

The Human Factor in Reinsurance

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The Human Factor in Reinsurance ¹

by

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The fact that optimism must be an essential characteristic of the reinsurer might appear to be simply a commercial necessity which he therefore bears in common with more than one profession. The reinsurers' optimism is at any rate readily apparent, and one of the occasions on which it is revealed to the full is the annual rendez-vous at Monte Carlo, when a lay spectator, witnessing the hubbub and animation in the conference room and elsewhere, might easily obtain a wrong impression of the actual results of the business.

But the participants are not striking attitudes; they are merely giving proof of an essential requirement of a business based on personal trust and long duration. The human side of the profession is therefore one of its essential features on which it is interesting to dwell for a moment.

Like any other commercial transaction, reinsurance brings individuals face to face at each moment of the relationship: approach, negotiation, administration and termination of the business. What is more, the raw material of our industry is the person quite as much as the physical risk. The reinsurer invests in, or gambles on, the result of his dealings with persons: managers, underwriters, claims officials, heads of reinsurance departments. His technical knowledge alone will be of little avail, unless he is also a good judge of men.

Also, the reinsurer cannot practise his art without endangering the equilibrium of his business, unless he can count

¹ Reproduced from the "Jubilee Number of the Quarterly Letter", Algemeene Herverzekering Maatschappij N.V., Amsterdam.

on a team of retrocessionaires to provide him with the multiple means which will enable him to meet the exceptional demands for cover from his cedents. This team of retrocessionaires must be faithful and accommodating.

Finally, the reinsurer often receives business through the intermediary of brokers. The reinsurer will only be shown the best class of business if he is able to inspire confidence.

It is therefore with these three categories — cedent, retrocessionaire and broker — that the reinsurer must exercise his talent as a judge of men and build up an acknowledged reputation.

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It is a hard task which awaits the beginner — and this applies, although to different degrees, to the representative of a new company as well as to a negotiator visiting cedents for the first time. The initial problem is: how can one arouse the cedent's interest? The approach required here is very different from that of a broker in direct insurance, because the client is a professional and also because the market is limited and systematically visited (especially during the height of the local season!). Human qualities are called upon to play a primary role. These must naturally be based on a thorough knowledge of local market conditions but also on a study of the psychology, habits and behaviour of the persons one has to deal with.

There are in fact conversations which seem to lead to a business arrangement at once. But during others the visitor feels an intruder and has to summon up all his courtesy and patience, to explain his offer of service effectively and in the minimum of time. It by no means follows that the first kind of conversation will mature; and, if it does, only very paltry business might be involved. The second kind, on the other

hand, may bring a happy ending, for it is an axiom of the profession that it is the difficult business which survives whereas the easy business is ephemeral.

110 It is by the persistence and regularity of his visits that the reinsurer will establish his position. What the cedent wants above all is to be able to rely on permanent cooperation and to see the same person several times so as to become used to dealing with him. The reinsurer himself will only find out by repeated visits and by experience whether the interest shown by the cedent is merely a sign of courtesy or whether it is indicative of a wish to do business.

Whether one is reinsurer or a broker, it is therefore indispensable to heed the imperative need for continuity and patience, and never to be discouraged. This naturally presupposes that one has something to offer and that one is not traveling as a tourist but as a seller of a useful article of high quality. True salesmanship will not take the form of offering terms which are incomparably better than those that are normal for the line of business or the country in question. It might indeed be tempting to employ such methods; but it must be obvious that a portfolio so constituted is likely to be vulnerable in the extreme. As seen from the cedent's side, accepting to play such a game would denote a great want of loyalty; even although it were momentarily profitable, it is sure to prove disadvantageous in the long run.



What is required therefore is an intensive programme carried out over a period of years; but also a real service has to be given. It is increasingly necessary for the reinsurance salesman to be able to offer facilities over the whole range of business. Unless a reinsurer already enjoys a well-established position and financial strength beyond the ordi-

nary, he can no longer hope to build up a portfolio if he restricts himself to offering "proportional" covers.

The question of financial strength is of course extremely important. Companies with relatively weaker means are under a handicap (which can be remedied, to some extent, by a well-organized system of retrocession), because the ability to provide finance remains one of the surest methods of acquiring sound and lasting business. But not everyone can compete with the "great" in this respect, and if this service cannot be offered, there are many others available, based on the known requirements of cedents in every single branch of business.

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It is here that there is scope for perfectly fair competition (which excludes under-rating and over-bidding), based solely on a wish to give service and the ability to provide it.

