

# RECORD, Volume 24, No. 2\*

---

Maui II Spring Meeting  
June 22–24, 1998

## Session 22D

### Are Reinsurance Intermediaries Needed to Negotiate and Administer Group Life and Health Reinsurance Treaties?

**Track:** Reinsurance

**Key words:** Reinsurance

**Moderator:** RONALD L. KLEIN

**Debaters:** ROBERT COMEAU  
STEVE MARTIN†

**Recorder:** RONALD L. KLEIN

*Summary: Reinsurance intermediaries and brokers are uncommon in the single-life traditional reinsurance arena, yet they are prevalent in the group life and health reinsurance business. Are they really needed? What value is added? What does this do to the relationship between the reinsurer and the ceding company? This mystifying question will be debated by leading industry experts.*

**Mr. Ronald L. Klein:** We're going to have a debate today. I really like doing these debate formats. The question we are addressing is, "Are Reinsurance Intermediaries Needed to Negotiate Reinsurance Contracts in Group Life and Health?" Our first speaker, on the pro side, is an intermediary. His name is Steve Martin. He's currently, the president and founder of D&R Solutions. He began his career with Union Mutual a long time ago.

**Mr. Steve Martin:** Twenty-three years ago.

**Mr. Klein:** Yes. And then, on the con side, is Robert Comeau. Right now he's with PacifiCare Life & Health, and he's the chief executive officer. Before that he worked for PIC Life and Guarantee Mutual. He has about 25 years of experience and has negotiated many, many reinsurance treaties. We're going to start off with a quick poll to see where everybody stands on the question. The reason I wanted to do this is that when I started at Life Reassurance Corp of America, I realized that on the life side we contacted our clients directly and as reinsurance people, we also contacted the clients directly. We went out and developed relationships and tried to bring in

---

\*Copyright © 1999, Society of Actuaries

†Mr. Martin, not a member of the sponsoring organizations, is President and Founder of D&R Solutions in Scarborough, ME.

business. While we were doing all this, the group side, group medical and group disability seemed to be dealing with brokers more. They didn't really know the clients. I thought to myself how come this is happening? How come they're sitting around dealing with brokers and intermediaries and not going out and meeting the clients? Is there something different about this type of business? Since it was a question that was in my mind, and I thought that it would make a good debate topic: Is there real value to the intermediaries?

First of all, I'd like to take a poll. How many of you are on the pro side and say that there's real value that the intermediaries bring to reinsurance negotiations? All right, I have nine. How many are against, say that there is no value, no real added value to the reinsurance intermediaries? All right, I have 15 against nine.

**Mr. Martin:** We can remember that, 15–9. Is it your goal to take another poll after this?

**Mr. Klein:** Yes. We will see how many fence sitters there are, toward the end. Steve is going to present his opening statements. Then we're going to have Rob Comeau's opening statements. We'll have some rebuttal and some closing arguments, and then we'll go out to the audience and get comments from the floor.

**Mr. Martin:** When Ron told me that the format was going to be a debate, I was a little nervous. The first reason was because I've never really participated in a debate. The second reason was because I'm fairly new to the broker business. I spent 22 years on the reinsurance side, and then I decided to open up my own broker shop. I primarily operate on the disability side of things. We're liable to have some questions on the other lines of business and hopefully some of the other brokers in the room can help me out on what happens on the other side.

My first reaction when I heard what the subject was, why are we taking on the reinsurance brokers. There's much more money to be made on the brokerage side. When I was on the reinsurance side, I was involved with plan comparisons a great deal of the time. Some of the plan designs I saw coming in from the brokerage side were an absolute disgrace. There's much more money to be saved on the direct brokerage side.

I attended a conference back in February down in Florida. They actually had a broker panel! These are some of the comments that I heard and I wrote them down. I think that they're fairly accurate. The fact is, most of the direct brokers out there, and maybe it's not fair to say most, but certainly many of them are not skilled in the products that they're offering. I see it on the disability side all the time, just by the plan designs that I see. The second thing is that I honestly don't believe that they're

doing what's best for their client. And the third thing is there's a big greed factor. If you look at the four questions, three out of the four deal with money. That tells me that they're really not operating in the best interests of their customer, but in *their* best interest. If you want to take on somebody, you ought to be taking on the direct brokers, not the reinsurance brokers, and you'll save yourself a whole lot of time. In a session this morning, David Fitzpatrick mentioned that it's probably going to catch up with them in the long run because you're going to see a lot more business being purchased over the Internet instead of utilizing brokers.

Nonetheless, that isn't the subject of the debate. The subject of the debate is: "Are reinsurance intermediaries needed?" It occurred to me that the Society is actually doing the industry a favor by questioning this, and this should not be the only thing that should be open for debate, there should be many things. This is precisely the reason why I decided to get into the business, and maybe that doesn't make me the best of speakers to debate on the pro side. My lack of appreciation or respect towards reinsurance brokers led me to form my own firm to try to do it and do it the right way. We'll probably get into some of that as the debate goes on. You folks have been through your share of downsizing. I guess some people call it rightsizing, but certainly it all categorizes under the expense-reduction area. This is nothing more than a logical extension of that, so I think it's healthy you are taking it on. That, and if you tried to take on the direct brokers, I think you're all smart enough to know that it would be suicidal on your parts, so taking on us first is probably a good first step.

