



SOCIETY OF ACTUARIES

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The Haimish Period

By Rick Flaspöhler

They're not yet joining hands and singing kumbaya, but actuaries and reinsurers seem to have recently fashioned unique and useful new bonds.

David Brooks, the brilliant columnist for the *New York Times*, recently published a story about an assignment that gave him the opportunity to enjoy a safari with his family. While visiting Kenya and Tanzania, Brooks describes notable differences between the "simple" camps and the "luxurious" camps; the former typically lacking electricity or running water and the latter offering regular showers and even pools.

According to Brooks, what the simple camps had and the luxurious camps lacked was "*haimish*." He described *haimish* as, "... a Yiddish word that suggests warmth, domesticity and unpretentious conviviality," and proposes a link between a lack of amenities and closer social bonds.

While reading this editorial I couldn't stop thinking about the environment for direct writers and reinsurers today. Long gone are the days of attractive investment opportunities, a favorable regulatory environment, and easy-on-the-relationship underwriting standards and audits.

While today's "simple camp" environment continues to present direct writers and reinsurers with difficult problems, one very positive outcome is that direct writers and reinsurers appear to enjoy more haimish relationships as they've come together to figure out the best way to move forward, and to survive.

CEDANT SATISFACTION WITH REINSURERS CONTINUES TO IMPROVE

For the fourth time in a row in our biennial survey, cedant satisfaction with reinsurers improved during the two-year period between surveys. Over 44 percent of all cedants indicated they were "Very Satisfied" with the reinsurers they use in the latest measurement, and another 50 percent indicated they were "Somewhat Satisfied." Only 1.4 percent of all cedants indicted any level of current dissatisfaction with reinsurers.

In every life reinsurance survey we've conducted since 1991, actuaries have proven harder to please than underwriters and 2010 was no exception. While 66 percent of underwriters indicated they were "Very Satisfied," only 33 percent of actuaries answered that they were "Very Satisfied" with reinsurers used.

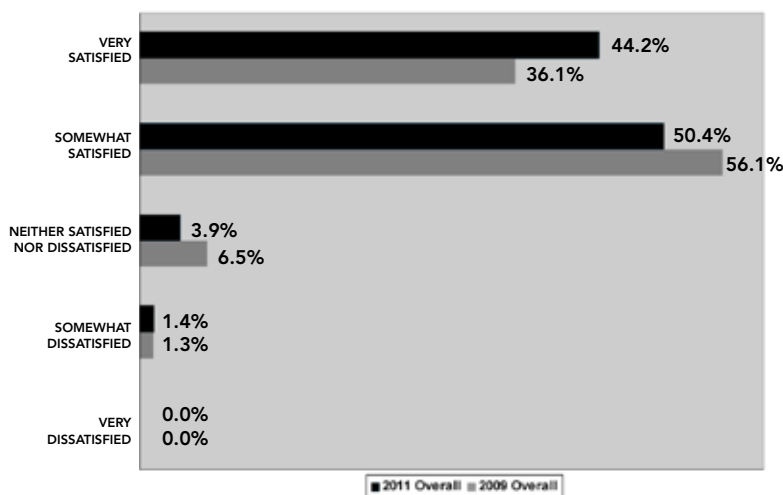
SIX TIMES AS MANY CEDANTS SEE RELATIONSHIPS IMPROVING VERSUS DECLINING

Another positive sign for cedants and reinsurers is the proportion of cedants who report relationships with reinsurers are improving versus the proportion reporting a decline. The 2011 results show that 36 percent of all cedants (and 33 percent of actuaries) report that reinsurer relationships are improving, while only 6.2 percent of all cedants (and 7.9 percent of actuaries) report declining relationships.

The following are typical of the responses given by actuaries when asked to describe the specific way(s) in which relationships are improving:

- "While not true of all of our reinsurers, I am finding that most of our reinsurance partners are being more creative at coming up with solutions to issues, whether it is at the case level or at the treaty level."

Q2- Would you rate your overall level of satisfaction with the life reinsurers you use as ...?



