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What Do Cedants Really Want From Reinsurers? (A mostly qualitative response.)

by Rick Flaspöhler

Editor's Note: The Flaspöhler Research Group has been conducting the biennial survey of life company attitudes about reinsurance and reinsurers since 1993. The results of these surveys are used by major life reinsurers to develop marketing and service strategies. The following article is based on input received from reinsurance buyers in these surveys—especially the 2003 survey completed in March 2003.

I have to admit one thing right up front. I'm a closet logophile. When asked to write this article I kept this fact a secret, fearing, perhaps, the SOA would have a by-law somewhere disallowing serious contributions from one of my ilk.

Don't get me wrong—I love numbers too, almost as much as words. In fact, after receiving my undergraduate degree in Journalism I proceeded to obtain an MBA with an emphasis in statistics. During the course of my MBA studies, and throughout my career as a researcher, I've grown to embrace the stability, the crispness and the manageability of numbers.

But every time I look at numbers I find myself wanting more. I want to understand what is behind, below, above and interwoven with the numbers. I want to enjoy the story, and for this I need words.

Words provide resonance. Words provide depth. Words provide a perspective impossible to convey with numbers. (Let's not forget, even Einstein said that what we see depends on our perspective.)

Are Cedants Hard To Please?

Let's start with a quantifiable fact. Between 1996 and 2003 the proportion of cedants indicating that they were "Very Satisfied" with the reinsurers they used dropped from 67 percent to 46 percent. Wow!

(For those of us automatically resorting to what we know best, all statistics quoted herein are based on sample sizes of over 250 individuals identified as reinsurance decision-makers by major reinsurance companies. Sample includes both underwriters and actuaries.)



This really begs the question, "What happened?"

For those who always believed "price" was the most important factor in a relationship with a reinsurer please note that this drop in satisfaction came during a period of time when reinsurance pricing dropped dramatically. Arguably, the period from 1995 to 2001 (when satisfaction ratings dropped most severely—from 67 percent to 50 percent) saw the most significant price/rate drop in life reinsurance rates in history.

Although we examined the question of what happened? from many different perspectives, (quantitative and qualitative) one assumption provided us with a meaningful springboard from which to examine this issue—namely, customers become less satisfied when they want something that is not being provided by a vendor.

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In the following paragraphs we'll examine the verbatim responses provided by cedants when asked, "What do you really want from your reinsurers?"

As one would expect, many cedants used the term "price" or "cost" in their response to the question, "What do you really want from your reinsurers?" Examples are as follows:

- "Competitive price, strength."
- "Competitive price, strong facultative outlet for both rating and capacity, and ease of administration."



- "Competitive prices and a reasonable business partnership."
- "Competitive pricing, partnership mentality, mortality knowledge, knowledge of industry trends."
- "Competitive quotes, support for financial reinsurance as necessary, thorough underwriting and claims audits, capacity for large cases."
- "Competitive rates, strong customer service and fast responses on high-visibility cases."
- "Liberal and responsive underwriting and competitive pricing. Recognize that business decisions are not the root of all evil. We want it all!"

It is important to note that "price" or "cost" was rarely mentioned without a modifier—competitive, reasonable, fair, etc.

In the overwhelming majority of instances, price was one item on a list of many other factors:

- 1) Low prices
- 2) Timely response to new quotes and new programs.
- 3) Facultative capacity and support for large cases
- 4) Push back on retros who are limiting what the reinsurers are able to do for the ceding companies. Retros seem to have some outdated policies.
- 5) There needs be more access to reinsurers during December instead of everyone taking off on vacation.
- 6) Honest feedback regarding the ceding company/reinsurer communication process. Something other than "the customer's always right" attitude.
- 7) Stop supporting "table-shaving programs."
- 8) No more acquisitions."

Another example of "price/cost:" being part of a larger list is:

- 1) Competitive costs
- 2) Aggressive underwriting on fac business
- 3) Fast turnaround time—two-day average
- 4) Knowledgeable underwriters who can respond to questions.

For those ready for a quantitative "fix," I serve these calculations.

Price was mentioned by 55 percent of all respondents to the survey. However, 93 percent of "price" mentions were qualified by adjectives such as "competitive" or "reasonable."

Only 7 percent of price answers were qualified with the terms “low” or “aggressive.”

Also notable was that 75 percent of the actuaries who completed the survey mentioned “price.” Of course, the notable item is that one in four actuaries did not include “price/cost” anywhere in their response.

If Not Price—Then What?

At this point the reader is likely wondering about the content of all the responses that address a subject other than price. And there were many of these.

In fact, over 95 percent of responses address a subject beside or in addition to price/rates!

