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Was It a Useless Survey or Just Useless Conclusions?

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The August 1994 edition of *Reinsurance News* contains an article I wrote titled "Reinsurance in the Face of Change." In the process of "decluttering" my home office I came across this article and remember all too well giving a presentation that spring at the Canadian Reinsurance Conference and then writing the article at the request of the Reinsurance Section. Not sure why I read it again since I was trying to "declutter" my office and mind of trivia no longer relevant.

The year was memorable as reinsurance growth was just approaching numbers that defied logic and that were to climb higher over the following years. The amount of risk reinsured in Canada in 1994 was up 250 percent from 1984 and was to continue to grow to 1650 percent by 2004 and ultimately to 2600 percent in 2011. The United States, on the other hand, saw its magnitude of new risk reinsured grow to 101 percent in the decade 1984-1994, then spike up to 630 percent by the early 2000s and then plummet to a mere 280 percent of the 1984 figure in 2011. Looks like Canadian operations of the reinsurers were the big winners as they stripped the risk taking from the insurers operating in Canada.

Did the survey predict any of this for the North American life reinsurance market? Not really, but if you read that old article you will note I apologized to the 54 respondents for the vagueness of some of the questions. I wrote the survey questions as a risk taker or risk selector and not as an actuary, yet over 80 percent of the respondents were actuaries either still practicing or having moved on to management. In my usual rush to get things moving I remember not asking anyone to edit my questions prior to mailing.

Given that 26 of the respondents were from Europe, it was not surprising to find their priority was focused on international standards and international expansion. The North Americans were more worried about their own backyard and left the world to others with broader visions. Also of note was the fact that 43 of the respondents were reinsurers, so taking on risk was more their focus.

Based on the written responses of the Canadians and Americans, the worrisome features of the future, as speculated on in 1994, were capital, high competition, increased regulation, globalization, and the "shakeout" of some players. Canadians specifically said customer service would play a significant role in the future. The details and the succinct written responses, though, elaborated on what the boogeymen (are there boogeywomen?) were in the future. Looking at each of the six categories I noticed their vision, or nightmare, of the future was pretty accurate!

Under the heading of governmental influences, risk-based capital and return on capital was the No. 1 issue for 90 percent of respondents! factual today as a No. 1. Just below that single item was reinsurance regulation, but I think that we did not see much of that other than as reaction to dubious reinsurance schemes that landed companies in trouble. Lastly was the worrisome trend to lower interest rates, which they saw as a potential disaster. Let us all applaud their vision, for interest rates are a big issue today as interest rates flounder at prolonged low levels even the 1994 visionaries would not have predicted!

The second category was "company structure," and to no one's surprise, technology ran away with the winner's trophy. Some 85 percent felt this to be a huge factor in the future and they were right; but, regrettably, they did nothing about it, as our industry still talks the talk but has failed to walk the walk. The only winners with technology were our highly paid consultants and the IT department.

In the same vein of thought, the third category was "business objectives" and the "streamlining of administration," which were ranked as No. 1 fear factors or great to have objectives by 81 percent of the wise respondents. We probably fared better with this one than with technology, but again process reengineering, right sizing and the general administrative improvements have not been addressed successfully. I cannot change my address on my universal life policy or find out what my values are without using the telephone or email to ask and then wait six weeks for a solution or answer! The only streamlining I see now is that it takes only 11 different telephone prompts to get me to the right person or department whereas before it took 13. Following the streamlining vision were the very important items of return on capital and demand for profit. Now, really, even in 1994 did you have to be a wise visionary to predict companies would demand better return on capital and demanding more profit?

In the last categories of "product," "culture" and "economy," the only standout prediction would be the emergence of "advanced age applicants," an overcapacity in the industry of reinsurance, and recession in the West! All were very good visions or predictions for those years 1994 to 2011.

I must admit the section of that survey I felt was the best then and still do today was Section 7. The statements on which to agree or disagree were succinct and left little to the imaginative and furtive minds of the actuarial respondents. What I did not expect then, and still reflect upon today, is how definitive in terms of numbers the responses were to four out of five statements. I am not sure what happened with the missing couple of respondents, but my guess is they are still doing computer simulations to validate any answer they are still working on!

