

Editor's Comments

by Richard G. Waterman, CPCU, ARe



■ **Richard G. Waterman, CPCU, ARe**, is president of Northwest Reinsurance, Inc., a Minnesota-based management consulting firm specializing in the fields of insurance, reinsurance, and alternative dispute resolution. Waterman is the former president and chief executive officer of American Equity Insurance Company and GRE-RE of America Corp. In addition to working with both ceding and assuming companies involving treaty and facultative contract formation, structure analysis, risk exposure, and claim settlement issues in his consulting practice, Waterman has served as an arbitrator or umpire on more than 110 panels to resolve industry disputes as well as serving as a neutral mediator, facilitator, and fact finder assisting parties to work out differences in a confidential setting. Waterman has been a member of the CPCU Society since 1978 and has served on the Reinsurance Section Committee for nearly eight years.

A common and longstanding goal of the Reinsurance Section Committee has been to increase section membership value through educational programs, publication of our quarterly newsletter, *RISE*, as well as related activities to accomplish our goal of meeting section membership expectations. We are continually challenged to develop stimulating and informative educational seminars, including our highly acclaimed spring symposium and "Reinsurance: State of the Art" seminar at the CPCU Society's Annual Meeting and Seminars, which offer opportunities for career development and are an ideal meeting place to network and exchange ideas with other industry professionals. Additionally, we are currently putting the final touches on several special webinar programs, an exciting new technology that will enable section members to participate in high-quality education programs via the Internet. Committee members are also considering more creative ways to use our web site to "add value" beyond merely a roster of committee members and a calendar of upcoming events. Historically, the Reinsurance Section Committee has been driven by a small

but highly committed core group. A goal of the committee this year is to develop a deeper bench to provide fresh perspective in pursuing the goals we all share. We encourage the submission of outlines for proposed articles for *RISE* and especially encourage your suggestions concerning improvements to elevate the value and benefits of section membership. If you are interesting in becoming a Reinsurance Section Committee member, please contact me at northwest_re@msn.com. We encourage your participation.

It can be a pretty unnerving challenge to take over the editor's role of *RISE* from **Bruce Evans, CPCU**, who had been the editor from inception, some 20 years ago. Bruce's untiring leadership to encourage a broadly inclusive dialogue of reinsurance industry thinkers from all backgrounds and points of view in four quarterly editions of *RISE* is appreciated even more now that he has moved on to other interests. Nonetheless, while it has been a struggle finding my rhythm and my voice to publish *RISE* on a quarterly

Continued on page 2

What's In This Issue

Editor's Comments	1
Attention to Detail—The Designation of the Party Arbitrator	3
The Strain to Retain	4
How Big Will It Become?	6
Reinsurance Section Committee Member Spotlight	8
Farewell to a Friend	9
Sections Strategic Implementation Task Force Report Summary	10

Editor's Comments

Continued from page 1

basis, I have gained some experience and momentum for the future by exploring new possibilities and ideas of many faithful readers.

In this issue of *RISE* we have included two lead articles written by prominent reinsurance attorneys. One was submitted by **Andrew Boris**, a regular *RISE* contributor, titled "Attention to Detail." In his article, Andrew points out the importance of identifying party appointed arbitrators in accordance with the specific time requirements usually contained in the arbitration provisions of reinsurance agreements. The other lead article is written by Larry Schiffer titled, "The Strain to Retain." In his comprehensive analysis, Larry explains the retention provisions in typical

reinsurance agreements and describes why the retention clause is an important consideration in a reinsurer's decision to enter into a reinsurance agreement. Although this is the first time Larry has submitted an article to *RISE*, you may know that he regularly writes comprehensive articles related to current hot industry topics for the International Risk Management Institute.

In the aftermath of the devastation related to hurricanes Katrina, Rita, and Wilma in 2005 and with the beginning of the 2007 hurricane season, reinsurers are watching and waiting to see if the National Oceanic and Atmospheric Administration (NOAA) prediction that this year's hurricane activity will be more active than normal is accurate.

