

Guy Carpenter Views

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Reinsurance Claims Recoverables

Sal Zaffino, Chairman and CEO of Guy Carpenter, addresses the issue of "Claims Recoverables" in the reinsurance marketplace.



"Claims Recoverables" have been the topic of much industry attention and several media stories of late. All relate to the claims payment performance by reinsurance markets and issues pertaining to cash flow concerns raised by cedents and reinsurers alike. While I believe much of the concern pertains to a relatively small number of companies, most of which are in run-off, I would like to address these issues using analyses taken from Guy Carpenter's own on-going Claims Performance Management Program.

As the leading reinsurance intermediary, Guy Carpenter handles claims for many of the world's largest insurance organizations. We manage those claims through most, if not all, of the major reinsurance markets around the world. It is that unique position that enables us to view claims performance across borders and multiple lines of business. It provides us with the ability to benchmark individual market performance against industry standards. We use aggregated claims performance data to identify problems areas, and aggressively pursue improvements in the claims process, thus accelerating claims payments on behalf of our clients. This is not a new endeavor for Guy Carpenter. We have been monitoring reinsurer claims performance for years.

In years **prior to 9/11**, our data indicates that payment performance among reinsurers was continually improving, thanks in part to industry-wide process improvements, efficiency gains, and our own vigilance in monitoring the market. More recently, overall reinsurance claim payment patterns have not materially changed, except among some reinsurers who have gone into run-off. This issue among run-off reinsurers was exacerbated following the events of 9/11. Still, we view this slowdown in run-off reinsurer behavior as a serious challenge — but not an unresolvable problem.

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The events of **9/11** and CAT 48 claims put an unprecedented burden on the reinsurance market – both financially and administratively. For the most part, reinsurers paid very quickly considering the magnitude of the loss across so many lines simultaneously. Still, some reinsurers were slower to pay than others. This was primarily due to the complexity of some of the cessions involved.

Since 9/11, claims payments have also been adversely affected by developments in other lines of insurance such as asbestos liability, directors and officers liability, workers compensation and medical malpractice. In some cases, we know reserve strengthening by some primary insurers has caused reinsurers to take pause, and reassess their own positions.

Following 9/11, Guy Carpenter developed methods to isolate and monitor CAT 48 claims. We track individual market payment patterns and benchmark them against industry standards. We've employed aggressive methods to address the claims payment process with specific markets, as necessary. Our senior managers have taken an active role, teaming with seasoned Guy Carpenter claim professionals to mediate with reinsurers.

Our proactive efforts to enhance the claims payment process go beyond CAT 48. We have a "London Direct" initiative with Lloyd's that provides Guy Carpenter with direct access to the risk bearer, in this case the bureau markets. Ultimately, it helps expedite premium and claims processing and collection for our clients.

Guy Carpenter's efforts are achieving positive results. We have seen a marked improvement in the speed of recoveries, as we work closely with reinsurers to improve their performance against our own benchmarks of reinsurers claims payment patterns.

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