

Transparency – a key to continued success in the reinsurance industry



Sal Zaffino is chairman and chief executive officer of Guy Carpenter & Company, Inc.

I would rather be using this opportunity to discuss more customary topics, such as year-end renewals or the impact of the recent hurricanes on rates and capacity. Given recent events, however, I feel it is important to address the challenges to our industry's practices and ethics, and to share with you my view of the road to the future.

Our industry is suffering from a crisis of confidence stemming from ratings downgrades, claims payment performance and, most recently, questions have been raised about long-standing industry practices, regulatory issues, and ethical standards. The collective reputation of our industry has taken a blow as a result.

As most have heard, Marsh & McLennan (MMC) companies are involved in an investigation by the New York Attorney General. MMC is not the only recipient of inquiries – a number of firms have received similar requests for information. We should take all allegations levelled against our industry very seriously. We must be committed to getting all the facts, uncovering any incidences of wrongdoing, and addressing them promptly and appropriately.

Several insurance brokers, including Marsh, recently announced several significant reforms to their business model

to ensure transparency and the highest professional and ethical standards. Among other important developments, most have eliminated contingent compensation agreements with insurers and some have taken further steps to make all revenue streams fully transparent to clients.

A similar approach is warranted in the reinsurance arena. From recent events, one message is loud and clear: Transparency is a key to continued success – now more than ever.

At Guy Carpenter, we have chosen to disclose to clients our varied forms of compensation, including standard rates of brokerage for treaty business, fee for services and our history with contingent compensation agreements. In a disclosure doctrine recently distributed to our clients, Guy Carpenter outlined its commitment to fully disclose compensation with respect to treaty reinsurance. We expect to release a similar disclosure doctrine regarding facultative reinsurance following a review of the practices that now exist around the world.

In addition, Guy Carpenter has committed to the following:

- When a client appoints Guy Carpenter as its broker of record, we will disclose the compensation that we anticipate receiving for the services rendered on the client's behalf.

- Prior to subsequent renewals, we will review with our client Guy Carpenter's expected compensation based on standard commission rates.

- We will continue to strive for consistency in rates of brokerage to be earned by Guy Carpenter within a layer and disclose any variation in rates to all parties within that layer.

- Brokerage for each reinsurance transaction will be listed on the cover note for all treaty business.

Ultimately, this transparency encourages healthy scrutiny that should result in better-informed client decisions. Transparency and full disclosure can only aid in quelling speculation about our industry and restoring clients' confidence and trust in us.

Transparency is only part of the solution to the erosion of confidence.

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Rebuilding clients' trust will also involve providing reliable products, working toward more consistent standards of practice, and

responding appropriately to challenging questions about recent ratings downgrades and reinsurer willingness to pay claims.

Another critical component is the further development of standards that will guide our future conduct. These are issues not only for intermediaries, but also for the leaders of the major insurance and reinsurance firms. This is not an impossible task. Other economic sectors have been thrust into self-evaluation, developed their own standards of transparency and conduct, and emerged. The episodes in the accounting and mutual fund industries can be instructive as we plot our own course.

Let these times remind us that we should be proactive in running our businesses – our reputations and the future of our industry rest on our ability to set a positive tone and maintain high performance standards. Guy Carpenter is committed to doing its part to help move the industry forward, and we welcome an open dialogue on these issues as we look ahead to continued success.

Editorial

Editor

Isobel McCalman

Senior reporter

Marc Jones

Sub-editor

Jay Blanche

Art director

Nicky Brown

Editor-in-chief

Anthony Gould

Editorial tel +44 (0)20 7484 9933

Editorial fax +44 (0)20 7484 9990

E-mail addresses

name.surname@incisivemedia.com

rein.editor@incisivemedia.com

Advertisement sales

Publisher

Jonathan Trinder

Sales manager

David Kubale

Advertising tel

+44 (0)20 7484 9979

Advertising fax

+44 (0)20 7484 9992

rein.sales@incisivemedia.com

Insurance division

Managing director

James Hanbury

Editorial director

David Worsfold

Publishing director

Jonathon Whiteley

Marketing manager

Ro Osborne

Group production manager

Daniel Croucher

Customer services

Tel (UK) 0870 240 8859

Tel (US) (212) 925 6990

Email cs@incisivemedia.com

Subscriptions hotline

Tel +44 (0)20 8606 7516

Fax +44 (0)20 8606 7303

Email sigs@wdis.co.uk

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Head office

Incisive RWG Ltd, Haymarket House, 28–29 Haymarket, London SW1Y 4RX

Tel +44 (0)20 7484 9700

US & Canada office

Incisive RWG Inc, 270 Lafayette Street, Suite 700, New York, NY 10012, US

Tel (212) 925 6990

Asia & Pacific office

Incisive RWG Ltd, Unit 601B, Sixth Floor, Kinwick Centre, 32 Hollywood Road, Central, Hong Kong, SAR China

Tel (852) 2545 2710

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