Forecasting the possible formation of between 7 to 10 named storms that will grow to hurricane strength, reinsurers utilize modeling techniques to estimate the risk of financial losses from weather-related natural catastrophes. Understanding the imprecision of these modeling tools, you may enjoy reading Mark Buchanan's book titled *Ubiquity, Why Catastrophes Happen* and my synopsis in this issue titled, "How Big Will It Become?" Finally, included in this issue is an article written by **Kathleen J. Robison, CPCU**, that summarizes a report containing a strategic vision and recommendations developed by the Sections Strategic Task Force that was presented to the CPCU Society's Board of Governors for further consideration. ■

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Moderator

Tracey Laws

Reinsurance Association of America

Presenters

Ken Brandt

Transatlantic Reinsurance Corporation

Darin L. Kath, CPCU

Jewelers Mutual Insurance Company

Michael Hale

Claim Professionals Liability Insurance Company

Paul E. Picardo

Guy Carpenter



Register today at www.cpcusociety.org.

Attention to Detail—The Designation of the Party Arbitrator

by Andrew S. Boris

■ **Andrew S. Boris** is a partner and co-chair of the reinsurance practice group at Tressler Soderstrom Maloney & Priess, LLP. His practice is focused on litigation and arbitration of reinsurance matters throughout the country. Questions and responses to this article are welcome at aboris@tsmp.com.

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For many, the ability to arbitrate a reinsurance dispute outside of the traditional court system is appealing because it allows for a private arena with less formality and decreased reliance on legal precedent. However, there are areas where attention to detail remains of utmost importance. One example of such a situation is where a party is required to identify an arbitrator by a specific date as provided by the contract in question or by agreement of the parties.

By way of background, most reinsurance contracts include a requirement in the arbitration clause that if a party fails to appoint an arbitrator within a specified time following a specific demand to do so, the party making such a demand is entitled to choose both party arbitrators. The result—a failure to appoint an arbitrator in the requested time period allows the demanding party the ability to select the entire panel, as the two arbitrators convene to select the umpire.

Courts have reviewed the contractual time limitations for appointing arbitrators in different manners. Some courts have approached the time requirements very strictly and allowed a party to identify its opposing party's arbitrator. See, *Universal Reins. Corp. v Allstate Ins. Co.*, 16 F.3d 125 (7th Cir. 1993) (finding that a five day delay in appointing an arbitrator caused by an administrative oversight to be a sufficient breach so as to allow the opposing party the ability to appoint



both arbitrators); *Continental Cas. Co. v Hartford Steam Boiler Inspection of Ins. Co.*, 2004 WL 725469 (N.D. Ill. Mar. 30, 2004) (finding that failure to timely appoint an arbitrator was not excused when the arbitration demand was received in respondent's mailroom, but did not reach the individuals responsible for handling the claim in question).

Other courts have been hesitant to find that a party has forfeited its right to appoint an arbitrator when the error in identifying an arbitrator appeared minor, without any deceitful intent, and there was a lack of demonstrable prejudice as a result of the untimely appointment. See, *New England Reins. Corp. v Tennessee Ins. Co.*, 780 F.Supp.73, 76-78 (D. Mass. 1991) (finding that appointment six days late did not result in loss of right to appoint absent bad faith, prejudice, and evidence that time was of the essence per the contract terms).

A recent case from the Federal Court in the Northern District Court of Illinois reinforces the need to pay strict attention to this issue. In *Certain Underwriters at Lloyd's, London v Argonaut Insurance Company*, 444 F.Supp.2d 909 (N.D. Ill. 2006), the court ruled that an insurer failed to timely appoint an arbitrator within the contract's 30-day deadline. The facts of the case are relatively straightforward. Argonaut demanded arbitration of Certain Underwriters and pursuant to the language of the treaties at issue requested that Certain Underwriters designate an arbitrator within 30 days. Two days later, Certain Underwriters made a similar request of Argonaut, but Argonaut failed to appoint an arbitrator within the 30-day time period. On the thirty-first day, Certain Underwriters forwarded correspondence to Argonaut and appointed the second arbitrator. In response, Argonaut's counsel sent an e-mail to counsel for Certain Underwriters and alleged that a letter

Continued on page 4

Attention to Detail—The Designation of the Party Arbitrator

Continued from page 3

had been sent within the thirty day time period properly designating an arbitrator. Later that same day, Argonaut acknowledged that the prior appointment letter had not been mailed, but it also claimed that Argonaut was not bound by the 30-day time limitation found in the treaties because the thirtieth day fell on a Sunday and the following day was a holiday (Labor Day).

