



Collecting on your reinsurance asset can feel like climbing the Great Wall of China. **Peter Matthews**, managing director of Global Reinsurance Consultants, examines the problems of recovering those old balances from the worldwide reinsurance markets



# To the ends of the earth

**S**o you have just taken control of a run-off portfolio either as a provisional liquidator, scheme administrator, run-off manager or buyer of the remaining assets and liabilities of a company. As you examine the reinsurance asset that you now control you quickly discover that apart from the usual London market, European and US reinsurers that owe you money there is a substantial element of overseas debt to be recovered from a multitude of locations around the globe.

Typically many of these reinsurers wrote assumed reinsurance business in the 1970s and 1980s and then exited this market when heavy losses quickly materialised from the long tail APH exposures which are such a major part of our run-off market today. With these companies no longer accepting assumed reinsur-

ance business having sustained substantial losses, one can imagine that maximising your reinsurance asset is not going to be easy. Let us now look at the problems that will confront you in the recovery process:

#### Breakdown of relationships

The reinsurer, wherever domiciled in the world, wrote reinsurance because he believed that this was 'a good write' and 'guaranteed to make them money' as well as providing valuable hard currencies to the country. By the late 1990s the reinsurer was often faced with a loss

ratio of several thousand per cent and felt he was misled and somewhat let down to say the least. Losses from APH exposures were neither expected nor welcomed by anyone. In all probability the reinsurer is no longer talking to the broker that placed the business with them all those years ago or now has an ongoing relationship with them so that the broker feels compromised if their collection efforts are questioned by the cedant. So now you have to go 'principal to principal' and establish a direct relationship with someone you do not know and who may not

want to talk to you. Of course, before you can even move to this stage there is the problem of locating the correct contact details for the company concerned as probably no real dialogue has taken place for years – and it may have merged with others and changed its name and last known address.

#### Language, time and cultural differences

Coupled with the previous problems, even after lengthy discussion with a ‘recalcitrant’ reinsurer you may be

### ‘Travel to unusual locations as and when required is not always an attractive option for everyone’

left wondering whether the other party or yourself has understood any or even a little of what has been communicated. In addition, if you are dealing with companies in East Asia, for example, you will need to be on the phone in the very early morning to contact them before they have left the office for the day.

If you are involved with the Americas you need to either try to reach them at the beginning of their day (our lunch time) or at the end of their day which is 9:00pm UK time as they are often unavailable outside these times. There are also other working practices to contend with as well as numerous public holidays and differing weekend days around the world to be considered.

Already you can appreciate you have some problems and the collection process has hardly begun at this point. Is it surprising that so many cedants take the option of simply writing the debt off? Local markets can also be incestuous in nature so that sometimes nothing is confidential. Commutation discussions with one reinsurer are sometimes quoted almost verbatim to you when you

meet with another company from the same city later in the day.

**Broker issues and lack of records**  
When dealing with the recovery of ‘old’ debts there is often a need for the broker to supply certain contractual and accounting documents in support of the cedant’s claim. At times there is a distinct lack of records readily available to support the amounts due from the reinsurers concerned. The broker then needs to be encouraged to perform lengthy searches in his archives, which he

may be reluctant to do. Without the right sort of documentary support for your claim the chances of successfully recovering the debt in question are severely impaired.

Of course, if material records are unavailable there may be recourse open to the cedant against the broker which will meet with variable degrees of success.

#### Ageing and solvency issues

Now you are proceeding with the collection effort – although 12-24 months have invariably passed in establishing the right contacts within

### ‘A successful commutation should leave both parties feeling not quite content with the final deal struck’

the reinsurers’ organisation and getting to the initial stage you have reached now. Typically, it has been left with the broker to collect from your reinsurer and then ten years later the cedant (now you) wakes up to the reality that they may need to do something themselves.

The debt has started to age and there is now a distinct possibility that a successful time bar defence will be raised against all or a major proportion of the balances due. A number of reinsurers have also established a ring-fencing of its old liabilities as a potential barrier to try to limit the amounts that cedants may be able to claim against them.

There is an increased solvency risk with reinsurers in run-off, and indeed over the years a substantial number of companies have gone into liquidation. If the reinsurer is still solvent often there have been severe devaluations affecting their ability to settle its hard currency obligations in full; Venezuela, Yugoslavia, Turkey, Argentina, Bulgaria, Pakistan, Mongolia are cases in point.

If the above is not enough to contend with there are often political issues to overcome as well. When it comes down to it, are you really going to jump on a plane to a location which may be politically unstable or a war-zone? Coupled with this, the philosophy of the reinsurer may simply be to resist settling ‘old year’ liabilities anyway.

#### Incurred but not reported claims

On the subject of IBNR, many reinsurers do not understand or recognise the concept or construction of an IBNR provision. They do not have the necessary mechanisms to reserve

any IBNR and clearly have great reluctance settling IBNR as part of any commutation. With such a large proportion of any finality solution being comprised of IBNR, this is another problem that sometimes has to be overcome.

Of course, the reinsurer could sim-

ply be requested to settle the balances currently due. If he has not paid for a long period of time there may be a reluctance to settle now. However, he may meet his obligations when there is an option of finality. To obtain reasonable levels of IBNR is possible but is often a protracted process – and time is money.

#### **Persistence pays off**

Persistence is paramount to the recovery effort, but you will need dedicated collection specialists prepared to invest considerable time and effort. Travel to unusual locations as and when required is also not always an attractive option for everyone; a company often has to be visited more than twice before it will take you and your commutation proposal seriously. Arriving at your desk by 6:00am to phone someone

who owes you a debt requires a certain amount of dedication as well.

In addition, if you have a recovery of \$50,000 to \$100,000 due from a particular reinsurer it is unlikely that your company will send you to its offices to try to collect the amount due. If there are a number of debts due from one country then a trip may be possible but this is usually simply not the case.

If you are going to collect, persistence in itself may simply not be enough. You will need to be able to bring some form of leverage to the table and this is where the ability to provide innovative solutions is paramount. You will also need to have a keen understanding of local customs in particular countries. Knowing where a particular reinsurer is planning to place his outwards reinsurance programme in any given year

can also be particularly useful.

Of course if a debt is small then the leverage available is considerably reduced, but there can still be options upon a careful assessment of the situation. However, all of the persistence in the world will be of no use whatsoever without the ability to wear a commercial hat and bring to a close any given deal with satisfaction. Always remember a successful commutation should leave both parties feeling not quite content with the final deal struck.

In conclusion, it should be added that the appointment of a third party service provider can often resolve the majority of problems encountered above. If they are specialists in the field then the service provider concerned should usually be able to finalise the particular transaction both economically and promptly. ●