The quick answer to the question, "Are reinsurance intermediaries needed?" is maybe, or maybe not. I think the answer depends on you. When I say "you," I'm referring to insurance companies, not the reinsurers that are in the room, or the brokers that are in the room. It really comes down to several questions that you need to ask yourself. The first question is, can you do it yourself? A lot of people think that they can. I'm here to tell you that some can't. Obviously many can, but many cannot, as well. The next question is, do they really know what reinsurance markets are available out there? When I asked my existing customers how many LTD reinsurers they think there are out there, I get the same comment, four, five, six, seven, but at last count, there was something like 17. That told me right there that people just don't know how many available outlets there are, let alone what those various outlets are offering. The next question would be, what are their skill sets, specifically, what is their experience level in all aspects of the business dealing with strategic assessment, renewals, underwriting sales, etcetera, and probably most importantly, negotiation? The next question, I'm not going to go through them all, is whether the industry itself is maturing? If you're dealing in a product line with the reinsurers, and it's fairly stable, and you don't see much in change, maybe you don't need a reinsurance broker. But I'll tell you, on the reinsurance side on

disability, it is changing every day. It's impossible for insurers to try to keep pace, with what all the various reinsurers are doing. That's my job to do, or the job of the people that are in my line of work. Then you get into what value is being added, and what level of services they're providing. I can speak from the types of things that I'm providing, but not necessarily for all of the brokers that exist out there. There are a few things that deal with money, which I'm sure we're going to debate carefully before this is over.

Many of these questions come down to not knowing the markets and not having staff on hand. The biggest question, and I think the biggest fault and probably the biggest reason why this subject is being debated today, is that insurance companies are really falling down badly in this area. You make the decision to use a reinsurance broker, but you don't do a very good job in selecting the broker to utilize. As a result, you complain that the reinsurance brokers really are adding no value to it and that's probably because there is a problem in selecting which broker you use. Typically, the way I've seen brokers being handled in the past (and my friend, Mr. Comeau is probably guilty, along with the rest of them) is that you find yourself having a longstanding relationship with somebody at the reinsurer. That individual ends up, for whatever reason, no longer being with the reinsurer, and this is the last step before going out to pasture. I'm too young to be going out to pasture, but that's how the reinsurance broker is chosen, and it's just plain wrong, it's inappropriate. It's got to be frustrating for you as actuaries because you're not the ones making the decision. Many times, it's the president of the company's decision because of that longstanding buddy-buddy relationship. That's the real problem, the selection process of the reinsurance broker itself. Once you determine that you need a reinsurance broker, the major question comes down to, which reinsurance broker? It's not only in your best interest to utilize one, but if one is chosen correctly, they can be critical to the long-term success of your company.

**Mr. Klein:** Thank you very much, Steve. I think I failed to introduce myself, my name is Ronnie Klein, I work for Life Reassurance Corp of America.

**Mr. Robert Comeau:** Before I get started, I want to make a couple comments about my experience. I've personally dealt with at least five different reinsurance brokers. I've also negotiated reinsurance treaties on a direct basis with more than 15 different companies. I have personal friends who are reinsurance brokers, and so when Ronnie asked me to take the other side, I hope I'm not insulting any of my friends, but I wanted to cover the other side. I do understand the value, though, of working with the broker, and going direct. There are two different times that you want to go with a broker versus going direct, but I think, in general, you don't need a reinsurance broker. You don't. Before you say you do, I have some questions to ask.

Ask yourself these questions and they will tell you if you need a reinsurance broker or not.

First of all, do I want to pay more for my reinsurance? If you do, then hire a broker. How is a broker being paid? Some of those brokers make pretty good money, and you want to know how much the broker is being paid because people will align their best interests on how they're being paid. The other question is, related to that, is the broker really earning his or her money? Think about that. Are you sure that the broker is working for you? Maybe the broker is really a de facto representative of another reinsurance company. Maybe the broker is trying to lead you to his favorite company. Why? Well, maybe the broker gets some extra compensation from that reinsurance company. Maybe he or she gets special underwriting allowances, for all the crummy business that they placed with the reinsurer a few years before, kind of payback time. Here's another issue. Have you ever played this game where there's a big circle of people and you tell the first person a story, and he or she tells the next person the story and it gets all the way back to the beginning and there is a classic breakdown of communication. When you deal with a reinsurance broker, there's greater chance that you'll have a breakdown in communication. I mean, there's a chance that you'll have a breakdown in communication when you're talking to the reinsurer on a direct basis, let alone when you go through an intermediary, and believe me, it's happened to me. I've communicated things to the reinsurance broker that were completely distorted when they got to the actual reinsurer.

Reinsurance brokers like to get involved with a reinsurance treaty. They have the boiler plate language that they like to use. Ask yourself this question, do you want that reinsurance treaty to be unclear, messed up, or say the wrong thing because you got a reinsurance broker involved? I was involved one time with a reinsurance broker who said, I'll put together the treaty. They put together the treaty and it was so poor, I mean, it was really bad. Most people in this room could have done a better job drafting a reinsurance treaty than what was put together. I was involved in an arbitration one time, and by the way, I've been involved in arbitrations four different times, served as an arbitrator three times, and, as an arbitrator, I got to read the treaty language on two of the arbitrations that I was involved in. The language was drafted by the reinsurance intermediary. Terrible language, absolutely terrible. Very unclear. So ask yourself, do you want the reinsurance broker to mess up your treaty? Or sometimes they'll put in clauses in the treaty that makes it very difficult for you to leave them, a kind of "gotcha" clause.

Here's another one. Are you too lazy to contact the reinsurers directly, or are you timid? I don't think people in this room are. Or how about, do you feel inadequate or incompetent, contacting the reinsurance companies directly? Are you scared to

negotiate with these people? If you are, then get a reinsurance broker. I appreciated Mr. Martin's comment that not all brokers are the same. He recommended that we spend time selecting the appropriate reinsurance broker. I'll say amen to that, that's true. But ask yourself, if you want to invest that time looking for the reinsurance broker, or do you want to go directly to the reinsurance market place, and invest your time on selecting the reinsurer?