Some of the better responses include:

“Best offer available on facultative cases. (Also dinner and a vodka gimlet on occasion!)”

“O.K. That one should probably be put in the price/rate category. But, I loved the honesty.”

Another typical response is:

“Everything: competitive price, capacity, facultative underwriting support, knowledgeable marketing reps, professionalism, good service, comfort that they know what they are doing and aren’t using a crystal ball to price. And stability—not just financial stability, but commitment to maintaining a reinsurance presence for the long term. Understand P&C. Lastly, no arrogance. XXXX Re seems to be developing an attitude; i.e. ... if you want to do business with us, you will give us your first born.” The quotes that follow provide a good overview of how most cedants responded to the question, “What do you really want from your reinsurers?”

A) “First, best available rates, best real input on what we as a company can do to improve our quotes (not what we want to hear). We want to know where we stand. Consideration and support for special programs to be established outside of the treaty (at an appropriate cost if needed.) Sound underwriting manual with valid up-to-date research.”

B) “Good, hassle-free service. Good rates—doesn’t have to be the best, but must be competitive. Timely and helpful advice—accessible actuaries, underwriters and administrative personnel when needed and sometimes good advice/information even when not requested. Good facultative underwriting quotes.”

C) “Partners who will help my business grow, which in turn will help make their business grow.”

“They can do that by supporting efforts which I need for growth, as well as recommending options to help my growth. Examples of these ways are providing mortality expertise, capital solutions and sharing risk in new areas where I may not have the expertise to do it alone. Another example would be to keep direct companies on track by performing comprehensive underwriting audits and acting upon them. Reward good, penalize bad.”

“They can also do this by doing things that hurt my business. Examples of this are providing reinsurance quotes, that based on a constant percent of 75-80 tables, result in very low tail mortality. Also, not doing regular reinsurance audits.”

D) “Relationships. Business partners. Obviously good rates and time service. But we have many creative opportunities presented to us requiring creative underwriting solutions. I need to be able to pick up the phone and talk to a senior/chief underwriter and get assistance with coming up with a creative solution, if possible.”

What Can We Conclude?

When dealing with words instead of numbers, our conclusions take on a tenor very different from those we arrive at using numbers.

The few cedant thoughts we’ve examined in this short article provide us with a valuable

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perspective with which we can better understand both ceding company satisfaction and needs.

Although we've only examined a few of the tens of thousands of words provided by cedants in their efforts to communicate what they really want from reinsurers, we can reasonably conclude:

1. Competitive price/rates are important. Consistency in price/rates is important. The only time "lowest" price is important is when the cedant perceives the reinsurer as being equal on all factors other than price (security, underwriters, easy to deal with, etc.)
2. Relationships are at *least* as important as price. Most cedants responded to the "what do you really want" question with answers including *relationship* references such as "partner," "assistance," "input" and "professionalism."

Sure, there are cedants who really make reinsurance decisions entirely on lowest price, but our studies show that only 7-10 percent of cedants fall into this category.

There is a perception among most cedants that relationships have deteriorated over the past 10 years. There is a feeling among cedants that they are being taken for granted. There is a feeling that many reinsurance reps don't have the knowledge/background needed to assist cedants in today's very difficult insurance marketplace.

There is a feeling among many cedants that they spent the last three or four years listening to reinsurers talk about their own plans concerning *internal* issues such as restructuring, acquisition and surplus management.

And there is a strong feeling among cedants that few reinsurers are taking the time to really *listen* to the needs of cedants.

The answer for reinsurers is really quite simply stated (although, perhaps, difficult to achieve.) Shift the focus back to the cedant. Listen. Understand. Participate in solving the cedant's challenges.

Invest in the relationship. (But, always remember that price/rates are important—especially if you are not perceived as offering

more/better services/benefits in other areas.)

Perhaps the perspective can best be illustrated by the following cedant response (one of my all time favorites because of its disarming frankness):

"My pricing actuaries and underwriters want the lowest possible reinsurance rates for YRT, the highest possible ceding allowances for coinsurance, the largest automatic lines, the highest possible (preferably no) jumbo limits, the most easygoing underwriters for fac and NO hassles. Also some free consulting services from time to time.

(Whew! There I've said it and fulfilled my obligations to my employer.)

Speaking for myself, I would like:

(1) Some confidence that my reinsurers knew what they were doing. I so admired the old Lincoln who would look at a flaky deal, say it was flaky and walk away from it while other reinsurers were standing in line for the same deal. I don't trust the rating agencies, so it's important to me that the reinsurer's people know what they are doing so their company won't go belly-up.

(2) I don't plan to need advice from my reinsurers (supposedly I've got enough geniuses in my own company), but it happens from time to time that I do. I would like to get good advice or a quick thought. ✍



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