Presented with competing motions for summary judgment, the court ruled in favor of Certain Underwriters and allowed it to select both arbitrators. The court supported its decision by stating several reasons. First, the court noted that the parties were sophisticated and had clearly engaged in significant negotiations in arriving at the contract terms. To that end, courts should avoid rewriting the terms of an arbitration clause in order to allow one party additional time to appoint an arbitrator. Second, the court

took issue with the concept that its decision would require parties and their counsel to work on Sundays or holidays. The court identified that the contract did not require that the arbitrator designation be forwarded on the thirtieth day, but only within 30 days. Thus, the designation of the party arbitrator could have been completed before the holiday weekend. Finally, the court also discussed the concept that the contract could have addressed the situation where the designation deadline occurred on a Sunday or holiday, but the parties chose by omission to not consider it an issue (conceivably, a call among counsel could have also addressed any ambiguity as to a designation date).

In some ways, the business of reinsurance is clearly changing. In turn, the world of reinsurance arbitrations is evolving with the inclusion of more reliance on legal precedent and formality. While

the debate of whether this change is beneficial is beyond the scope of this article, the recognition that such a change is occurring is important. While courts may treat the deadlines for appointment of an arbitrator differently, the fact that some courts will require some parties to strictly adhere to the stated deadlines is instructive at each party's need to pay attention to the details of an arbitrator appointment schedule. ■

The Strain to Retain

by Larry P. Schiffer

■ **Larry P. Schiffer** is a partner in the New York office of LeBoeuf, Lamb, Greene & MacRae LLP, and practices in the areas of commercial, insurance, and reinsurance litigation, arbitration, and mediation. He also serves as a mediator for the mandatory commercial mediation program of the United States District Court for the Southern District of New York, and for the New York Supreme Court Commercial Division's Alternative Dispute Resolution Program.

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Introduction

In a traditional reinsurance agreement, the reinsurer agrees to reinsure a portion of the reinsured's risk, while the reinsured agrees to maintain its retained share of the risk. In agreeing to do so, the reinsured and reinsurer both share the risks and rewards of the proper underwriting and claims management of the business. This commentary will discuss this sometimes symbiotic relationship between the reinsured and the reinsurer, and the reinsurance contract provisions that affect this relationship.

Retention and Its Purpose

In a typical quota share or proportional reinsurance contract, the reinsurer agrees to reinsure a percentage of the reinsured's policies on one or more lines

of business. The reinsurer trusts that the reinsured will underwrite the business and manage the claims so that both the reinsured and the reinsurer will earn a profit from the business. Breaking it down further, the reinsurance underwriter really underwrites the reinsured's underwriter and relies on the reinsured's underwriter to price the business properly, obtain rate increases where necessary, and manage the business profitably.

The reinsured's incentive to manage the business for a profit is self-evident when the reinsured retains a significant share of the risk on the policies underwritten. If the reinsured fails to underwrite properly, does not obtain appropriate rate increases on the policies where necessary and permitted, or does not manage the claims effectively, the reinsured will lose money on the book of business. In a proportional reinsurance relationship (quota share



for property and casualty risks or co-insurance for life and health insurance risks), where the reinsured loses money, the reinsurer generally loses money, so both parties have an incentive to see that the business is managed properly.

In an excess of loss relationship, where the reinsurer only comes on risk when a loss exceeds a particular threshold, the alignment of interest between the reinsured and the reinsurer is not exactly the same. Depending on how the excess reinsurance is structured, there is some incentive for the reinsured to have losses breach the reinsurer's attachment point and the reinsurer has a greater interest in seeing losses remain below the attachment point. Nevertheless, the reinsured still has an incentive to manage the business properly because allowing losses to breach the attachment point and reach the reinsurer means that the losses have burned through the reinsured's retention.