Now, is the amount of reinsurance that you need small? If it is, it may not be worth your time, you may just want a reinsurance broker to handle it. I was involved one time with a policy that had less than \$3,000 annual premium. When I went to CPIC Life Insurance Company, there was a reinsurance broker that was handling that minor little coverage. Obviously I didn't kick that reinsurance broker out, I really didn't spend any time on shopping that coverage, or even looking into it very much. It was less than \$3,000, it was not worth my time. So if you have some need for a very small coverage, it may be worthwhile to use a reinsurance broker if you already have a relationship with him. Some reinsurance carriers refuse to work with reinsurance brokers, and some of the carriers are quite capable carriers. Do you want to exclude those carriers as potential partners? Mr. Martin brought up the fact that some reinsurer brokers are as good as others. Ask yourself, does this reinsurance broker really understand the business? Or do they understand the P&C business? Many times you'll find a reinsurance intermediary that's an expert on P&C, and they think, I can handle group life and health.

Another question to ask yourself, because you don't want to tell your boss this one, do I have a weak backbone, and hate to tell the losing reinsurers that they did not get the business? If there is a real need for a reinsurance broker, this is really good, because you put out your business to bid, the reinsurance broker can do all the work, you can review it, and then you can hide behind the reinsurance broker. So when all your friends in the reinsurance business, call you up and say, "Why didn't I get the business?" and you can say, "I hired a reinsurance broker and he or she told me what to do, and he or she recommended Winnebago Life, that's where I went." Do you want to develop a business relationship with your broker or with the reinsurance company? When times get tough, it's good to have a good relationship with your reinsurer.

Another question to ask is, How much time and resources do I have at my disposal? If you don't have a lot of time or a lot of resources, maybe you want to use that reinsurance broker, but you're going to pay. Also ask yourself what happens if my reinsurer cancels my treaty at renewal? Can the reinsurance broker bring added value at that time? Mr. Martin would probably say yes. Is a reinsurance broker really just a sales rep, or do they actually bring technical value-added services? Many times, dealing directly with the reinsurer, you do get technical-added-value

services. Can the broker give you strategic advice regarding a product design or underwriting, or are they just a spreadsheet artist? Remember, even if the reinsurance broker can get you a great deal on reinsurance let's say better than you can negotiate, but it's for a line of business that you should have never have gotten into anyway, they did you a big disservice. Remember, also, that most reinsurance brokers, receive a flat percentage of reinsurance premium. So if they can get you into this business and they can make a bunch of money off of your reinsurance, do they care if you lose money? Well, I think some would say they do care, but again, if the reinsurance broker is making a couple of hundred thousand dollars off of your account, he would rather that you keep paying him that couple of hundred thousand dollars a year, even if you lose money, than lose your account.

Now, are all reinsurance brokers the same? And the answer is no. I think Mr. Martin brought that out. You know, there are many reinsurance brokerage firms, according to *Business Insurance*, and just like consultants, some are better and some are worse, even in the same firm. Many years ago, I asked a senior actuary, what was the best actuarial consulting firm? He said that the best consulting firm is the one that has the best consultant that you're working with at that time. And it's the same thing with reinsurance brokers. There are some very fine, very prestigious firms out there, and some people in those firms, frankly, are inept, not the quality of people you want to deal with and there are other people that are just fantastic. They do provide some added value. You have to ask yourself, what type of individual am I going to do business with? For example, I was dealing with a very fine firm. This reinsurer only dealt with reinsurance brokers. This firm came to me and wanted to buy a block of business that I had. Even though the firm was a very fine firm, the reinsurance brokers that I dealt with were so inept and messed things up so badly that it became a nightmare. I just couldn't believe that this very fine, prestigious firm had these individuals working for them.

If you want to deal with Lloyd's of London, you're going to have to go through a Lloyd's broker. A good reinsurance intermediary, by the way, would have the connections with a Lloyd's broker. Now, you may get a better price going through Lloyd's, but you're going to have to ask yourself, is it worth it for the short term savings that I may get by going to Lloyd's? See, if Lloyd's gives you a better price, it's probably because they don't know what they're doing in a certain market, and eventually, these are halfway intelligent people, they'll figure that out and they'll increase your reinsurance rates. So ask yourself, do I want to take that into the planning consideration, because in the future years, those profits aren't going to be there?

In summary, I will admit that in some instances it does make sense to use a reinsurance broker. But frankly, in general, they're just another level of cost in the

reinsurance arrangement. If you understand your business and you take time to develop relationships with the different reinsurers, you do not need a reinsurance broker. On the other hand, if you want to bid your reinsurance coverage out on an annual basis, and if you want to treat it as a commodity, and you have limited staff, you may find it advantageous to find a good broker. If you do, however, make sure you have the ability to terminate the broker and assign a new broker, if the time is right, without moving reinsurance carriers.

**Mr. Klein:** Thanks a lot, Robert. I want to take another quick poll. How many people work for reinsurance intermediaries, brokers, currently. One? Two, okay. After the opening statements, I want to know if anybody changed sides after the debate and also some new people came in, so I'm going to start again. Who's on the pro side, thinks that there's added value to the reinsurance brokers and intermediaries? Let's see if we can get over nine. Nine.

**Mr. Martin:** And two don't count. I mean, that's their job. Isn't that right? Let's be honest, two have to vote this way.

**Mr. Comeau:** You also have reinsurers in the room, who many times don't particularly care for brokers, so you have to cut them out too. Of course, that leaves about three people?

**Mr. Martin:** Although, some of the people that were pros, were reinsurance guys and I think they were raising their hands because they did not want to insult their reinsurance brokerage friends.

**Mr. Klein:** Okay, how many against? Let's count them again. Nineteen. Let's continue with the debate. Mr. Comeau, you're up for a quick rebuttal. We can reverse the order on the rebuttal. I know you had some rebuttal in there. Do you want to use your couple of minutes, or do you want to go on?

