I began my career in the life insurance business in 1961. All my career has been concentrated in the underwriting arena. The first thirteen years were spent with an Eastern Mutual. The past sixteen years have been spent with Transamerica Reinsurance, first as Regional Underwriting Manager of our Eastern Reinsurance Office in Philadelphia, and since 1982 as the Director of Reinsurance Underwriting located in Los Angeles. During these twenty-nine years tremendous changes have taken place in our industry which have permanently impacted the underwriter and underwriting management as well as the relationship between the direct writer and the reinsurer.

In 1961 the “gentleman’s agreement” typified the relationship between most reinsurers and their clients. The premiums charged by direct writers were more than ample and the rates paid to reinsurers were quite adequate. The potential to achieve reasonable or better profits was available to all parties. There was some competition between direct writers, and standard cases were occasionally shopped to another company for a second opinion and possibly a better rate; but this was not a major characteristic of the marketplace. The number of reinsurers was approximately ten to twelve and they generally provided excess capacity, expertise in handling the complicated, unusual or infrequently seen medical history and advice relative to financial underwriting.

As we traveled through the second half of the sixties and into the seventies, irreversible change took place. Some European reinsurers entered our marketplace. One of the niches they sought out was substandard risks. They placed heavy emphasis on the use of risk factors to improve the risk classification on each individual case. They truly individualized the risk assessment of each separate life. They often approached the existence of multiple impairments in a more aggressive fashion, and they determined that by charging a fairly substantial facultative reinsurance rate, they could afford to improve their mortality assessments compared to the ratings assigned by the established reinsurers.

When I entered the reinsurance business in 1974, the competition was fierce relative to the substandard risk. Also, it was about this time that direct writers began to compete much more intensely relative to premium rates including the “term wars” and the wholesale advent of select and ultimate products. As the seventies continued the desire for market share between reinsurers increased greatly. The number of reinsurers had increased to thirty (+/-). Many reinsurers began to compete in the substandard arena. More liberal approaches to financial underwriting appeared as direct writers and reinsurers competed for increased market share. Replacement of existing coverage became the norm rather than the exception and most of us did little to control that at first. The competition between reinsurers became so fierce that if a reinsurer felt a case was close to being okay, they better accept it rather than risk losing it to a competitor. All this resulted in the acceptance of some risks based on less than adequate information. These factors and their overall impact on the marketplace were the major contributors to the demise of the “gentleman’s agreement”.

By approximately 1983 to 1984, most reinsurers became aware that very low reinsurance rates, extremely competitive mortality quotes, failure to control persistency and an overwhelming drive to acquire market share were coming close to denying them the ability to produce a profit and in some instances were resulting in financial losses. At first slowly, but then almost across the board, reinsurers began to mend their ways. Repricing of very aggressively priced products was negotiated. Mortality assessments were again based on the facts, not simply the desire for market share. Controls were put in place to reverse the poor persistency trends. The desire for market share was replaced by the desire to make a profit, which is, after all, the reason any of our companies are in business.

Those of us in the underwriting profession who have been privileged to work through all this and survive have seen a lot and hopefully have learned some valuable lessons. Today’s marketplace finds the reinsurers faced with fewer viable companies to do business with (due to mergers and acquisitions plus some companies becoming inactive), increased rejections by some companies, thin profit margins and a continuing downward pressure on reinsurance rates as the premiums charged by direct writers continue to decrease or at best level off as they continue to struggle to achieve satisfactory profit margins.

Before I describe what I feel is required to create a good working relationship between a reinsurer and his clients, it will be helpful to examine a few of the differences between direct and reinsurance underwriters, as well as the challenges faced by the reinsurance underwriter, his frustrations, the hazards in his path to success and the true measure of satisfaction for the reinsurance underwriter. However, even before that, let’s clarify one point. Reinsurance underwriters by origin of their employment with a reinsurer are not automatically better, more knowledgable, more respected underwriters than those employed by direct writers. The advantage the reinsurance underwriter has, which should enhance his overall expertise and ability to service his reinsurance accounts, is that he
is exposed to many more and varied impaired risks plus, large amount financial risks. My experience is that both parties bring different strengths to the table from which both individuals can benefit and learn.