"THE ONLY STREAMLINING I SEE NOW IS THAT IT TAKES ONLY 11 DIFFERENT TELEPHONE PROMPTS TO GET ME TO THE RIGHT PERSON ... WHEREAS BEFORE IT TOOK 13."

Statement	Agree	Disagree
There will be a shrinkage of capacity in life reinsurance.	9	42
Some reinsurers are competing without an understanding of the market.	43	9
Reinsurance actuarial assumptions are still conservative.	8	44
Reinsurers must become more innovative in conceiving reinsurance structures to respond to new products and administrative complexity.	43	8
The industry should standardize administrative reporting.	27	13

Responses to Section 7 Statements

Most of the respondents did feel that, yes, there would not be shrinkage of capacity in the life reinsurance industry, but I wonder if they realized how it would shift. The exhilarating days of retrocessionaires have certainly declined to also-rans, but the capacity they had has been more than made up for by reinsurers themselves increasing retentions to exorbitant levels. Mortality has been exceedingly profitable up to now, so why not gobble up as much as you can? Also, did they have any inkling back in 1994 that reinsurance demand in the United States would soften and thus the definition of how much capacity is enough would change? In Canada, even with the insurers' addiction to the drug of reinsurance pricing, the insurers' need for capacity is more directed at the breadth and not the height of risk—taking quota share from dollar one has its own capacity need versus that of excess risk taking for the jumbos. I give those respondents a check mark for disagreeing, but perhaps they were lucky as the support for such thinking was not what I would consider today.

Every time I see a survey of actuaries and or executives and a question or statement is made resembling the second statement of Section 7, I chuckle at the answer. The majority of the respondents agreed that some reinsurers are competing without an understanding of the market. That is similar to the survey that asks actuaries if other actuaries are using the right mortality assumptions, and

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the majority says no. Putting the question in context to the era I remember, there was tremendous growth at a time when many of the wise reinsurance leadership were retiring. The men and women of the handshake era were gone or going, and a new breed of upstarts came on like gangbusters flailing at the status quo and any semblance of a handshake deal.

This is a question I would like to ask today just to compare the mind-set of the two generations. Perhaps the plethora of accountants and lawyers who overwhelm the reinsurance industry would answer far differently since they at times are perceived to be arrogant enough to feel history means nothing and everything can fit before or after the "whereas" or "wheretofore."

To no one's surprise there was a surge of support for the disagree side of the ledger on the question of rates. They were not seen as conservative then and that conclusion of rates would prevail through to 2011 and, for the slow, perhaps 2012. I believe we have said for 20 plus years the rates are too aggressive and it is only recently that the industry, both insurer and reinsurer, has decided to not ignore aggressive pricing and the lunacy of the downward spiral. This question would give the same ratio of respondents in agreement and disagreement if not even more lopsided.

Any statement to do with innovation leaves lots to the imagination. I see innovation as great if it leads to sound use of financial resources and has clarity of purpose for all to appreciate from insurer to reinsurer to regulator to the public. Since 1994 we have seen some innovation that is more akin to corruption of financial resources clouded in verbiage and subterfuge that almost is criminal. Well, I should say that in some cases it has been judged as criminal. Have reinsurers become more creative in their offerings? I would say yes in the United States but not really in Canada. Why innovate in Canada when you are already the real risk taker at 74 percent of all risks written? It has become too easy to just lower rates, take a majority of a treaty and milk the insurers' sales success. I am not sure I see any value in throwing that statement out today for responses unless I surround the statement in definitions that imply only financially and morally correct innovation that is transparent to all qualifies.

The survey was not useless and nor were the conclusions. Intelligent people gave intelligent responses. At the time it was a much-in-demand survey; it gave me material for speeches and articles, and I like to think none of those were useless. On looking at the list of respondents, it appears all are either retired or are safely ensconced on boards of directors where they stand in judgment of today's leadership. Glad I did the survey. Very glad I found it again in 2011, chuckled over the results and pondered on the health of all 56 leaders from a bygone era.

I would be remiss if I did not conclude with the same final sentence that continues to beguile me with its simplicity. Knowing the source, I know what he was alluding to and I think he was right, especially taken from the era he was a graduate of and the merits of the handshake. I quote the following from 1994: The vision that respondent had was that the reinsurance industry would see *"less pure underwriters and actuaries.* ■