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# IRU, Inc.

*Intermediaries & Reinsurance Underwriters Association*

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## IRU SPRING CONFERENCE – MARCH, 2003

### A RECAP

Once again, kudos to Mary K. Clancy and Tony Joseph for their Herculean efforts in organizing another successful IRU Spring Conference held from March 9-11 at the PGA National Resort in Palm Gardens, Florida. Not only did the venue provide a welcome respite from the severe winter experienced by the IRU's Northeast contingent, but the extremely topical program also offered the membership an opportunity to reflect on issues of interest and concern to reinsurance practitioners.

During his opening remarks, President John Reinman welcomed Nationwide, Ohio Casualty, and the Texas Municipal League as new members of the IRU. Of particular significance is that those companies fall under the newly expanded membership criteria which now include the addition of ceding companies to the IRU fold. It is also important to note that Platinum Re, Endurance Re, and Odyssey Re have also joined the more traditional "assuming" ranks of the association in recent days.

As our lead-off speakers, Locke Burt (former IRU President and Florida State Senator) and Michael Calodny brought the IRU up to date on **Florida legislative issues** having a potential impact on reinsurance considerations. Crisis situations emanating from capacity and pricing aspects of coverage in the medical malpractice, nursing home liability, and workers compensation areas were scheduled to be addressed by the Florida legislature. Florida's budget problems also created the potential for the legislators to target the assets of the Florida Hurricane Catastrophe Fund, currently in the area of \$5B, to offset other pressure points in bringing the state's income and expense columns into better alignment.

Of additional interest was the update on Florida's market of last resort; namely, the Citizens Property Insurance Corporation which emerged from the combination of Florida's Property/Casualty JUA and the Florida Windstorm Underwriting Association. In that regard, it was particularly significant to learn that the "take-out" companies, which had depopulated the JUA and the Windstorm association under prior bonus arrangements, are allowing business to flow back to the CPIC, following the realization of those bonuses which required a 3 year holding period for the risks assumed under that program. As a result, more than 630,000 risks are currently insured by the CPIC, with a PML in the range of \$8B.

Finally, the panelists reviewed the new structure of insurance regulation in Florida which has incorporated the insurance function within a Department of Financial Services headed by the state's Chief Financial Officer, Tom Gallagher. Subsequent to the IRU meeting, the Florida Financial Services Commission approved the appointment of Kevin

McCarty, former Deputy Director of the Division of Insurer Services, as the new Director of the Office of Insurance Regulation.

The second portion of Monday's program was an excellent discussion of **ceded reinsurance perspectives** among a distinguished panel of experts, including Scott Belden (Travelers); Pete Beresford (formerly of Fireman's Fund); Christian Milton (AIG), and Douglas Weymouth (Liberty Mutual). An article developed from that presentation is included as a specific item (<http://www.irua.com/articles.asp>) in the Journal of Reinsurance/Publications area of the IRU web site.

Concluding the presentations on the first day of the Conference was a very informative commentary by Mel Epstein, President of Preferred Insurance Company, who reviewed the **critical state of the Medical Malpractice market**. In citing the reasons for the severely hard market, including the crisis of capacity, Mr. Epstein pointed to under pricing, poor investments, increased frequency and size of claim payments, and environmental disasters (both natural and man-made) as the culprits for the industry's dire straits. From all indications, it appears that state and federal intervention may be necessary to cap non-economic damages and thereby alleviate the principal strain on the industry's ability to provide malpractice coverage at reasonable terms.

To open the second day's session, Todd Bault provided the audience with an intriguing **analysis of the reinsurance industry**, and the need for a new "playbook," including the suggestion that "Economic ROE" is a better measure of industry performance than combined ratio. In brief, Economic ROE is the percentage derived from a numerator comprised of accident year underwriting profit plus risk-free investment income on underwriting and capital flows, after tax, with the denominator being risk-adjusted "benchmark" capital. The benefit of such Economic ROE is that it considers all sources of income from underwriting in the proper economic framework, and that it allows comparison across lines and to other assets.

During the course of his remarks, Mr. Bault touched on certain basic tenets of Warren Buffet's pronouncements; namely to 1) accept risks that can be understood and have a reasonable expectation of profitability; 2) limit total business to an acceptable accumulation; and 3) avoid moral hazard. In summary, Mr. Bault suggested a focus on profits, not growth, and to manage the cycle with availability, not price.

A moment of silence to remember friends and family affected by the 9/11 tragedy, preceded Dr. Gene Corley's retrospective on **lessons learned from the attack on the World Trade Center**. At the outset of his remarks, Dr. Corley emphasized the greater value in keeping destructive tools out of terrorist hands than to attempt to design "super structures" impervious to terrorist attacks.

Based on the results of the team's research, the paramount cause of loss to the WTC collapse was fire, but that the fire emanating directly from the jet fuel was not a major influence in the collapse. In pointing out the additional survival time derived from the inherent safeguards in the design and construction of the WTC, Dr. Corley emphasized

the important qualities of redundancy, robustness, separation, and impact resistance in future designs. The team's research and conclusions are available on line at <http://www.fema.gov/library/wtcstudy.shtm>

An extremely interesting conclusion to the Conference were the presentations from Jack Seaquist (AIR) and Peter Ulrich (RMS) who offered background and general details of the **terrorism models** developed and promoted by their respective firms. In that regard, Dr. Gordon Woo, a colleague of Mr. Ulrich, has already submitted an article entitled "The Evolution of Terrorism Risk Modeling" which will be published in the summer issue of the Journal of Reinsurance.

Quite clearly, the absent members of the IRU missed an excellent Spring Conference, and we hope you will make a point to join your industry colleagues at the IRU's Fall Meeting at the Hyatt Regency - Chesapeake Bay Resort in Cambridge, Maryland from September 14-16.

Paul Walther, Editor  
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