INTERMEDIARIES & REINSURANCE UNDERWRITERS ASSOCIATION

SEPTEMBER 12-13, 2011

IRU 2011 FALL CONFERENCE

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In keeping with the consolidated and successful format adopted for last year's Fall Conference, the IRU faithful again convened this year's gathering at the Hamilton Park Hotel which has proven to be an excellent venue for the informational and networking emphasis of this "pre-renewal" conference.

Although the Hamilton Park had lost power during Irene, their facilities were in first class hosting condition, and attracted a solid attendance blessed, in part, by the fact the Irene was not nearly as bad as originally feared.

In memory of the 10th anniversary of the 9/11 tragedy, President Frank Bigley, began with a moment of silence for the IRU friends and family lost during the disaster.

Frank then went on to welcome new members, MS Frontier, Devonshire, and resurrected member, Renaissance Re, to the fold, and properly praised our invaluable sponsors; namely, Lloyd's, GJ Sullivan Re, Transatlantic Re, Holborn, R&V Re, and Farmers Mutual Hail for their support.

Program Co-Chair, Doug Rarig, then led things off by introducing Karen Clark, President and CEO of Karen Clark & Co. who is the foremost authority on catastrophe modeling, and who discussed an **Alternative Proposal for Cat Modeling**. Among the points made during her presentation were:

- If one can't explain a concept simply, then one doesn't understand the concept well enough.
- All models are different and they are also wrong.
- Modeling differences are mainly due to the paucity of scientific data.
- There is pressing need to "dig into" the assumptions underlying the models.
- Cat models are not objective, but rather subject to scientific bias.
- An alternative approach is to focus on the management of cat risk.
- Such modeling might be derived from a concentration on "Characteristic Events" (CE's) which are defined as probability scenario events.
- A major benefit from CE analysis would be the transparency element of that approach.
- CE's should be used as a consistent yardstick to complement the application of other models during the analytical process.

Following Karen's presentation, AM Best's Tony Diodato, provided important insight as to **how a rating agency views the use of cat models**, including the following observations:

- The ERM process, as a whole, is extremely important to the rating process, with an emphasis on risk "awareness" rather than risk "avoidance."
- Cat risk management needs to be an integrative and interactive process.
- The industry is too dependent on models which are wrong, with a consequent need for companies to justify their analysis and treatment of cat exposures.

Next up was Kathleen Langner from the Chubb Companies who shifted the focus to **the underwriting of WC in the new economy.** During her presentation, Kathy focused attention on the independence of contractors for coverage purposes, as well as the "skittishness" of employers in the currently unstable work environment.

As **Chinese Drywall claims** have assumed greater frequency and importance in the liability marketplace, Arch Re's Ken Sharp discussed that issue from **an underwriter's perspective.** During the course of his remarks, Ken focused on the need for tightly worded policy language emanating from the need to cope with the vagaries of state courts which favor insurers or plaintiffs depending on domicile. Reinsurance-wise, clash exposures may represent the primary source of claim activity in that market.

During his very informative and enlightened presentation, Mound Cotton's Larry Greengrass focused on the landscape of **"esoterica" pertaining to claims emanating from Chinese drywall, NY labor law, Florida sinkhole, hydrofracking, and the Japanese tsunami.** To that effect, the insurance and reinsurance community must be alert to the myriad sources of exposures lurking in our evolutionary climate.

During Friday's business meeting, President Bigley commented on the solid state of the IRU's financial affairs, and again expressed appreciation to the sponsors for their support. Then it was on to the election of new directors and officers, including the naming of Jim Brost who will lead the IRU as President for the next two years. The IRU leadership will also include the following dedicated volunteers:

Frank Bigley (Re-elect Director)
Farmers Mutual Hail Insurance Co. of Iowa
West Des Moines, IA

Jessica Bongiorno (Re-elect Director)
Arch Re
Morristown, New Jersey

Jim Jackson (Director)
PartnerRe
New York, NY

Tony Joseph (Re-elect Director)
Lloyd's America
Manhattan Beach, CA

Joan Martino (Re-elect Director)
Thomas E. Sears, Inc.
Boston, MA

Virgil Maxwell (Re-elect Director)
American Agricultural Insurance Company
Columbus, OH

Brian Quinn (Re-elect Director)
Odyssey Reinsurance Company
Stamford, CT

Doug Rarig (Re-elect Director)
Arch Reinsuranc
Morristown, NJ

John Reinman (Re-elect Director)
Guy Carpenter & Company
Norwalk, CT

Michael Sowa (Secretary/Treasurer)
Aspen Re
Rocky Hill, CT

In thanks for his service as President, Jim presented Frank with a golfing GPS system which will hopefully elevate Frank's to game to new heights.

Leading off Tuesday's session, Program Co-Chair, Matt Rose, introduced the Best Practices Panel, including Towers Watson's Joe Vaughan as moderator, Towers Watson's John DeMartini, Alterra's David Kalainoff, Markel's John Tholen, and Guy Carpenter's Bill Plumb. Among the points made during the panel's discussion were

- Increased emphasis on centralized placements vs. those on a product line basis.
- ERM is a major factor with respect to analytical and placement strategy
- RMS 11 has clearly had a major impact on the market, creating the need for more stability, as well as an emphasis on the need for blended models.
- Doesn't seem to be a dramatic rush for more cover; rather, a move for increased co-participations and/or increased retentions to limit reinsurance costs.
- Solvency II has become a more important consideration in developing corporate strategies.
- Important renewal factors include the need for accurate data as well as an interactive dialogue among brokers and their markets.
- The panel also emphasized the need for "constructive feedback," "creative solutions," and "transparency" in the negotiating process.

A final highlight of the conference was the commentary provided by the Executive Roundtable comprised of moderator, Tony Joseph (Lloyd's), Sparta's Kevin Costello, Munich's David Dee, Franklin Mutual Advisors' Andy Dinnhaupt, and III's Steven Weisbart. That panel's observations included:

- Market is going through a difficult and uncertain time, including instability on the asset side of the balance sheet.
- There is about $100-130 B of excess capital, with the RMS changes to eat up about $30 B.
- Important emphasis on cycle management and diversity in the strategizing process.
- Close to the end of any redundancy in liability reserves.
- Increased retentions more prevalent than rate increases.
- Retro market is drying up.
- Lots of talk but little activity in pursuing non-traditional alternatives.
- Significance of financial exposures brought on by "unintended consequences."
- Little likelihood of National Cat Fund.
- Limited pool of talented professionals as pipelines have largely disappeared, but new prospects available from limited employment opportunities elsewhere.

For those who could not attend the Fall Conference, you missed another well organized and very informative program. Hope many of you will be able to attend the NY Mini-Session on November 8, and that you have marked April 22-24, 2012 on your calendars to attend the next Spring Conference at Doral.

In the meantime, best wishes for a productive renewal season!

Paul Walther, Editor
Journal of Reinsurance