

Further reflections on ultimate net loss and net retained lines

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Résumé de l'article

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Further reflections on ultimate net loss and net retained lines

by

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Dans cet article, notre collaborateur revient sur certains aspects de son article intitulé « Ultimate net loss and net retained Lines ». C'est avec plaisir que nous l'accueillons.



In the issue of *Assurances* for January 1982 a paper was published which seriously questioned whether in an excess of loss contract applying to physical damage, the Net Retained Lines (NRL) clause is really necessary, provided that the Ultimate Net Loss (UNL) clause is correctly drafted. The paper suggested that in place of the NRL clause it would be preferable to include in the contract an agreed table of maximum net retentions. The Reinsurer would probably be better protected and the Company would have a clear understanding of its rights and obligations.

It has been encouraging to find that the paper aroused interest. Some reinsurers have kindly taken the trouble to put forward various points which may be of interest to readers in general.

1. One of the main objections put forward regarding the suggestion made above, is that the UNL and NRL clauses have different functions :

UNL describes the method of calculating the claim.

NRL attempts to determine the amounts per risk which are protected.

This is so, but the NRL says that the contract will protect "only that part etc" so that it limits the amount recoverable by the Company. To that extent it overlaps with the UNL and becomes, in fact, an additional condition of the latter clause.

In some companies, no doubt, it is a frequent occurrence for an excess of loss claim to be formulated, possibly each week or at

least each month. This means that personnel become fully familiar with procedures. In other instances where the company is protected at a different level, there may be an excess of loss claim only very occasionally. In either case but particularly the latter, the wording should be as simple as possible and avoid all ambiguity. If there is one article which explains how to formulate a claim, and a table of maximum net retentions, this would seem to simplify the claim making process. Otherwise each item in the claim must be examined to see whether any of the very vague requirements of the NRL clause have been infringed.

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2. The writer is taken to task for suggesting that it may seem illogical that office expenses and salaries of the Company's own officials are excluded from the UNL, whereas similar expenses payable to independent assessors (if any) can be included. The argument is that the former are part of the Company's fixed costs, whether there is a claim or not.

This is a matter of opinion and custom. Some reinsurers readily agree that part of the office expenses and salaries shall be included in the UNL, and believe that they (the reinsurers) receive better value for money when work is done by devoted employees of the Company, rather than by assessors.

There are institutions where the "Claims Manager" merely keeps records and provides vouchers for accounting purposes. He never sees a claimant or discusses a settlement. All that is farmed out to assessors. Other institutions have a team of their own travelling claims staff constantly at work, thus protecting the interests of the Company and reinsurer at least as well as assessors are likely to do.

Truly office expenses and salaries are part of the Company's fixed costs whether there is a claim against the Reinsurer or not. This is very similar to the position which may arise in proportional treaties where in the profit commission statement an item is included for Reinsurer's expenses, although the Reinsurer has not been at any additional expense simply because the treaty has made a profit.

3. Attention has been drawn to the possibility of a complete change of portfolio by the Company over a period, so entirely altering the reinsurer's risk, but remaining comfortably within the requirements of the agreed table of maximum net retentions.

This, I must admit, is a possibility which had not occurred to me. How it would affect the reinsurer's vulnerability must, of course, depend upon a number of factors. These would include, amongst others, the level of the deductible in comparison with the various items on the table of maximum net retentions, and the number of risks in each class which must, in theory, be involved before a claim could affect the excess of loss contract. One must not forget, of course, that a claim might include risks of various different classes.

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Broadly speaking, one can imagine that if the deductible were equivalent to the top item in the table, it might be a considerable technical advantage to the reinsurer if the portfolio were turned over to poorer quality risks, of which possibly 20 or 30 would be brought into the UNL before the deductible was reached. In other examples the reverse might be true. The physical distribution of the various risks would be very important.

However, in many instances at renewal of the reinsurance or when continuation was being considered, the reinsurer is likely to call for a profile of risks which, when compared with earlier information, would bring to light any significant change, which would be reflected in the rate of premium, as finally agreed between the parties.

Conteneur, dit « open-top »

Dans une étude sur les conteneurs, parue dans le numéro d'avril 1983 de notre Revue, nous avons mentionné *open-top container*, sans pouvoir en donner l'équivalent en français. Depuis, nous avons trouvé l'expression suivante dans une annonce parue dans *Le Figaro Magazine* : « Sigma S.A. vous propose aujourd'hui d'acquérir des containers open top, c'est-à-dire à toit bâché. » Nous retenons cette expression qui correspond bien au genre de conteneurs en question, nous semble-t-il, c'est-à-dire au toit recouvert d'une bâche.