**Mr. Comeau:** Go ahead.

**Mr. Klein:** He's passing. OK. Rebuttal, Mr. Martin.

**Mr. Martin:** Many of Bob's comments lead me to believe he hasn't checked what's available out there for reinsurance brokers in quite some time. Many of the things that Bob talked about cost and I couldn't help but think of the expression penny wise and the pound foolish. I know for the customers that I'm dealing with, the amount of monies that I've saved them, in just a very short period of time, is more money than they'll end up paying me over a several-year period. So, it's not just a question of cost. How do you want to quantify it? How much is it costing you? I

think, to say that, to focus in on compensation, I think Bob is correct. There are a lot of brokers out there making a lot of money doing this. Frankly, I fault a lot of the people on the insurance side for allowing that to happen. I mean, you're the customer. You have the choice of dictating or mandating whether you're going to allow that type of compensation level to be paid. If you can't, at the end of any given year, take a look at what that broker is providing, and justify what you're paying them, then shame on you for not getting rid of the broker if it's not sufficient. That's one way to look at it. The other way of looking at it is, in fairness to the broker themselves, dealing with treaties as Bob brought up, I've negotiated treaties on behalf of reinsurers for 22 years. I know exactly the tactics that are used, exactly what the strengths are on the reinsurance side and what I don't want to give up to the insurer. If you have a broker that doesn't understand the tactics that are used by reinsurers, then you're bound to get nailed. The very first customer I dealt with, (and frankly, I'm the one who wrote the original treaty I was now negotiating against) I had 55 changes to the treaty that I helped write. Now, why do you suppose that's the way it is? Because I was building things into the treaty to protect the reinsurer. And the reinsurers will tell you over and over and again that this is a true partnership. Well, it's not that way, folks. It's a true partnership, but behind the scenes, you get involved in those meetings, and there's a lot of things that they don't want to give up in their treaties. But if you're dealing with the right reinsurance broker, they know what those things are, and which reinsurers out there will deviate from those things. So, the whole aspect of whether somebody is negotiating a treaty that's an absolute mess, well, shame on you, if you're a life and health company, and you hired a P&C broker to represent you, whose fault is that? You're as much at fault as the broker themselves.

Compensation is one of the reasons that I got into this business. Frankly, I think Bob is right, the method of compensation is wrong, and I don't believe it's this way just for the reinsurance brokers, I believe it's the direct brokers as well. To be paying a percentage of premium for your reinsurance broker's services, to me, is not correct. I think you're in a position to correct that. You can tell the broker that you won't allow that. You can demand full disclosure on the compensation. My programs have full disclosure. All my customers know exactly how much money that I am making from my contracts, and that's the way it should be. No hidden agenda, no hidden profit share kickbacks. The right way to be compensated on the reinsurance-broker side is to determine what your desired results are. Is it top line growth? Is it bottom line gain? Many companies will reinsure most of it out the back door, so the bottom line is not the primary motivation for the insurance company. If your objective is to have equal weight on growth as you do gain, then the compensation to the broker should be geared that same way because if that broker aligns you with a reinsurer that doesn't get you the bottom-line growth, but gets you the top line, what does that do for you? It doesn't do anything. So I would

agree, the broker does not deserve to simply continue to make bundles and bundles of money when they're really not doing the proper job for you. You're in a position to demand that their compensation gets geared that way.

As far as whether it's difficult to dump the reinsurance broker, again, the fairness issue. I happen to give a one-year free look anyway, which is kind of risky, but when you're dealing, particularly on, say, a reinsurance treaty, there's an awful lot of expertise that brokers bring to the table, and for you to really reap the benefit of that expertise all in year one, and then dump the broker, is not very fair to the broker, unless you allow the broker to make a lot of money in year one. A good broker is looking for a longer-term relationship, he's going to give thousands and thousands and thousands of dollars' worth of expertise in year one, and in effect, the comp structure is set so it's really amortized over several years. And for you to reap the benefits and then dump him after year one, it would not be appropriate. To sign a contract with a reinsurance broker that doesn't give you the opportunity to get rid of them, again, is your fault. Why would you sign that, or at least have something more liberal, instead of indefinite?

**Mr. Klein:** Now what I'd like to do, before the closing arguments, is I'd like to go around and ask a couple of questions. I'm going to start with the first question because there's something very confusing to me, not knowing too much about this business. It's very interesting to hear both of you speak. I hear both of you saying something that's very contradictory, and I want to know which one is correct. One is, some of these brokers making a lot of money. On the other hand, the broker's negotiating and getting you the best price, they're getting you a price that you couldn't get. Are you saving money from using a broker, or spending more money from using a broker?

**Mr. Martin:** I happen to think you're saving money—or, you can be saving money. Much of it will depend on how you structure the compensation with the broker. The biggest barrier I see on the comp side is when you try comp brokers out of current year sales. In the line of business that I work in, many of them deal with a percentage of premium on the in force. Others will deal with a higher percentage on new sales. I have a difficult time with that, because every time you add the layer of cost in, that just takes you further and further away from being competitive. I think there's ways you can fix the comp system, instead of just throwing it out. You can fix it by basing it off of profitability, for example. If, at the end of the year, your targets (the insurance company's targets) have a loss ratio of 85 percent, and you achieve that target level, then the reinsurance broker perhaps does deserve his compensation. I would submit the reinsurers would be more than happy to pay it.

**Mr. Klein:** Mr. Comeau?

**Mr. Comeau:** I'm a simple guy from Nebraska. I remember going through actuarial exams many years ago, and I really liked pensions. There was a formula on pensions to figure what's the cost of a pension plan. The cost of the pension plan was equal to your benefits paid, plus your expenses, minus investment income. Through my almost 30-year career in the insurance business I looked at all products that way. You have to adjust it sometimes for taxes, but basically, the cost of something, long term, is the benefits paid, plus expenses, minus investment income. If the reinsurance broker is there, getting a few points, or maybe more than a few points, that's part of the cost. I mean, at least it was from my understanding of this simple, little formula. So, long term, the reinsurer has to charge you more. So, Ron, I have a hard time saying that the reinsurance broker got me a better deal than what I could negotiate myself.