// ... EIGHT OF THE 13 REINSURERS IN THIS STUDY HAVE MORE CLIENTS RECOMMENDING THAT FRIENDS AVOID THAT REINSURER THAN RECOMMENDING FRIENDS CONSIDER THAT REINSURER. //

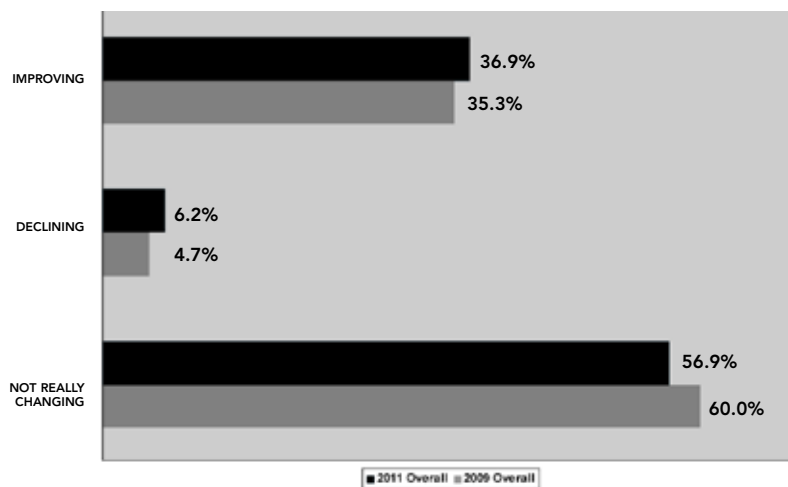
- “The partnerships have deepened as the reinsurers have become more moderate and our underwriting philosophy and implementation have solidified.”

- “Starting to realize that we’re in a partnership and are becoming more flexible, as well as providing more value-added services.”

- “More direct contact with them. Personally getting to know them and being able to call them on the phone to discuss a case directly instead of just getting a decision.”

An analysis of key words across all responses reveals that 39 percent of cedants used the word “relationship” or “partnership” when describing the specific ways in which relationships were improving, and 38 percent used the word “communication.”

Q3- Are your relationships with reinsurers, overall, ...?



REINSURER QUALITY RATINGS ARE AT AN ALL-TIME HIGH

In each of our biennial surveys we ask cedants to rate those reinsurers with whom they are familiar on a 1-9 scale, with 9 = Very Good and 1 = Very Poor. The chart below shows the *mean* reinsurer quality rating on each factor for each survey going back to 2003.

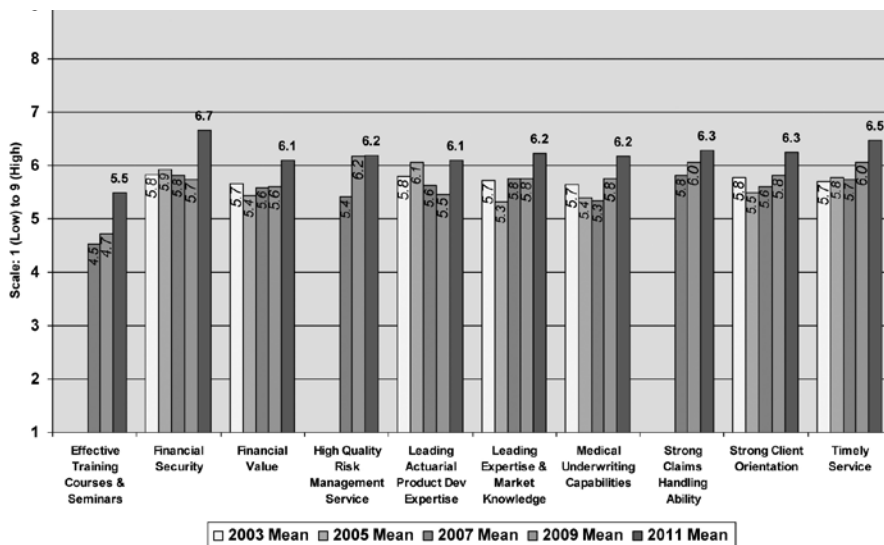
With only a few exceptions the mean reinsurer rating for every factor, in every survey since 2003, was below “6.”

Remarkably, in 2011 the mean reinsurer rating rose above “6” on every important reinsurer evaluation factor except one. Note, however, that the mean rating on that one factor, “Effective Training Courses and Seminars,” showed a greater absolute increase in value than for any other factor except “Financial Security.”

THE FLY, THE FLY; ALWAYS A FLY IN THE OINTMENT

Marketing researchers typically measure gray-matter output, and the stuff we find is rarely (contrary to popular opinion) exceptionally consistent or cogent. When examining the results of a study and viewing the examples of output presented thus far, red flags will appear in the mind of any experienced researcher. So it is with these results.

