

**IRU SPRING CONFERENCE
March 13-16, 2005**

CONFERENCE HIGHLIGHTS

For this year's Spring Conference, the IRU returned to a western venue; namely, the Loews Ventana Canyon Resort in Tucson where the weather once again provided a welcome respite from the northeast winter woes experienced by many of the IRU membership.

In keeping with tradition, not only did our Executive Director, Mary K. Clancy, provide the assembled multitude with a fantastic facility with food and services to match, but Wendy Baker also put together a terrific program which provided the assemblage with much food for thought.

In leading off the agenda, President Tony Joseph touted the health of the IRU which now has an enthusiastic 59 members, including an additional 9 companies as well as an increasing number of ceding insurance operations. Tony also emphasized the value of the IRU Claim Conference (which will take place May 1-3 and the same resort), and welcomed member input on other themes and topics which might enhance the value of future conferences.



In assuming the podium from Tony, Program Director, Wendy Baker, began the educational portion of the conference by introducing a colleague of both Wendy's and Tony's; namely, Rolf Tolle, Franchise Performance Director for Lloyd's. Mr. Tolle proceeded to enlighten the audience with a riveting commentary on **Lloyd's Drive to Build a Profitable Future** which might have otherwise have been entitled "The New Lloyd's." The following were several of the key points during his presentation:

- Although Lloyd's results were adversely impacted by the US hurricanes which caused a loss of approximately \$2.45 billion, the 2004 underwriting year will still produce acceptable results for the year. Nevertheless, the 2005 capacity reflects a decrease from \$29 to \$26 billion which reflects the prudence necessary to cope with softening terms arising in certain sectors of the market.
- The Lloyd's market remains strong and viable, and its financial condition has been further enhanced by the recent subordinated debt issue.
- The new "franchise" structure was introduced in late 2002, with a focus on improving standards of underwriting and risk management across the whole

market, and with a further objective to create and maintain a disciplined marketplace of well managed businesses designed to maximize a long-term return to members.

- The main functions of the Franchise Performance Directorate include
 - **Market Analysis** – identification of trends and performance comparisons
 - **Reinsurance** – oversight and monitoring of reinsurance placements and programs
 - **Claims** – evaluation and monitoring of service levels
 - **Open Years** – strategic management of syndicates in run-off
 - **Underwriting and business planning** – review and approval of syndicate plans, including development and monitoring of performance guidelines

- Priorities for 2005 include
 - **Performance management** – Drive for disciplined underwriting across the market for consistently profitable returns.
 - **Risk management** – Catastrophe exposure managed via realistic disaster scenarios
 - **Business Process Reform** – Implementing reforms to increase efficiency of business processes.

- Long term challenges include a focus on enhancing and maintaining a competitive trading platform, transparency, and cycle/performance management by franchisees.

Of additional and considerable interest were the following comments offered by Mr. Tolle:

- The Franchise Performance Directorate (RFP) is not designed to be a regulatory body, but rather to work in partnership with syndicates
- A primary role of the RFP is to be the Protector of the Central Fund
- The RFP's mission is not to kill entrepreneurship, only "foolish entrepreneurship."

Following Mr. Tolle's presentation, the audience was treated to another and extremely informative dialogue among a distinguished panel who offered **Perspectives on the State of the Insurance and Reinsurance Business Today, and Where the Industry is Headed in the Future.** Wendy Baker moderated

the panel which included Rob Andrews (Liberty Mutual), John Berger (Chubb Re), Barbara Bufkin (Argonaut), Dan Carmichael (Ohio Casualty) and Kevin Kelso (Farmers Insurance.)



In brief, perhaps the best way to describe the basic theme of the panel's perspectives is that

“the insurance/reinsurance relationship is broke, and needs fixing” as reflected by the following commentary gleaned from the discussion:

- Often a disconnect between reinsurance products and client needs
- Misalignment of reinsurer/broker/client interests
- Potential for disintermediation
- More contention and greater lawyer involvement as claim values increase; i.e., less good faith and follow-the-fortunes mentality
- Loss of faith in reinsurers' products and delivery on promises which now require a guarantee.
- Purchase of reinsurance decreasing as more companies see higher nets as a way to increase organic growth.
- Validity and importance of contingent commission issue; i.e., perhaps a non-issue?
- Softening market conditions. Is “the perfume of the premium covering the stench of the loss?”
- Need for greater trust and fewer “wrestling matches” between cedents and reinsurers.