**Mr. Klein:** But isn't it true that maybe they negotiate a little harder, and know how to negotiate, and can knock the price down from the reinsurer a little more, and you're trading five points of profit from the reinsurer for four points of expenses, and maybe it's one point cheaper for you, or that can't happen?

**Mr. Comeau:** What value is brought to the enterprise, if it's best I build that relationship and I negotiate directly with the reinsurer. Now, I do agree that in certain situations, insurance company executives are not up to the tasks of negotiating with professional reinsurers. I mean, they're in the business. Mr. Martin even just admitted that when he was on the reinsurance side, the treaty that he negotiated was really not in the best interests of his client.

**Mr. Martin:** I don't think—let's not take it that far, Bob. It was more than fair to the reinsurer, we'll put it that way.

**Mr. Comeau:** More than fair to the reinsurer. I just think that an insurance company needs to develop that expertise in-house. That's just pure part of the business, and if the Chief Executive Officer of a company does not have the brainpower himself, or herself, he needs to get somebody that has, to negotiate. Now, that may mean hiring somebody of the caliber of Mr. Martin to negotiate for you on behalf of your company, and to work as a consultant. That's obvious, if you don't have those skill sets. But you really need to learn those yourself. And I think long term, the cost of reinsurance will be cheaper to you by going direct.

**Mr. Klein:** Let's have some questions from the audience.

**Mr. Charles A. Frydenborg, Sr.:** At the beginning of the meeting when Ron asked how many of us felt reinsurance intermediaries were necessary, I raised my right hand. He said, how many feel they're not necessary, well, I didn't want to confuse

them, so I raised my left hand. Because both answers are true. If you have a block of medical, or disability business, that has been causing losses, and you get hit by a bit increase by your reinsurer, it makes sense to get an intermediary involved who knows the market and can shop this for you, unless you know what every reinsurer is doing, in the disability and the medical market. On the other hand, something that frustrates me immensely is people using brokers for Life and AD&D that is clean and simple. Because, it's going to end up costing you money. I was recently at one of our clients, we've had a group life and AD&D relationship for a long time, and the fellow said to me, "I'm thinking of using an intermediary." I said, "Well, you have every right to do that, but it's going to cost you money." And he said, "How's it going to cost me money?" I said, "Well, the reinsurer, rather, the intermediary, is going to charge a fee, and we have the minimum profit, but we have to make that minimum profit, so we have to add his fee into the rates." Then I was told that he said, you're not going to have to do that, because if you use an intermediary, you have no marketing costs. So I looked at the guy, and I said, "I'm sitting here now, and I'll be sitting here three or four times a year, regardless of whether or not you use an intermediary. My marketing costs will continue." So I think it gets down to common sense. There's a reinsurance broker here, Jim Grant, who I had the privilege of working with him for awhile. And I can say, if any of you who have a block of medical that's messed up, he will do a presentation and he'll go around and he'll find you, a good reinsurer at a good price. And that makes sense. But for group life and AD&D, and anything simple, it makes no sense at all.

**Mr. Klein:** Okay, Charlie, you always get me on that left hand—right hand thing, and I don't know if I'll ever pick up on it, but—any comments on that? Steve, any comments on whether, it depends a lot on the block of business, does that make sense?

**Mr. Martin:** Well, I think much of it, in the past, has happened because of the relationships that senior people have had with reinsurers. And those people are just given broker-of-record letters, and those are the same brokers that are probably causing the debate on the subject today. You brought up Jim's name. Jim and I have a mutual client. To me, that's the way of doing it, I mean, I happen to have a great deal of expertise in disability, having spent my whole career there. I have no expertise in medical. That particular company is doing it correctly. They're not just handing the medical to me, because frankly, I would probably do what Bob alluded to earlier, I would screw it up. Because I don't know anything about medical. I'm not sure what Jim's expertise is in disability, but I would venture to guess that Jim doesn't know as much about disability as, naturally, I would, having spent so much time in it. So to me, it's just a matter why you're selecting the broker, and making sure they're sound reasons.

**Mr. Comeau:** I would say that, in Charlie's normal style, he answered the question on both sides. So thank you, Charlie, for giving both sides of the answer. Obviously, Charlie makes a good point. I would push back a little bit regarding using a reinsurance broker to go looking for a medical reinsurance carrier. Medical reinsurance has pretty low profits, and if you have to start adding the fee to the broker, that's going to cost you some money, and may even make it more unattractive to the reinsurer to even take them a block of business. But one of my questions earlier was, do you know the market? And in some cases, obviously, the reinsurer, or brokers, do know the market a lot better than just your normal executive in the home office of an insurance company. But the question is, are they worth what they're going to charge you?

**Mr. Klein:** I don't understand what makes medical so complicated that the direct company couldn't negotiate a contract on their own, even if it's a block of business that's losing money. Maybe Mr. Grant would like to comment on that.

**Mr. James Grant:** Actually, I don't want to comment on that. I'd like to comment on the issue of compensation. I think if you're concerned about what you're paying an intermediary, you're probably working with somebody who's not providing you with any value. It's like any other professional advisor, if compensation is a big issue, then you're just not getting the value you deserve out of your intermediary. Cost is something I'd be happy to talk with you after the session, I don't want to go into it now. The other thing is, you have some rights. The NAIC has created an intermediary licensing act that has been adopted by most states. That model act says, one, we have to be licensed as an intermediary, you should check that out and make sure we are. And secondly, it provides you with a written contract, and in it, it says you can fire us any time you want. If we're not doing the job, you should fire us. That's all there is to it. The thing that you can do to protect yourself the most is to identify your objectives, what it is that you want, what your skills are, what you need. And then, if you need somebody to help you with your reinsurance, and my clients do, by virtue of a lot of different things, reorganization, downsizing, not the least of those. If so, talk to some people. Find out how they'll handle your account. What are they going to do after the business is placed? How are they going to manage that and what kind of value are they going to provide? We can debate specific product lines, and again, it's an individual decision, based on your needs. Identifying your needs is the first thing you need to do and if you think there's some value added to working with an intermediary, give us a call. I'm embarrassed to have to sit up here and listen to some of Bob's experiences. It taints our whole business, and I'm ashamed of that. Because it shouldn't. There's no way you should be getting a worse treaty out of an intermediary than you do out of a reinsurer. Most of us have been reinsurers, and we remember negotiating those. And we know where, in fact, they should be renegotiated on your behalf.

