX and AXXX liabilities require the reinsurer's numbers be something more than dime-store fiction. Some people just can't take a joke.

This new paradigm puts pressure on all the former "partners" to a reinsurance treaty. The level of the bar has been raised to such a level that no one in the food chain can afford to be asleep at the switch. Furthermore, the 'Brave New World' we live in involves agreements that are tightly priced and regularly required. This requires that reinsurers obtain accurate data to generate competitive rate structures and receive current risk information to continue to secure their capacity on all fronts.

I suspect that if the writer would like to provide its pool members with an offer for a long-term agreement, wherein they pay rates with sufficient margin to justify the necessary patience, their reinsurers might be willing to exhibit a modicum of "valor." This could then allow for a continuation of approximate reports which are not trued up for several years and the payment of claims for which no one has seen premiums until claim settlement time.

Ms. Re has often suggested that the administration people be made part of the process before an agreement is signed. Knowing that you are going to get what you thought you negotiated would very likely considerably reduce the angst.

As always, Ms. Re welcomes other viewpoints.

Editor's Note: Ms. Re would like to extend thanks to Mel Young and Craig Baldwin for their invaluable assistance in formulating a response to Mr. Re's thoughtful question.

If you have other viewpoints on the question you would like to submit, or if you would like to write a 'Letter To The Editor,' please send your letters to "Editor—Reinsurance News" c/o Society of Actuaries, 475 N. Martingale Road, Suite 600, Schaumburg, IL 60173 or e-mail: Richard_Jennings@manulife.com.