2003-2011 yearly Factor Mean ratings (All Re Together)



In 2003, *The Harvard Business Review* published an article by Fred Reichheld in which he unveiled a powerful and effective measurement of customer satisfaction and loyalty. The surprisingly simple measurement is the result of asking your customers the single question: “On a scale of zero to 10, how likely is it that you would recommend us to your friends or colleagues?”

CONTINUED ON PAGE 14



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It turns out that customers who respond with a “9” or “10” are those who go out of their way to recommend that company to colleagues and friends whenever and wherever they get the opportunity. Those who respond with anything from “0” through “6” go out of their way to recommend that friends and colleagues avoid doing business with that company. Somewhat surprisingly, clients who answer “7” or “8” just don’t talk about that company.

The Client Advocate Score™ we calculate for every life reinsurer shows whether each reinsurer is net positive, neutral or net negative with regard to being recommended by customers. The higher the score, the greater the proportion of “9” and “10” responses relative to “0” through “6” responses and the higher a reinsurer’s Client Advocate Score. In a typical reinsurance survey (we complete nine different reinsurer surveys across Europe, Asia, Latin America and the United States) the mean reinsurer Client Advocate Score is 0.

Given the exceptionally positive feedback about cedant-reinsurer relationships in the 2011 U.S. survey, one might assume that Client Advocate Scores in the 2011 study would also be very high.

They are not.

Only four of the 13 reinsurers, for whom a score was calculated from data collected in the 2011 survey, earned a score above “0.” The high score earned by any reinsurer was 45.6.

However, eight reinsurers received net negative scores, and one reinsurer received a score of 0. In other words, eight of the 13 reinsurers in this study have more clients recommending that friends avoid that reinsurer than recommending friends consider that reinsurer.

“SOMETHING THERE IS THAT DOESN’T LOVE A WALL ...”

While the direct writing environment has changed significantly over the past 15 years, cedant-reinsurer relationships are still evolving toward the state necessary to meet today’s challenges. Much progress has been made, but let’s not forget that almost 70 percent of direct writers indicated they were “Very Satisfied” with reinsurers in the late 1990s, and there is still a lot of work to be done.

A quick review of data from our studies in the late 1990s also reveals a significant level of cedant dissatisfaction back then with what was perceived as “impersonal relationships,” “inexperienced reps” and “irresponsible underwriting.”

As Robert Frost so elegantly pointed out in his poem, “Mending Wall,” there is always something trying to bring down a wall. And it’s just possible that the wall that went up between direct writers and reinsurers early in the new century is being brought down by something as simple, and gratifying, as “haimish.”

Disclaimer:

The FLASPÖHLER|RESEARCH GROUP 2011 Life Reinsurance Effectiveness Survey NA was initiated in 1993 as a biennial study of Life direct writers’ opinions of reinsurance and reinsurers. The 2011 report is based upon interviews with 484 respondents. Over 190 companies are represented. Each survey respondent was named by one or more of the study’s reinsurer co-sponsors as being an important decision-maker for evaluating and selecting reinsurance.

All interviews were conducted with individuals after they first received an email from FLASPÖHLER|RESEARCH GROUP requesting their participation. Interviews were conducted over the Web. Each Web respondent was given a unique access code which allowed him/her to gain access to the survey questionnaire.

All contacts were offered the 2011 Life Reinsurance Executive Summary of Findings as an inducement to participate in the study. In preparing the survey instrument, FLASPÖHLER|RESEARCH GROUP worked with the study sponsors to ensure that key areas were addressed. All interviews were completed in October–November 2010. The average interview length was 33 minutes.

The survey instrument consisted of about 40 questions about reinsurer utilization, perceptions of reinsurers and related topics. Thirteen (13) reinsurers were evaluated.

Some of the characteristics of the intelligent, Web-based interviewing system include:

Random Order Questioning—The web survey utilized sophisticated technology to ensure that the multi-part questions were presented in a truly random order to filter out any artificial bias that might exist if those questions were presented in exactly the same sequence every time.

Knowledgeable Responses—The surveys were conducted using a technique called “adaptive interviewing.” In other words, respondents are only asked to rate reinsurers with whom they are familiar. By eliminating the “noise” created by asking respondents to rate unfamiliar companies on unimportant factors, this technique provides sponsors with highly accurate and meaningful information.

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