**Mr. Klein:** Jim, you are probably a very good intermediary because you didn't really answer the question. But the question was what happens when there's some trouble? I know, on the life side, I have a relationship with the insurance company. I'll give you an example— unfortunately, my boss is in the room, so I hope I told him about this one, but I had a client who had regular life reinsurance with me and he called me up and said, "I've got a problem." We had a case that we wrote, and it was outside the parameters of the treaty. It was a New York case, we weren't supposed to write it after age 70, but we wrote it after age 70, and the person died right before we found out about it. What do we do? It's something like a \$40,000 or \$50,000 claim, what do we do? I said, well, we have a lot of business with you. I know that you did it in error, it was an oversight, and we'll cover you on it, because that's what we're going to do. Now, if I'm acting through an intermediary, I'm not going to cover that claim. That's outside the parameters of the treaty, that's it. I don't know the people, I'm not involved with them, I've got a two percent share, I've got a five percent share, I don't even know what share I have. Why would I cover that claim, I have no relationship? What are they going to do? That's the intermediary's problem. I'm going to lay that on you, for making a mistake and not checking the business, and it's all your fault, you should pay for it out of your commission. I want to know how Steve would react to something like that. Is there no relationship or do you develop a relationship when you're dealing through an intermediary?

**Mr. Martin:** Yes, I think you're painting a picture of the reinsurance broker completely dissolving any kind of relationship that you have with the reinsurer, and that's simply not the case, certainly, in my line of work. Again, I can't look to other products. The treaties that I have in place, with most of my clients, anyway, I had it built right into the treaty, that they'd do one of those.

**Mr. Klein:** Do you allow the people on either side of you to contact each other, or do you want to be involved?

**Mr. Martin:** Certainly, yes. I have that in my closing remarks, but I don't think the reinsurance broker should be the replacement in the relationship between the reinsurer. They should supplement. I'm involved in most meetings that occur. Certainly any financial discussions, any kind of renewals, or overall business strategy discussions, I think the reinsurance broker should be involved. But the day-to-day activity, at the case level, I don't have the time in my day to get involved with all those discussions.

**Mr. Comeau:** I would like to make one comment on what Mr. Martin just mentioned. Different reinsurance brokers have a different style. Some reinsurance brokers are very possessive with their client relationship, and they want everything to run through them, that the communication is with them. I mean, almost like they're the reinsurance company. And then other intermediaries that I've dealt with have a very free, open communication method where, although they negotiate the treaty, you would still develop a relationship with the reinsurer. There's the full gamut, so if you're choosing a reinsurance broker, find out what style they like. You may not want to actually develop a relationship with the reinsurer, you may want to develop it with the reinsurance broker, and have that to be your contact. So, it's a matter of what style you want to work with.

**Mr. Martin:** Much of it goes back to the insurance company. The reinsurance broker can have value in insulating them from the reinsurer. One of the values that a broker brings to the table is to replace some of the resources that you would normally have to come up with yourself. And if the reinsurer is constantly hounding the insurer, that's again, more drain on your time.

**Mr. Comeau:** I asked earlier if you want to send the money to the reinsurance intermediary or do you want to send it to the insurance company directly. I really have a very difficult time sending the money to the reinsurance broker. I have a hard time seeing what value has been added. Sometimes there's a lot of work involved when you have a broker involved. That's part of the price that you pay, but you need to check up front to see how much of that work or that additional no-value work that is being done, has to be paid for. When it comes to negotiation, if the broker is giving you his expertise in negotiating, and let's assume for a moment that the broker is qualified and has good skill sets, then there's value-added, there may be, on doing this negotiation, and acting as a consultant on your behalf. And how you pay the broker, by commission or by a consulting fee, doesn't really matter. How much extra work is going to be involved in using a reinsurance broker is something to keep in mind.

**From the Floor:** I have a couple of comments for Mr. Comeau. I work with a company that uses an intermediary. It sounds like many of your comments are based on really poor experiences. I want to convey a story based on something Ron talked about, in terms of a claim that came in, a seven-figure claim that was outside. Basically, we made some mistakes.

**Mr. Comeau:** Now, who made mistakes?

**From the Floor:** The insurance company. We made some mistakes in the things that we did, in handling this particular case, and in this particular policyholder. I

think without the help of an intermediary, we would have a very difficult time getting reimbursed on this reinsurance claim. I think, there's no question some of your comments are valid in terms of a value-added nature, but by the same token, I think you've got to look at each intermediary differently. I think it depends on what they're trying to bring to the table. There's no question when you're dealing with multi-lines. I'm on the group side, for a lot of the group operations, you need that extra level of expertise that the broker can bring. We've got some pretty strange reinsurance setups, and I've got to be honest with you, without the help of the intermediary, I don't think I could have dreamed them up. Some are catastrophic in nature, others are different. I think there's no question that they can bring added value. Certainly, if you're talking about one line or two lines that you can afford to put the time in, no question, it probably makes more sense to go direct. But, I've also had experiences where we were direct with the company that wouldn't use the broker, and we had a hell of a time trying to recapture a book of business. It was just an awful situation, and it was something that, without the help of the intermediary, we'd never have gotten recaptured because relationships had broken down. I think you've got to look at all those factors before you can say whether or not an intermediary makes sense. I think I'd urge anybody in this room that doesn't use one, that doesn't have a lot of different lines that you're involved with, to look into that and see whether or not it makes sense. Because the good ones out there do have value.

