



SOCIETY OF ACTUARIES

Article from:

Reinsurance News

March 2014 – Issue 78

Summaries Of Two Reinsurance Section Annual Meeting Sessions

By Paul Myers

The SOA Annual Meeting in San Diego was a huge success—the second most highly attended Annual Meeting ever! For those of us that were there, San Diego proved to be a wonderful place to find great weather, great networking, and some great educational sessions. The Reinsurance Section sponsored several sessions at the conference. In case you missed it, following are brief summaries of a couple of the highest rated sessions that we sponsored.

SESSION 140 – The Business of Fraud (Reinsurance Section and Product Development Section Joint Hot Breakfast)

- **Moderator:** Paul Myers (Munich Re; Reinsurance Section), Paula Hodges (Ameritas; Product Development Section)
- **Presenter:** Daniel Marsano (Prudential)

Insurance fraud costs consumers and insurers \$80 billion each year. The states in our country spend \$0.1 billion each year to fight it. It is estimated that insurance fraud costs each U.S. household \$1000 each and every year. These numbers are staggering. Clearly, insurance fraud has an impact on the products we develop and reinsure.

As a former police officer and detective from the Detroit area and author of the book “In Search of the Truth ... An Analytical Approach to the Interview Process,” Daniel Marsano is recognized as an international expert in his field. As vice president of Prudential’s Special Investigation Unit, Marsano has led a team that has aggressively confronted insurance fraud to keep the fraudulent business off of Prudential’s books and keep the bad guys out of our business!

In this session, Marsano dug into this issue and showed the importance of detecting fraud early, and then demonstrated how the Data Verification Reports (DVR) completed by the Special Investigation Unit personnel at his company have been more effective at protecting the company than conventional inspection reports. The DVR’s are completed in 3.5 days versus 14 days for the conventional reports, they are technology based and transparent to the customer, and since they are completed and analyzed by SIU personnel instead of an



outside vendor, motives are well aligned and protective value has been demonstrated.

Daniel then went on to tell a number of informative and entertaining stories that illustrated real life examples of how our industry has been attacked in the past. He explained some of the techniques used by his team to investigate and resolve issues. His examples demonstrated the value of the DVR, showing how the report raised red flags which led to successful investigations. The examples showed the creativity displayed by the perpetrators, and why we as an industry need to be aware and agile to adjust to the developing environment. Finally, he highlighted the keys to successfully combating fraud—based on a strong investigation unit that engages in the underwriting process and prosecutes fraud aggressively.



Paul Myers, FSA, MAAA, is vice president, IL marketing with Munich Re in Atlanta, Ga. Paul can be contacted at pmyers@munichre.com.

SESSION 153 – Reinsurance Treaty Construction and Terms

- **Moderator:** Steve Stockman (Actuarial Compass)
- **Panel:** Bob Diefenbacher (Pacific Life Re), Tom Spurling (Lincoln Financial), Melinda Webb (Munich Re), Brett Wiggins (MetLife)

CONTINUED ON PAGE 32

In this highly interactive (and many times amusing) session, the panel of industry experts debated several important reinsurance treaty topics, approaching each from a unique perspective. Steve Stockman set the stage by asking the panellists to address each topic from the unique perspective of their particular segment of the market (from the perspective of a direct writer, a reinsurer, or a retrocessionaire). Steve made it very clear that the panellists were not representing the view of their respective companies, but rather trying to lay out the ideal approach given the segment of the market represented by each.

The topics discussed were the Letter of Intent (LOI), Underwriting, the Jumbo Limit, Late Reporting, Errors and Omissions (E&O), Facultative Claims, and Automatic Claims.

For each topic, the panel reviewed basic principles of agreement, and then debated areas of contention. For example, they agreed on the purpose of the LOI, the fact that its execution may be necessary for a cedent to take reserve credit, and that the LOI is replaced by the subsequent execution of a treaty. Alternatively, they debated whether an LOI was necessary in all circumstances, whether it could be backdated, if it was fair for a party to sign the LOI and then later try to renegotiate terms covered by it, and whether business should be ceded to (and/or accepted by) a reinsurer when there is no signed LOI or treaty.

The experts on the panel did a really good job engaging each other in the debate and painting a picture that clearly made sense from their unique perspective and why. They discussed real world, factual scenarios such as if a facultative policy was underwritten and an offer was made by a reinsurer, but the reinsurer never received written acceptance of that offer within the timeframe laid out in the treaty, is that policy, and any claim on the policy, reinsured under the treaty? Is it covered by E&O? Where do you then draw the line on the acceptable timeframe? What if the reinsurer or retro no longer had available capacity? Does payment (and acceptance) of premium by the cedent to the rein-

surer constitute “notice”? If that is the case, then why does the treaty ask for a specific notice? Why can’t the cedent just pay premiums on the fac offers that they want to accept? In other words, if payment of premium was an acceptable form of notice, then why would the treaty even ask for a different form of notice given every accepted policy would pay premiums? Since it does ask for a different form of notification, does this imply that payment of premium is not an acceptable notice?

In the end, the audience gained a much greater feel and appreciation of the importance of a treaty negotiation. Some issues are more important for Company A than Company B, so it is very important to invest the time into those discussions so both sides can clearly communicate which issues are important to them and why. As the panel discussed, all sides clearly agreed that these types of discussions are much more productive and ideal *before* a claim is on the table. The debate format of this panel discussion was effective and appreciated. As one member of the audience reported: “The best session I’ve attended in 20+ years. Well organized, penetrating insights, multiple points of view persuasively presented. They agreed to disagree.” ■