At this point, I will share my reinsurance underwriter's observations relative to the differences, challenges, frustrations, hazards, etc., as mentioned earlier. This should help direct writers to better understand the reinsurance underwriter's position in the marketplace. Several of the obvious differences between the reinsurance underwriter and his direct counterpart are:

- The large majority of cases we underwrite are either impaired risk, financial excess, financially questionable or a combination thereof. We do not routinely underwrite clean cases for amounts less than $1,000,000. This can make our job quite interesting and challenging, but it also increases the routine pressure placed on the reinsurance underwriter.

- Often we see complete files on which the client expects a final action. However, at times we don't feel the file is complete. The direct writer has the opportunity to build each file to his specifications (within reason). However, we don't enjoy that same privilege. I'll discuss this aspect in more detail a bit later.

- We communicate with another underwriter or perhaps a Medical Director relative to decisions, etc. In many cases that individual is at least as capable as we are in assessing the risks.

Some of the challenges the reinsurance underwriter faces daily are:

- The reinsurer usually provides cover for the mortality risk only and does not benefit from the large premium or “dump-in.” The direct writer does benefit from the large premium, and is often very anxious for a fast, possibly aggressive acceptance by the reinsurer. We appreciate this increased interest and try our best to accommodate the client, but it can become difficult.

- In most instances the reinsurer does not know the source of the business. This knowledge can be a very meaningful piece of the overall risk evaluation. This is one of the reasons some reinsurers require that the client keep a retention on all facultative business. Although Transamerica Reinsurance does not routinely require the client to keep a retention on facultative cases, I can understand and appreciate the logic of some of our competitors.

- The time required to turn around facultative cases is an important piece of many reinsurers' facultative programs. On most of the files we review we are in competition with one or more additional reinsurers. Therefore, our marketplace requires that we provide the best risk assessment possible on each case within 24 to 48 hours of receipt of the papers.

- The reinsurance underwriter is expected to provide a broad range of needs. He is expected to provide expertise regarding the financial risk and the medical risk. He is expected to help the direct writer by answering all types of underwriting questions including advice regarding underwriting guidelines and requirements including their relative value at various ages and amounts. He is expected to help in the design of payroll deduction or executive carve-out programs, and help address underwriting management issues. Not only is he expected to be knowledgeable in many varied areas, he is also expected to be able to relate his knowledge to the marketplace of any specific individual client.

- Not infrequently we review a file which we feel requires additional work-up: an additional APs, a treadmill, further financial information. Oftentimes we recognize that the client has developed the file either as far as he could afford to or perhaps fully in his mind. We know that we must guard against asking for additional requirements because they'd be nice to have because they do cost our client money to obtain. On the more borderline cases, there is the possibility one of our competitors may accept the case as is. Also, on many cases we become involved only in the later stages of the process (30-60 days after the client began its underwriting of the file). How do we meet this challenge? We must evaluate each case separately. On some we will make our best offer, on some we will ask for the additional requirement(s) and on others we will make a somewhat conservative offer with an offer to reconsider “subject to”. Knowing when to do what and how to do it is the trick.

- At times we review files presenting rare type disorders and/or complicated, involved histories which really don't fit any of our usual guidelines. Researching these problem areas, translating the available information into a form which fits our usual format for mortality analysis and assisting our client in understanding what we've learned so he can sell the case to the agent consumes a great deal of time and may result in naught.

- Of course we cannot forget the challenge which all underwriters face — the proper balancing of the case load with the demands of the telephone.