**Mr. Comeau:** You made some really good comments. To add to what you just said, let's say that you had a treaty with a carrier, and maybe you were not that important a client with that reinsurer. You're a little carrier. If something went bad, a reinsurance broker who may have a lot of business with a certain reinsurer would carry more clout than what you would have. And so, they could go back and say, if you don't treat this client right, then goodbye to all the other business that I have with you. So they could bring some clout, some bargaining clout to the table, that is one of the strengths of dealing with a good reinsurance broker.

**From the Floor:** Yes, a couple of comments. I'm with a reinsurer. And I buy a lot of reinsurance, in fact, I probably spend about 50 million a year on reinsurance, and I use probably 20 or 25 brokers. And we don't use brokers because we don't have expertise in the business, or because we don't know the market, because we do know the market and we do have the expertise. I think there are a couple of key reasons that brokers are vital when you buy reinsurance. One of the biggest ones is a thing you just mentioned, the clout. I may know everyone who could do personal accident reinsurance in the world, but I don't have the clout a broker has with any of those folks. That is extremely valuable when you're negotiating terms and conditions, when you're negotiating prices. You know the clout that choosing the right broker brings. I don't use one broker, but 20 or 25, and we choose a broker

for a piece of business based on their expertise and clout. I think the other reason that we find brokers extremely valuable, and in fact, I've made it a policy for our business that we never buy anything without a broker, is what happens when there are problems, when there's a dispute between the reinsurer and the reinsured. Those problems inevitably come up from time to time. I think having a broker or an intermediary helps take some of the emotionalism out of the problems. It enables an easier, more reasoned exchange of views on why a problem occurred. If you have a problem that's heading towards arbitration, a broker can provide additional written documentation for either side to help better understand what happened. I know from past experience, if there was a dispute and a broker wasn't involved, it was always much more difficult to professionally and amicably resolve those disputes than when we had a broker. So we used brokers for three reasons: expertise, clout, and to help us when those inevitable problems occasionally arise. If you choose the right broker, all the problems, Bob, that you brought up, disappear. If you choose the wrong vendor for anything, you have problems. If you do your homework, choose the right vendor, the right broker, then those problems don't occur.

**Mr. Klein:** Let me make an analogy, because I'm hearing this a lot, about buying life insurance. Do you go directly to the company to buy life insurance, and if I go directly to the company, and I'm on the borderline of a standard preferred, I'm going to get the standard, but if I had a good strong agent with me who has a lot of clout in the insurance company, he or she might be able to say, hey, I really need this guy, Ronnie Klein, to go through as a preferred customer. I've got a lot of insurance on him. I get the better rate, it's better for me. Is that correct? Are there a lot of brokers who do have enough clout to help out the direct company, where it's very worthwhile for them?

**From the Floor:** I consider myself a professional reinsurer, I've been in the business since 1963. I'm proud of the business. I'm sitting here with people from my main competition, ReliaStar Financial Corp., and I haven't talked to them about this, but I think I'm going to be speaking for both of us. There's an implication here, in Ronnie's remarks and prior remarks, that there's no relationship between the reinsurer and the ceding company. I can assure you that any company I deal with or have dealt with in the past, including Mr. Comeau, I have a relationship with. I've had relationships where there's a problem on a claim and they call up and say, "We have a problem" and my immediate answer is, "OK, we're going to sit down and we're going to solve it." It's a relationship built on trust, mutual respect, and to imply that a reinsurer is automatically going to turn down a claim just because it doesn't fit within the parameters, is crazy. I can't tell you how many claims I've paid over the years that I probably shouldn't have. This is just absolutely incorrect to imply that there's no relationship between a reinsurer and the client, so you are

not going to be able to work out problems, or that you need an intermediary to work out your problems for you. That makes no sense to me.

**From the Floor:** I almost don't know where to start here. I used to be a reinsurance intermediary, for about 10 years, before I went to work for a direct reinsurer. So in some respects I'm kind of on the fence, and I do think that there is a time for a reinsurance broker, if you have a very difficult-to-place, very unusual type of a cover. I think it makes sense to use an intermediary on that. On the other hand, Steve Martin made the comment that, in negotiating contracts, a reinsurance intermediary can do a better job because they know what types of terms are available, and that is true to a certain extent. On the other hand, we direct reinsurers are not operating in a vacuum, and we understand the market forces and we are negotiating terms that are readily available in the market place today. We would be very ignorant if we didn't do that, and very unsuccessful.

The other thing I want to say, having gone to work for a direct reinsurer after having been an intermediary, we do take a more solutions-oriented approach to working with our clients. And we do work very hard to have close relationships, and a more holistic—what I call holistic approach to the business. I do think that we can do a better job for our clients because we understand them intimately, what their goals are, what their objective is, what their strategic direction is. And in fact, even help them with their strategic direction. So, I just think that when you deal direct, you are getting a lot more in terms of services and resources than you might be getting when you deal through an intermediary. But if you're just looking for somebody to spreadsheet and come up with a cheap price for you, maybe the best thing is to deal with an intermediary, but that's not to say you're not going to get a competitive price, dealing with a direct reinsurer.

**Mr. Klein:** What I'm going to do now is to ask you to quickly sum up, and then we'll go over to Judy and maybe, one or two more questions. So why don't we start with the two-minute summaries. Steve, you can go first and then Judy, I'll let you get your question.

