

IRU SPRING CONFERENCE
March 14-16, 2004

CONFERENCE HIGHLIGHTS

Playing to one of the IRU's largest Spring audiences, the IRU's Executive Director, Mary K. Clancy, and Speaker Chair, Bill Jewett, did not disappoint. The venue, including food and service, as well as the array of speakers and topics made for one of best conferences ever.

Starting off the proceedings, IRU President, John Reinman, painted a glowing picture of the IRU's financial health and increasing membership, as particularly evidenced by the absence of a dues increase for the current year. John also touted the educational thrust of the IRU as reflected by the in-house seminars conducted by Kevin Oates, and the intern program chaired by Mark Christie, as being a critical factor responsible for the IRU's past, present, and future success.

Following John's remarks, Bill Jewett introduced an impressive panel, consisting of Bill Keogh (RMS), Jayanta Guin (AIR Worldwide), and Angela A'Zary (Guy Carpenter & Co., Inc.) who brought the audience up to speed on "**how model revisions and updates impact the marketplace and pricing**" of catastrophic exposures. Among the panel's highlighted comments:

- Why upgrade models? - Greater accuracy in measuring risk; new science; increased computing power.
- Evolutionary requirements of modeling: Need for stability, understanding, and certainty.
- Application of models necessary to assess rising PML values which, in turn, impact financial models which are influenced by changes in standard deviations
- Many companies use more than one model, and may change models periodically.
- There is no consistency with respect to the use and application of models vs. raw data in the reinsurance placement process.

During the second session, Endurance Re's Marcia Munns moderated a very informative discussion which focused on the question "**is it true what we're hearing about the D&O market?**" Ably participating in the discussion were A. Quentin Orza II (RLI New Jersey), David McElroy (The Hartford), Chip Lalone (Guy Carpenter & Co., Inc.), Kevin Flynn (Mendes & Mount, LLP), James Hooghuis, Esq. (Hooghuis, Inc.) and Evan Rosenberg (Chubb & Son). The following comments and observations emerged during the Panel's excellent presentation:

- The 57 largest D&O lawsuits involve damages of \$996 billion!
- Federal actions have led to civil actions arising primarily from late trading and market timing issues.
- Regulatory actions have been mainly triggered by the Sarbanes Oxley legislation.

- The main issues which determine the outcome of D&O litigation involve “judges, jurisdictions, and juries.”
- The frequency of D&O litigation seems to have abated somewhat, but there has no such abatement in the severity of requested relief.
- There is increasing market emphasis on tightening underwriting discipline.
- Questions have arisen with respect to reinsurers’ willingness to follow cedent fortunes in dealing with D&O claims.
- The extent to which reinsurance drives D&O capacity has dropped from 85% to 50%.
- 2004 is seen a “home run” year for reinsurers in the D&O class.

Tuesday morning’s session got off to an extremely informative start with an illustrious panel, consisting of James Kroner (Endurance Specialty Insurance Ltd.), Rod Thaler (Willis Re, Inc.), Laline Cavahlo (Standard & Poors) and Alain Karaogian (Deutsche Bank Securities), who addressed the question **“insurance and reinsurance industry capital management adequacy – when is enough, enough?”** The following outline highlights the panel’s very informed observations:

- Capital isn’t everything and can’t fix all problems.
- Property/casualty insurers are not universally loved by investors.
- The predominance of rating down-grades has been driven primarily by inadequate earnings which, in turn, have been caused by increases in loss reserves.
- Major problem areas include:
 - increasing asbestos reserves, including gaps between postings by insurers and their reinsurers;
 - potential masking of a company’s true picture via the use of financial reinsurance;
 - reinsurance recoverables, including reluctance to recognize bad debt exposures.
- Serious questions abound concerning the quality (i.e., liquidity) of capital
- Although the number of reinsurance market players has dramatically decreased, reinsurance capital has increased more than 10 fold during the last several years.
- Claim payments are slowing down, with a company’s willingness to pay not being directly related to a company’s ability to pay.
- Reinsurance buyers continue to use a combination of qualitative and quantitative factors in their decision making.
- Reinsurance contract wordings now include more security driven provisions; e.g. collateral and early termination clauses to protect cedents.
- Reinsurers criteria for success include:
 - Well defined underwriting strategies
 - Having “nimble” operations
 - Providing value-added services
 - Consistent profitability

The IRU attendees were then treated to a very enjoyable (and informative) “game playing” presentation by the attorneys (Stephen Baker, Jack Dempsey, and Steve Serfass) from Drinker Biddle & Reath who addressed the intriguing concept of **“a few million here, a few million there, and before long its real money”** to illustrate how cedents can and do “get hammered” by claimants. I might add that those who most closely guessed the ultimate award in the case studies were awarded some nice prizes. Even though a good time was had by all, the panelists made the following key points for audience consideration:

- Need to determine where the “bad exposures” are.
- The jury system does work and “they usually get it right.”
- Important focus areas include
 - Proper selection of a case for trial
 - Consideration as to how the trial should be handled
 - Need for a second opinion
- The following “fears” will greatly influence a jury’s decision:
 - Privacy
 - Toxic Substances
 - Greed
 - Aggression
 - Bet the company
 - Financial shenanigans
 - Health
 - Stupidity

Closing out the conference program was a very interesting presentation by William Graf (URS Corporation) who addressed **“seismic risk issues for insurers and reinsurers,”** including:

- Limitations of certain models and data sets
- The need to share data
- The need to influence the development of building codes.

Finally, and of particular importance during the conference was the presentation of the **George D. Young award for professional excellence to Gordon Olver**, and the announcement that **Robin Kelly would receive the Roy G. Nelson award for outstanding service.**

Looking forward to seeing you all at the Fall Conference at the Equinox Resort in Manchester Village, Vermont on September 12-14.

Paul Walther, Editor
Journal of Reinsurance