The challenges which the reinsurance underwriter faces can become sources of frustration too. I'll let you weave those scenarios as you see fit. In addition, a couple other areas of frustration deserve mention:

- At times we work on a case which presents a very unusual or complicated medical history or a very involved financial picture and the amount is quite large. We make an offer subject to our being able to obtain facultative retrocession capacity. The nature of the problem is such that we do not feel comfortable binding our automatic retro pool. The other two or three reinsurers to whom the client sent the file decline the case. For the moment we are a hero. We send the papers to all our retrocession outlets and for one reason or another it takes two weeks to receive replies from all these sources. Now our client is impatient with us. Never mind the fact we are spending a lot of time, effort and money in this process. After all the replies are recorded, we find we can
only cover 60% of the amount applied for. We relay this result to our client and become an instant “chump.” We didn’t deliver. Should we have declined the file too? On one or two, probably, but on the others (the majority) not while I’m in charge.

• Closely related to the above is the case on which the reinsurer gives a tentative quote subject to some additional pertinent information. Our tentative offer includes the comment that we recognize that the additional information may not support our tentative rating because of... The additional material is received and we must change our tentative offer to a less desirable final offer. The client blows their top. They read over our original message, they remembered the favorable part, but they really didn’t tell the agent about the possibility that the rating may be increased. We were as open and honest as we could be, but the client is upset. We put forth extra effort, but the client is upset.

• Piecemealed files: Sometimes this practice is unavoidable, but often it can be modified at least. Every time we reopen a file we incur repeat clerical expense and many times there is duplicate underwriting effort. Profit margins are thin. The size of underwriting and clerical staffs are carefully controlled to keep expenses down. Time service is important to the client. Unnecessary piecemealing of files hurts in all these areas.

One hazard in the path of success for a reinsurance underwriter is:

• Reinsurance pricing is performed in a very competitive arena. As a result profit margins are usually quite thin. In providing the multiple services expected of a full-service reinsurer we must be very efficient. At times, however, we find that these additional services are increasing our internal expenses to a level which may jeopardize our profitability. Better, faster, less costly procedures must be developed which is much easier to say here than to actually accomplish. An example faced by many reinsurers today is the increased time required by the reinsurance underwriter in evaluating the voluminous facultative Second-to-Die files.

The true measure of satisfaction for any reinsurance underwriter is when he is recognized by his peers (direct and reinsurance underwriters alike) as being able to consistently help his clients achieve their goals.

In light of all I’ve covered to this point, just how does the reinsurance underwriter establish a good/successful working relationship with a client company? I suggest we closely examine the meaning of three words and relate the specifics found to the overall duties performed by “all” underwriters. I spell success: PARTNERSHIP + COMMUNICATION + SERVICE.

As I review the definitions of these three words I note that a partnership is a relationship between two or more individuals and/or entities usually involving close cooperation and sharing between the parties with the parties having specified and joint rights and responsibilities. Please note the reference to close cooperation, sharing, rights and responsibilities and that two or more individuals are involved.

Communication is defined as a process by which information is exchanged between individuals through a common system of symbols, signs or behavior. To communicate is to transmit information, thought or feeling so that it is satisfactorily received and understood. I place specific emphasis on the last four words here. While many of us generally write or speak our messages clearly, many of us are not good listeners. If the message is not received in its entirety and understood, the process of communication breaks down and problems usually follow.

An exact definition for service in the context I wish to use the term is a bit more difficult. However, the following terms do a reasonable job: to help, to benefit, to provide. Of course, only “good” service will assist the reinsurance underwriter in establishing a successful working relationship with a client.

As these definitions indicate, a successful working relationship between the reinsurance underwriter and his client requires the active, willing participation and cooperation of all the parties involved. Yes, the reinsurance underwriter must create the atmosphere for the relationship to exist through his friendly, open, knowledgeable and cooperative spirit, but the client underwriter must want this relationship to exist and do his part in creating and developing it. This scenario embraces all the aspects of a partnership and communication. The service aspect falls solidly on the shoulders of the reinsurance underwriter because service is the main entity behind all the various products a reinsurer sells.