**Mr. Martin:** I fully appreciate that last comment, and I certainly don't want to suggest that reinsurers are out to get you all the time. I will say in my experience, from the reinsurance side, I negotiated and signed hundreds of treaties, and when I was negotiating and signing a treaty, I very rarely would offer, proactively, the best deal around. Having been there, I know what the best deals around are and what reinsurers are willing to give up, and they'll only give it up if asked, so I do hear where you're coming from. In summary, it's the relationship between reinsurers and brokers that's been the glue holding it together. I've got one customer that should not be with their current reinsurer, but I can't get them to move. The

relationship is that strong, and I'll tell you what, they're going to continue to fail in their growth efforts, because their particular niches do not line up very well with that reinsurer. The relationship is what the driving factor is. Using a broker can break that down somewhat, and I don't mean it in a negative sense, but by virtue of bringing you through a due diligence every year. Frequently, especially in disability, you've got so many things to do, disability is the thing that gets pushed off to the next year. Utilizing a broker, it's automatic, it's done every year. Again, this has come up, I think the broker is not meant to replace the relationship, they can, in fact, enhance. It doesn't need to be antagonistic between the reinsurance broker and the reinsurer. In fact, more often than not, I think they are fairly friendly.

The next point also has come up towards the end of this. The leverage provides an awful lot of clout for you, when I can take the combined book of business that I have on the disability side, and working with the reinsurer, I can get you a better deal than what you could get if you went directly yourself. I can't speak to the entire brokerage industry, but I can speak to the insurance industry, and I think it's within your right to start looking at the methods of compensation by reinsurance brokers. I think you can demand, or at least start requesting, some changes to align those compensation programs to the results that you actually experience, both on the gain side and the growth side. Good brokers have the market knowledge. When I'm not out visiting my current customers, I'm constantly going around meeting with reinsurers because good brokers need to know what the reinsurers are doing because things change so often. They may not be strong in one particular area, large cases, for example. So you need to keep abreast of that. You know, if you're in Fargo, North Dakota, and you need a disability underwriter to represent you in your renewal strategies, you may get one to relocate to Fargo, but when that person leaves, it just takes forever to try to replace them, so you can't even keep your own staffs current, at the expertise level. Having a reinsurance broker can supplement your staff and actually be a piece of your staff.

We just touched briefly on this, as far as being involved throughout the year. If the business of reinsurance brokering was bidding your reinsurance business once a year, I don't care how much money it makes, I could not do it, if the extent of my role as a reinsurance broker, was to bid a contract every year. A good reinsurance broker needs to be in constant contact with the client and the reinsurer throughout the year, and be involved in as many aspects as they possibly can, including the marketing side. I would submit that given the right reinsurance broker, not only are they needed and add some value, but they're critical to the success of an insurance company.

**Mr. Klein:** Mr. Comeau, you're up.

**Mr. Comeau:** Mr. Martin, I just thought of another good point, that you could have made. I think reinsurance brokers do one thing in addition to help out, and that is, they go around and they make sure that the reinsurers are honest, and so maybe the reinsurers who adopt certain practices benefit the rest of the companies who do not use brokers by employing the same practices regarding reinsurance treaties et cetera, that they would with brokers. So from an overall standpoint, it may be kind of a balancing force there. Because the reinsurers, frankly, have more knowledge, more expertise, than the insurance companies, their customers. But with that, I want to say that there were a lot of excellent points, I really appreciated your comment back there on why you always use reinsurance brokers, the three reasons. Very good points on using brokers. And frankly, if you have a good broker, they serve a purpose, they really do. They can bring you expertise in negotiating the treaty, they can tell you where the market is, but the question is, do you really need a reinsurance broker all the time? And I say that each company has to look internally at its own strength, at its own weaknesses, its own skill sets, to make that determination. Overall, I really believe that you can negotiate good contracts, competitive contracts, build strong relationships with reinsurers on a direct basis, on a more favorable basis than you can with a reinsurance broker. So you just have to ask yourself, is the price that I pay for the reinsurance broker worthwhile? If it is, I do want to emphasize Mr. Martin's earlier comment about searching for a broker. If you decide that you want to use a broker, you do need to search for a broker, and make sure that you do get a good one.

**Ms. Judith P. Greengrass\*:** I wanted to answer a question that Charlie brought up a little bit earlier, and expound on something else Charlie mentioned that you have a block of medical business that's doing really badly, that might be a good block to bring to a broker. I would think that that's exactly the wrong block to bring to the broker. I would think that if you went directly to other reinsurers, who might have managed care arrangements that they could make available to the vendor, negotiated contracts that you would not be able to get on your own. Talk about clout. A reinsurer who's got a large medical block can get a lot of different arrangements for its clients that, if you look at the savings they make, more than make up for any premium savings that you might or might not get, going through an intermediary. Also, in terms of an intermediary supplementing your staff, if you're a small company and you've had to cut back on some of your disciplines, I can't think of an intermediary that would have more staff to supplement yours than a reinsurer would have. If you pick the right reinsurer who's got actuarial talent and an underwriting talent and managed-care expertise, there is really no way that a broker,

---

\*Ms. Greengrass, not a member of the sponsoring organizations, is Assistant Director of Reinsurance Products at Lincoln National Reinsurance in Fort Wayne, IN.

no matter how good they are, and no matter how well they'll negotiate for you, can really bring more to the table than a reinsurer can.

**From the Floor:** There have been a lot of comments that the intermediary gets in the way of the relationship. Personally, I think that's a mistake. The intermediary should enhance the relationship with the reinsurer. If your intermediary's getting in your way, I think you've got problems. That's not our role. Our role is to facilitate a relationship and make sure it's strong, and to work on all the other issues that have been discussed.

**Mr. Klein:** I thought it was a great session. I think we'd all agree, it seems as if, in some situations, the intermediary is valuable, if you have a good one. In some situations, the intermediary is not needed, especially if you have a bad one, but I personally learned a lot today