

Les problèmes de la réassurance

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[See table of contents](#)

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Article abstract

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Les problèmes de la réassurance

par

J.A.S. NEAVE

La réassurance a une ouverture sur le monde. Aussi les problèmes politiques ou économiques se reflètent-ils sur ses résultats. À la dernière réunion annuelle de la Reinsurance Offices Association, Monsieur J.A.S. Neave a présenté les problèmes actuels des réassureurs. Nos lecteurs trouveront ci-après de copieux extraits de son discours. Nous avons pensé qu'ainsi ils comprendraient mieux la situation en ce moment. Nous remercions M. Neave de nous avoir permis d'utiliser son texte. A. 255

In these conditions of relative instability, there are aspects of importance to reinsurers that call for comment. There has been a tendency in some quarters to criticise reinsurers for the difficulties created in direct markets. Reinsurers are not flattered by this recognition of their influence, nor do they accept it as an accurate description of the facts. It would need more than a few rogue reinsurers to create the kind of market conditions complained of and certainly those that may have prostituted their services could hardly have created all the problems that have been laid at their door.

None the less reinsurers, and indeed this Association, have a clear responsibility to use their influence to encourage technical operations along sound lines and frequently the very practices complained of are ones that we have already condemned. It is perhaps only by giving repeated publicity to examples of malpractice that we may be able to prevent the consequences to direct underwriters and reinsurers alike that nearly always follow them. Freedom with publicity has been a cornerstone of this association's philosophy. It is obvious in the light of criticism of reinsurance practices that we must accept that in order to make our policy more effective we should perhaps be more outspoken regarding technical malpractice whenever cases are brought to our

attention. Furthermore, we should at the same time aim to be constructive in pointing out sound alternative methods.

256 One of the side effects of inflation as it currently affects us all is the rise of interest rates to historically high levels. This situation may encourage all attitude to underwriting that considers cash flow as more attractive than the modest rate of underwriting profit that insurers can traditionally expect to earn. It should be firmly stated that in these conditions reinsurers cannot stand idly by knowing that, without the prospect of an underwriting profit, no increase in cash flow can benefit them under any reinsurance contract which they may have entered into. Rather the reverse situation affects them. In a long term business such as reinsurance, reserves are invested to meet liabilities that will arise well into the future and the market value of these will tend to reduce in times of high interest rates. Underwriting profits are all the more important in these conditions and reinsurance support should not be forthcoming for any direct operations which do not conform to a pattern of adequate profitability in these inflationary times.

In an international business such as reinsurers in the City of London are engaged in, stability in the exchange rates of overseas currencies is of much importance, but recently has been sorely lacking. It is mainly a political problem fostered by economic rivalries which give us little cause for optimism in any quick solution. In the insurance market this calls for a degree of co-operation and understanding between all parties to the transaction, which is fortunately present in most cases. For a business providing cover at agreed terms against eventualities long in advance of their possible occurrence, without the existence of such willing cooperation, the conduct of our business would be quite impracticable. However, other factors outside the insurance market are more difficult to contend with and these have politico-economic origins that involve the protection of national interests by devices such as the restriction of deposits of currency locally to meet future liabilities by exchange control regulations or by negative rates of interest on such deposits. Situations of this sort have arisen overseas and whilst there has been some short term relief of these problems as they affect international reinsurance in the performance of its role of spreading insurance risks world wide, a more lasting realisation is needed that without the proper facilities for currency investment and movement, this essential service might eventually cease to function. Reinsurers need constantly to watch the position in this regard.

The enlarged reinsurance market that has, for perhaps two years now, seen the end of capacity problems has however, not unnaturally, created some others. These in the main have normal competitive origins. It would be unrealistic if this situation was not to some extent exploited both by the newcomers endeavouring to establish themselves in the market and by brokers too, whose role is to place business at favourable terms with secure cover. What must concern this Association, however, is that in conditions of ample market capacity the hard won improvement in technical practice achieved painfully after periods of highly unfavourable results should not now be lost either through ignorance of the dangers or a willingness to take unjustified chances in a situation that calls for every device of sound underwriting practice that this Association and others can recommend.

257

A new situation in the market, and one which will affect all those in it, will arise in the regulations now under discussion and which will be introduced as a condition of the authority to operate, to be granted or refused to would-be underwriters by the Department of Trade. This authority, based upon a stringent test of solvency, and the regular supply of detailed information, will become a new and important element in the market structure. It should be welcomed by all responsible underwriters and brokers who must be vitally concerned with the financial security of those with whom they conduct business.

The evaluation and control of the solvency of a reinsurer is undoubtedly a very complex exercise involving the analysis of information that must be detailed and up to date. It is also dependent on the retrocession sequence with all its ramifications. These and other somewhat elusive factors make it very difficult to bring precision into the calculation without a massively complicated and expensive administrative build up. But reinsurers are concerned to see an effective and secure system for the control of solvency in being and are optimistic that this can be achieved without an undue strain on administration.

Another of reinsurers' major problems is that involving loss from politically motivated actions. Disregard of the rule of law and the ruthless pursuit of their objectives by minorities, without concern for human life or property, pose major questions in the political uncertainties of the present-day world. To deal with the insurance aspects of this pro-

blem, we need to try and identify how and where these risks may arise. This is far from easy where the perpetrators of these types of crime rely on surprise and have shown great ingenuity in the preparation and execution of them. Only the determination of governments to stamp out violence as a means of achieving political ends can relieve this problem, but in a social climate that can witness much expensive damage, without any political motivation, done on a football pitch following the defeat of a favoured team, clearly the time has come for them to take firm action.

258

Each year we see the increasing cost to the community from exceptional manifestations of nature that often reach catastrophic proportions. These may be floods such as those that recently devastated Queensland, Australia, or tornados such as struck the U.S. in early April, or drought followed by famine which presently exists tragically in Africa. We cannot tell if next we may be faced by earthquake or by tidal wave but it is most unlikely that the remainder of the current year will be free from catastrophic loss. Reinsurers will be affected in varying degrees but the scale of damage increases as development progresses and each time a disaster strikes a new threshold in the toll of loss is passed. These events have reached a degree of predictability that calls for the accumulation of reserves by reinsurers specifically to meet those expected claims that will be swelled by inflation at current levels.

Several aspects need to be considered by reinsurers. Firstly, inflation is eroding our reserves invested to meet future liabilities. Secondly our tax treatment is not favourable to the accumulation of catastrophe reserves. Thirdly commercial considerations and competitive attitudes after a year's good trading must not frustrate the ploughing back of profit to reserve to meet these losses in the future. Ours is not a business that produces short-term profits and we have to be organised to handle the expectation of catastrophes, regrettably a now regular feature of our scene. There is some divergence of attitude among the authorities who on the one hand need to control solvency and on the other to extract the full amount of statutory tax due on the annual balance of premiums remaining that would be regarded as profit for tax purposes, though it may still be considered as at least partially unearned so far as the liability for catastrophes is concerned.