Regardless of their concerns, the panelists' seemed generally optimistic that the various “bumps in the road” could be overcome with greater communication and transparency, and that with greater effort by all concerned, the future can be a bright one.



During the break in the educational action, and of particular importance during the conference, was the dinner presentation of the **George D. Young Award** for professional excellence to **Dan Burke**, and the **Roy G. Nelson Award** for

outstanding service to the IRU's Executive Director, **Mary K. Clancy**. Please extend your congratulations to these honorees for their well deserved awards.

Leading off Tuesday's session, the Insurance Institute's Bob Hartwig regaled the audience with a rapid-fire **Overview and Outlook for the Insurance and Reinsurance Markets**. The following outline reflects a number of Mr. Hartwig's intriguing observations:



- Reasons why the cycle may be different this time around:
 - New management has the benefit of 20/20 hindsight
 - Information flow has improved
 - Compensation structure is not just volume based
 - Sarbanes-Oxley legislation and increased transparency
 - Rating agencies have become *de facto* regulators
 - Investment analysts subject insurers to greater scrutiny
 - Regulators are waking up
 - Quasi-Regulators; e.g. Spitzer, et al will keep industry on its toes
 - Republican domination of congress/white house good for industry
 - We're better at anticipating new and emerging risks
 - Improved management of existing risks/reducing volatility

- Reasons why the cycle may **not** be different this time around:
 - Management never learns; e.g. hindsight means nothing
 - P/C insurance will always be an impossible business
 - Investor fatigue – Wall Street fed up with low returns
 - Investments still used to paper over poor U/W and pricing decisions
 - Regulators still asleep at the switch
 - Companies still do bad job managing risk variability and volatility
 - Tort reform not a panacea
 - Republican congress/white house doesn't care enough.

- Areas of current investigation by regulators and other agencies
 - Anti-Competitive Acts – Bid rigging, etc.
 - Tying – Steering pressures
 - Finite (Re) Insurance and “Non-Traditional” products – extent of risk transfer

- Legal Malpractice
- Claims Outsourcing

- Summary

- 2004 represent “sweet spot” in the current cycle for p/c insurance (underwriting/earnings)
- Cyclical concerns quickly becoming significant issue
- Rising investment returns insufficient to support deep soft market in terms of price, terms & conditions
- Tort environment bad, but not getting significantly worse at the present time.
- New model: insurers vis-à-vis producers
- Major challenges:
 - Maintaining price/underwriting discipline
 - Managing variability/volatility of results
 - New/emerging/re-emerging risks



During his ensuing presentation Gerry Sullivan discussed the increasing importance and positive results of the **Surplus Lines Market**, and offered the following observations on the evolution of the Spitzer investigations which have dominated industry headlines in recent weeks.

- The basic problems which prompted the Spitzer investigations were caused by the actions of a few

- The resulting investigations seem to be equivalent to “hunting a flea with a howitzer”
- Nevertheless, some things were done wrong, including bid-rigging, non-disclosure, and conflict-of-interest arrangements
- Problems occurred due to a loss of focus of a few which can be corrected if decisions are predicated on serving the interests of the insured.
- The outcome of the current investigations will likely be
 - More disclosure
 - Separation of each of the distribution functions
 - More investigations and new regulations

Closing out the program was Jesus Haro’s fascinating narrative and video detailing last year’s hurricanes during his presentation



entitled **Hurricanes: 2004 and Beyond**. Unfortunately, however, Mr. Haro was not able to create a great deal of optimism with respect to a storm prediction for 2005, so I guess we must all keep our fingers crossed.

Incidentally, if anyone would like more details on any of the speaker's remarks, please contact Mary K. who has whatever power point presentations are available.

Finally, as most of you know by now, IRU members, both past and present, were extremely saddened by the untimely passing of past IRU President, Ed Erickson, shortly after the conference, and our most sincere and heartfelt condolences go out to Ed's family and friends.

Looking forward to seeing you all at the Ocean Place Resort in Long Branch, New Jersey on September 11-13, and let's all hope for a more peaceful hurricane season in the meantime.

Paul Walther, Editor
Journal of Reinsurance