This service might on occasions go beyond the strictly professional sphere and the reinsurer might thus be called on to play the role of travel guide and general factotum. One may also mention the help given in the past by reinsurers in more fortunate countries to those of their clients established in territories affected by the consequences of war. Such assistance has not been limited to sending articles of food but has extended to the forwarding of correspondence and to giving much appreciated moral aid. It is no exaggeration to say that this help has often been given for reasons of pure friendship.

Indeed the reinsurer — in good times as well as in less happy circumstances — must be a friend to his cedent. And during the currency of a treaty, there will be many occasions on which this friendship will manifest itself. Strictly com-

112 commercial considerations apart, this friendship will show itself in the speed with which replies are given and in the lengths to which the reinsurer will go in order to find a solution to the problems that arise. These problems are infinitely varied: information about new branches or forms of insurance, foreign countries, new legislation, currency regulations or investments; placement of "target" risks or special risks which fall outside the scope of the treaty; extensions of cover; rating of special risks; and even sometimes "fronting" arrangements so that business can be written in branches for which a license has not been obtained.

In many cases, such risks are of no commercial interest to the reinsurer. But, because he considers the cedent as his friend, the reinsurer will often go so far as to give reasons why he thinks a risk should not be written at all or alternatively he will advise on conditions that should be inserted in the policy.

It is naturally when the results of cessions are unfavourable that this friendship is put to the test. Unfailing support during adverse periods will cement friendship better than even the most advantageous profit commissions. It is easy to regard the latter as a due, and one tends to forget all too often that these returns of profit reduce the reinsurer's reserves, thus making it more difficult for him to play his helping role when the wheel turns.

It is not merely a question of the reinsurer financing the cedent's losses; what one also expects of a real friend is advice and help in finding the causes of the situation and remedies for it. The reinsurer is indeed equally entitled to ask for a revision of treaty terms; but, clearly, it is in difficult times that the cedent finds it most awkward to make an effort to improve the conditions. Much more useful will be a

cooperation between both parties aimed at securing an improvement in the overall state of the market.



Friendship — trust — permanence; everything that has been said about reinsurers applies equally to insurers, and it would be very unjust to the latter to ascribe the willingness to be of service only to the reinsurer. We ought at least to add a few remarks about the different outlook of insurer and reinsurer.

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The insurer, in spite of appearances, is not the party who makes the offer. It is true that one can speak of an "offer" from the insurer in the sense that he disposes of the raw material and that naturally reinsurance cannot live without direct insurance. The insurer is therefore in a strong initial position; this position, reinforced by the good quality of the business that is available, may remain valid even in the case of deteriorating results, provided these results are the tendency of the whole of the market. Nevertheless, if a treaty relationship for one reason or another develops to the manifest disadvantage of one party, the other will not await a specific request before proposing a mutual study of the possible measures for improvement. In particular, a cedent would spontaneously take steps to satisfy its reinsurers — and this for reasons of self-interest which are readily apparent; although it might appear that "one can always find a reinsurer", this is not true from the point of view of quality and may even prove wrong in the absolute sense. In such a case, the cedent could find itself in danger of a take-over bid. Many in such circumstances have been forced to reinsure with markets which do not offer a sufficiently widely-based security and to enter in their balance sheet a doubtful asset; many also have been compelled to look for financial assistance.

ASSURANCES

It is therefore in the cedent's own interest that its reinsurers obtain in the long run the near certainty of a profit, even although this profit may be only small. This applies both from the technical, and in some branches, the financial point of view. It would be a disastrous policy for a cedent (even without broadcasting the fact in his annual report) systematically to make its reinsurers support a chronic deficit or finance risky operations.

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But the cedent will also — and this is an essential aspect of reinsurance operations — have to take into account emotional factors, because the relationship is one between persons. Friendship (with few exceptions!) cannot be unilateral, and one therefore sees managers of insurance companies remaining faithful to their reinsurers in spite of difficulties and in spite of the fact that perhaps their needs for the particular reinsurance may have diminished. They do this in order not to embarrass those whom they consider not merely as associates but as friends who ought not to be inconvenienced by a fall of premium income or a lowering of the quality of the business ceded.

A change of reinsurer which might appear momentarily advantageous may prove disastrous in the future; the new reinsurer may be more impatient or intransigent and the old reinsurer may be reluctant afterwards to resume a relation which was broken off against his will. The relationship of supply and demand may therefore be reversed to the cedent's disadvantage.

On the other hand, an understanding attitude will ensure that the cedent retains the support of its reinsurers, and this support will, as we have seen, extend to a variety of matters and include in given circumstances also moral and financial aid, without being coupled with clauses giving the reinsurer

an exclusive position or materially restricting the cedent's future freedom of choice.



The same considerations apply to the reinsurer who finds himself in the position of "cedent" vis-à-vis his retrocessionaires. Knowing as he does the necessity for constancy in reinsurance relations, he will appreciate at its full worth the cooperation of his retrocessionaires.

