

POOLING RESOURCES

“Putting the toothpaste back into the tube” would be a very good way to describe the difficulties that face those members of old reinsurance Pools who are seeking to finalise their exposures. Even marine and aviation, or other notionally “short tail” Pools from the 1950's through to the 80's, are still plagued with asbestos and pollution claims. Similarly unwelcome, with the regular loss and expense payments, are the ongoing administration costs and the uncertainty surrounding the future liabilities.

Over the last fifteen years the London reinsurance market has seen what were once household names placed into liquidation, the advent of Equitas and various inventive rescue packages and exit strategies. Everybody recognises that the constant drain on human and financial resources cannot be sustained indefinitely. Amongst other options, commutation has been the preferred tool by which these long-tail run-offs are extinguished.

Unfortunately, one of the perceived benefits of Pools, no doubt heavily broked at the time: “An opportunity to share in a well-spread book of business, with no one single large exposure” is now a principal stumbling block to finality. Usually, the liability is between the individual Pool member and the many reinsureds, representing a whole portfolio of commutations to be individually negotiated, often with a share of just a fraction of a percentage point.

When a commutation opportunity presents itself, depending on the size of the Pool member's exposure, the options will range from just writing out a cheque to a ground up analysis of the proposal. Even for small amounts, the former will be unpalatable to some companies. The latter, involving reconciliation of balances, verification of outstanding loss reserves and analyses of IBNR's and pay-out curves, will rarely be cost effective on a case-by-case basis. It is here where the “spread” concept can be turned into a benefit and with some necessary organisation, the costs of such an analysis can be shared amongst the Pool members.

But who would do the organising?

IntAP (the International Alliance of Asbestos and Pollution Reinsurers) arose out of the concept of reinsurers sharing the costs of asbestos claims analyses. Following the 1988 London Asbestos Claims Conference, the idea of a central clearing house to process London asbestos claims information for reinsurers was first considered and in 1991, it became a reality, when Cologne Re took the initiative and founded IntAP e.V. with the support of 40 other companies.

An association formed under German Law, IntAP e.V. operates on a non-profit basis and is democratically controlled by the membership, presently 39 strong. The executive is presently a six member "Vorstand", or Steering Committee, drawn from member companies in Germany, the Netherlands, France, England and Scandinavia.

Analyses of specific asbestos claims soon made way for a more definite agenda: Commutation, with Pools high on the list. From circularising its membership common exposures were noted. In particular, it was found that a third of IntAP's members were

involved in one specific Pool, participating in a cross-section of a London market excess of loss account, managed by a large reinsurance broker.

A proactive stance has been taken to try and shrink the problem through commuting with the major cedants. As with many seemingly difficult exposures, the 80/20 rule applied and with a critical mass of support, IntAP has its sights set on the 20% of the cedants to the Pool who supplied 80% of the liabilities for commutation initiatives. All of the costs being shared by the members in proportion to the perceived liabilities.

Being a self-help organisation, IntAP draws upon its internal resources to assist its members. Where those resources do not adequately match the needs, it acts as the coordinator and monitor for legal, actuarial and other consultative services to smooth the path to commutation. One recent success was the development of a pro-forma legal agreement, whereby members' old open balances could be liquidated without prejudice and a framework for commutation was agreed. As a result, several members have successfully removed themselves from litigation and achieved the commutation objective.

Having been set up as an association with a specific focus: business ceded by Lloyd's Syndicates and London companies, in respect of latent claims originating in the USA, IntAP's mandate was limited. Primarily, it could only help its members and then only on London business. For some reinsurers there are obstacles, both political and geographic, whether real or perceived, in becoming formally associated with IntAP by way of membership. Also, there are a plethora of associations. Why join another?

IntAP Limited, a 100% subsidiary of the German association, was incorporated in order to widen the alliance's mandate, to assist with non-London exposures and to enjoin non-members who want to share in the benefits of IntAP's commutation initiatives on an ad-hoc basis. As with the German parent, there is the same underlying principle of sharing the costs and the benefits, with the stronger and more knowledgeable members helping the less so, whilst not operating under the burden of having to generate a profit for its shareholder.

IntAP Limited expects to draw its major client base from within the IntAP membership and is already pursuing projects on their behalf.

IntAP has no negotiating authority delegated to it, unless it is received specifically from a member on a particular case. Its remit is as wide or as narrow as its members require. It draws together members with mutual exposures in order to present a homogenous group, thus sharing the time and costs involved in analysing and discussing commutation.

In every situation where reinsurers are grouped together, there will be conflicts of interests. It is the nature of the beast that some IntAP members or IntAP Limited clients will be reinsuring each other.

So far as I am aware, all IntAP members are seeking finality in their latent exposures. There are several member companies represented at this gathering in their own right. There are many others who are not, but nevertheless share the same objective. So, to all London cedants who are represented here, that can see the benefits of cutting off

the tail once and for all time, I can say the IntAP membership is very much open to discussions.