Today’s marketplace of rapid change, thin profit margins, constant scrambling to find the “right” niche(s), cries out for the partnership spirit, excellent communications and superior service. If any of us (reinsurer, direct writer, underwriter, actuary, marketer) are to be successful we must conduct our business in this atmosphere.

A look at some personal observations of and experiences in our business over the past years may help:

• All parties must read the reinsurance treaty. It is the basis of the reinsurance arrangement. Also, it is a legal contract. Personally I don’t like to dwell on the legal aspect, preferring the spirit of the “gentleman’s agreement.” However, today’s fast pace, thin profit margins, and societal mores plus expectations have increased the threat of arbitration in the past year or two. If the treaty must be violated to meet a specific need, get agreement by all the parties.

• The reinsurance underwriter has an obligation to learn what the needs are of each client. In order for him to successfully complete this obligation, the direct writer must communicate his needs — sometimes two or three times. When I visit clients I love to hear about how well our regional underwriters are performing. However, if that’s not the case or only a half truth, I need to hear about our mistakes and failures. This is the only way we’ll improve and if we don’t improve constantly, we’ll eventually fail. (Cooperation, communication, progress toward a successful relationship.)
If the direct writer needs a deal, special handling, an aggressive rating, that must be communicated to the reinsurer with the facultative papers. What is needed, why, what extra risk are you accepting to help accommodate the request. (Communication, sharing.)

Everyone, take time to read/listen to the full message and if you don’t understand it, ask questions. Also, take time to make your communications clear/understandable.

If you (reinsurer or direct writer) made a mistake, assessed an incorrect rating, ceded a case automatically that should have been facultative, etc., admit your mistake, ask for assistance, suggest a solution and be prepared to negotiate the final outcome. This was an integral part of the “gentleman’s agreement” of the 60s, and I believe it’s just as applicable today.

If I, as a reinsurer, am not doing my job to your satisfaction, tell me and suggest what I need to change, to improve. Don’t just stop sending cases to me.

Take the time to learn about and understand the marketplace the other party is operating in. I feel so strongly about this that when we hire new underwriters, we look for individuals with substantial direct experience. We can teach them reinsurance, but nothing replaces actual experience as a direct writer.

When a reinsurance underwriter decides to ask for an additional requirement, always keep in mind the cost to the direct writer in both actual dollars and in further delay which could result in lost business.

Direct writers — invite your reinsurance underwriter to sit in on a meeting of your agents or brokers. They may even enjoy asking some questions about reinsurance and undoubtedly would love to tell us where we’ve not been of help. This can be a tremendous growing experience for the reinsurance underwriter.

Although most of the above comments relate to underwriters, they are also applicable relative to the reinsurance pricing actuary, the direct product actuary, the reinsurance sales rep and the many contacts he has in his client companies.

In conclusion, reinsurers and direct writers alike are in business to produce a profit for their owners. The marketplace includes thin profit margins, keen price competition, constant change and a fast, chaotic pace. The only way I perceive any of us surviving and achieving success is through the spirit of a PARTNERSHIP, providing superior SERVICE to our customers and constantly communicating with each other so that we can work together to meet all the challenges of the marketplace. Mutual trust, respect, understanding, sharing of needs and ideas and a cooperative spirit are all necessary ingredients. They are tied together via free, clear, concise COMMUNICATION by all parties.

In the late 70s and the early 80s the reinsurance community assumed some of the traits of a prostitute and many direct writers participated in the available services. In the mid 80s we all recognized that this earlier behavior would probably bankrupt more than a few. Some dramatic changes were put in place to reverse this trend and perhaps the pendulum swung too far the other way. I see the 90s as a chance for reinsurers and direct writers to assume many mutually profitable alliances. In this atmosphere success will come to those who provide superior SERVICE to their customers by working together in a spirit of PARTNERSHIP with free and open COMMUNICATION.