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A retrocessionaire, even more than the primary reinsurer, has to take business on trust. He reinsures the man without having any immediate knowledge of the portfolio and he only receives information which will enable him to effect an a posteriori control. That is, he accepts blindly on the basis of past, not to say out-of-date statistics. The value of these statistics is naturally not to be denied; a comparison with the results of similar concerns will reveal the degree of skill of the retroceding company and the premium income figures will demonstrate its rate of expansion.

But the best guarantee of future results remains the good will which the reinsurer enjoys; the services rendered in the profession are often of greater weight than mere figures would indicate.

The links with certain retrocessionaires may be extremely close, whether it be a question of powerful reinsurers preferring to support a national concern rather than placing business generally with the market, or of the original cedents entrusting to a common reinsurer (whose capital they own) the task of looking after their covers and of possibly making their cessions bring returns, for instance, in the form of reciprocity.

It is true that a large number of general retrocession treaties (which are the ones we are here concerned with) are

116 placed in small shares with companies which have only a vague idea of what they are accepting. But this does not constitute a framework and partnership on which the reinsurer should base his future underwriting practice. The policy of having general retrocession treaties may be justified by the wish to receive reciprocity or by the necessity of distributing widely certain very heavy commitments. It cannot, however, be used to support the establishment or development of a portfolio composed solely of heavy known liabilities.

The choice of retrocessionaire is therefore usually dictated by the necessity of being covered by very sound concerns which are ready to accept without discussion cumulations, whether foreseeable or not. It may be added that in practice such cumulations often present the retroceding company with problems of conscience which are not easy to solve.



There is, finally, another category of person who plays a considerable role in the establishment and conduct of reinsurance relations: the Broker.

It was for a long time a subject of passionate debate whether it was in the interests of the professional reinsurer to make it a matter of principle to refuse collaboration with brokers or whether on the contrary he should be willing to receive or even solicit offers from them. It appears that this is now an academic question, and the reader is referred to an earlier article in the Quarterly Letter ¹.

The role of the broker has been acknowledged by all reinsurers, but it remains true that in order to be recognized and appreciated the broker must never forget the special

¹ Quarterly Letter No. XI/41 and also Lettre Trimestrielle No. II/8.

nature of the product he is dealing in nor the quality sui generis of reinsurance relations. It is indeed a much more delicate task to be an intermediary in a subjective field such as this than in one concerned with tangible articles. Reliability is certainly the first virtue of any intermediary. In the case of reinsurance, the "sale" is bound up with facts which cannot be easily controlled a priori. Furthermore, it refers to an object which it is difficult to delimitate precisely, since one of its essential features is confidence in a third party. The role of guarantor is always more critical than that of guarantee, and to serve as a buffer between the two is not without its perils.

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Uprightness, persistence, regularity of visits and technical skill are the tools with which the broker will provide himself in order to build up within the reinsurance profession such a reputation that he is no longer always in the position of having to ask but reaches the status where he is approached and consulted. This is a legitimate ambition of the broker, although difficult to attain, unless he is supported by an active reinsurance market which attracts business by its prestige. This is the case in some countries but particularly so in London, where furthermore the broker is a full member of one market — Lloyd's — which makes of him one of the mainsprings of its organization.

It should be noted in passing that if a Lloyd's broker (whether operating for Lloyd's or for companies) has the privilege of being the exclusive intermediary, he bears an additional responsibility and must take up attitudes of which his colleagues in other countries are relieved. To be an authorized broker is a privilege in all cases. The position which the Lloyd's broker occupies is in a way analogous to that enjoyed in law by the French "courtier juré" (sworn broker) and involves the same obligations.

118 What in effect constitutes the difference between the broker's work and reinsurances concluded direct is the fact that the broker must always ask the agreement of both contracting parties. This creates a margin of flexibility in negotiations which may often be widely extended, without any differences or difficulties necessarily arising. But it is certainly a complication, since a broker cannot, except if specifically authorized, settle a matter on the spot. He must first of all obtain the reinsurer's agreement to the conditions imposed by the cedent or vice versa. The result is a slowing down of the negotiating process. The broker can compensate for this only by offering both parties (and not only the cedent) a competent and assiduous service, whilst at the same time using this basis to develop lasting personal relationships.

To conclude in a lighter vein, one should perhaps mention an aspect of such relationships which ought never to be neglected — gastronomy. It would be unforgiveable not to mention this attractive, though on occasions dangerous, activity which is such an important part of human relations. A meal has since antiquity been a much-favoured means of bringing people together and revealing their characters — and more than one treaty has been concluded, on a lasting basis, round a good table, or even over a cup of coffee, following the precedent of Edward Lloyd.