

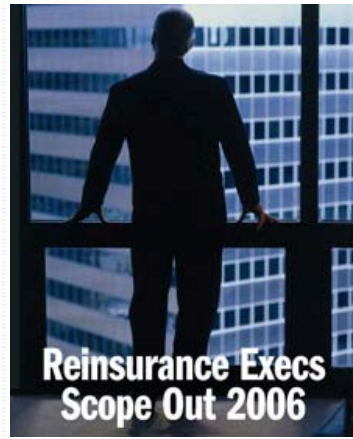
# Reinsurance Execs Scope Out 2006

BY JIM CONNOLLY

Leading executives in the reinsurance industry say that establishing better dialogue with direct writers will be a high priority in 2006, following an industry poll last year that found major dissatisfaction among carriers over the cost and availability of reinsurance.

In a July 2005 survey by Flaspohler Research Group, Kansas City, Mo., 61.5% of direct writers said their relationship with reinsurers was on the decline and only 15.5% of direct writers said they were very satisfied with reinsurers. (See *NU*, Oct. 17, 2005.)

Glenn Cunningham, executive vice president with Transamerica Reinsurance, Charlotte, N.C., says there needs to be an open discussion over issues such as risk pricing, data reporting, and



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underwriting and claims expectations. These specific points need to be discussed so there will not be any surprises that cause dissatisfaction, he continues.

This will be important in the coming year because both reinsurers and insurers need to trust each other, he adds.

The success of these efforts will determine whether relationships are long term in nature or “fleeting market contract relationships” that result in year-to-year pricing and accompanying volatility, Cunningham says.

Part of the effort to strengthen relationships with clients also will involve offering a greater breadth of services to clients, he adds. So, for

instance, in addition to traditional reinsurance services offered by Transamerica Re, the company’s business development unit will be able to help carriers with the creation of new products.

Weldon Wilson, CEO of Swiss Re Life & Health America Inc., a unit of Swiss Re, Zurich and New York, also emphasizes the need in the coming year to bridge any “estrangement” and establish “open communication” with clients so that everyone understands that spreading risk needs to be a joint effort.

Reinsurance arrangements need to be profitable for both parties, according to Wilson.

For instance, he says that reinsuring annuities could be an area at which reinsurers look more closely in 2006 if there is alignment of risk with a direct writer and reinsurer.

However, Wilson continues, Swiss Re “can’t quite be as final in the area of long term care insurance” because “there needs to be a better understanding of the long-term nature of these products.”

That understanding, Wilson explains, includes knowing how well a writing company can manage the business as time goes by. And it also includes pricing and management of claims so that consumers are able to feel they can rely on the product, he continues.

“We are looking at 20-, 30- and 40-year guarantees,” Wilson says. But, if these points can be assured, LTC is a product that the public “needs and wants.”

There is a need going forward for reinsurers to offer a greater breadth of services, according to Wilson. With the growing interest in securitizations, he says capital market expertise is something that is being offered by companies such as Swiss Re. Particularly for companies that do not have the critical mass to securitize their risks, reinsurers, including Swiss Re, will aggregate risks from different direct writers and provide more diverse risk that is more acceptable to the capital markets, Wilson says.

Another trend that reinsurers will experience going forward, Wilson says, is the impact of mergers and acquisitions on direct writers. While some in the reinsurance market feel that this will result in less of a need for reinsurers, Wilson says he believes otherwise. With companies combining, he says, management will want to focus on businesses that are integral to operations and consequently, will need reinsurers to reinsure those businesses. Reinsurers can help free up capital for these companies, he continues.

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Offering companies capital relief by reinsuring blocks of business is also something that Wilton Re sees as an area of growth, according to Chris Stroup, chairman and CEO of the Wilton, Conn.-based reinsurer. The need will be there, he continues, because it helps with risk, capital management and expense management, and brings rationale to the balance sheets.

Another trend that Stroup sees is the decline in cession rates. In this area, he says, prudent reinsurers will recognize that the market has changed from its recent growth phase and will plan for it.

With the consolidation of the life reinsurance market, and the cost and terms of reinsurance that accompanied that consolidation, other approaches such as securitizations are being considered, according to Stroup.

Jim Sweeney, executive vice president with Munich American Re Corp., Atlanta, says that reinsuring long term care products is an area of growth and opportunity. He says that in this area, MARC undertakes full due diligence and audits companies as well as some of the cases.

The underwriting for LTC is not as fully developed as for ordinary insurance and involves more judgment, according to Sweeney.

In addition, MARC has been reinsuring business from a small annuity company, which did not produce much business in 2005 but will be a modest producer in 2006, he says. The low interest rate environment has affected the sales of these products, he adds.

Sweeney says that MARC can help facilitate securitizations by providing mortality cover to the financial markets, taking on the mortality risk in the transaction.

Overall, Sweeney says he is optimistic about the growth of MARC's business, anticipating top-line growth of 8% to 10%.

In a statement, Graham Watson, CEO, RGA International Corporation, says, "We see several trends continuing throughout 2006, including further consolidation within the reinsurance industry, and continuing differences between direct carriers and reinsurers with regard to underwriting flexibility.

"From a regulatory perspective, capital requirements will increase based on statutory accounting guidelines. Risk exposure to pandemics and their potential impact will be monitored closely by life reinsurers.

"In addition, reinsurers face ongoing issues with Triple-X reserves and will continue to adopt new solutions to those increased capital requirements, including securitizations," Watson states.