By negotiating a retention clause, the reinsurer is better able to assess more accurately its reinsurance risk. That is because the reinsurer understands that the reinsured will be keeping a set portion of the risk, which necessarily limits the exposure to the reinsurer and allows for more accurate pricing of the

reinsurance exposure. Thus, the pricing and underwriting decision of the reinsurer will depend on the retention provision. If negotiations for a retention fail, a reinsurer may choose not to reinsure the risk.

All of this is consistent with the view that reinsurance is a long-term relationship and that the reinsured and reinsurer will share in the premiums and losses on the business with the obvious goal being profitability for both parties. Of course, not all reinsurance relationships warrant or anticipate that the reinsured will retain any risk. A fronted program is an example of a reinsurance relationship where the reinsured's retention is meaningless. Those relationships, which are varied and many, go beyond the scope of this commentary.

Retention Provisions in Reinsurance Contracts

As one might imagine, retention provisions come in all shapes and sizes. A typical quota share retention clause may simply state that the "Company" shall retain for its own account 25 percent of all business written. Courts have interpreted "shall retain for its own account" and similar language to

mean that the reinsured has committed contractually to maintaining 25 percent of the risk and is not allowed to separately reinsure that 25 percent of the risk. In other words, in using that type of clause the reinsured has warranted to the reinsurer that it will maintain its interest in 25 percent of the risk and will not separately reinsure that 25 percent with another reinsurer.

Other clauses are even more explicit and use the word "warranty" in the retention clause and make it clear that the reinsured's retention is an express condition precedent to the payment of any loss by the reinsurer. Still other clauses state that the reinsured shall not reinsure any portion of its retained share unless written permission is granted by the reinsurer. Similar clauses go further and require that the reinsurer's permission shall not be unreasonably withheld. These clauses give the reinsurer the option of considering whether the proposed reinsurance of the retention is consistent with the reinsurer's interest in having the reinsured maintain risk.

Where the reinsured decides to reinsure all or part of its retention, the reinsurer may consent if it is satisfied that the underlying business will be managed by a party with "skin in the game," meaning that the party managing the business will suffer the immediate economic consequences of poor management. From the reinsurer's perspective, as long as the party managing the business will incur the economic effects of its management (as the reinsurer will), it is similar to the reinsured maintaining its retention.

Another area where retention comes up is what some call "net retention clauses," which limit the reinsurer's responsibility only for its share of losses retained by the reinsured net of all other applicable reinsurance. Net lines or net retained lines or net retention clauses anticipate that the reinsured has purchased other reinsurance, but is reinsuring only that

Continued on page 6

The Strain to Retain

Continued from page 5

portion of the reinsured's risk that it has retained. Permitted reinsurance may be in the form of a quota share treaty for the primary layer of the business, excess insurance for losses in excess of a certain retention, or facultative reinsurance under specified conditions. In these cases, the reinsurer has agreed to allow certain reinsurance (often including intra-group reinsurance) and is covering only the net exposure kept by the reinsurer. Often the net retention clauses require a careful calculation of exactly what portion of the risk is being retained net either before or after allowable reinsurance. Care is necessary in drafting net retention provisions so that there is no ambiguity about what reinsurance is allowed and what business is being retained.

Breach of the Retention Provision

Where there is no question that the reinsured must retain a certain percentage or levels of risk as a condition of its ability to seek recovery from its reinsurer, disputes about the reinsured's compliance with an unambiguous retention provision rarely arise. Where, however, the retention clause is less than explicit, disputes have occurred and courts have found in many instances that the

retention provision is a material provision of the reinsurance agreement.

Disputes arise where the reinsured purchases reinsurance in violation of its retention warranty. Courts have held that a breach occurs when a reinsured engages in an unauthorized transfer of its retained risk to another reinsurer. This is because the retention provision is considered a material term of the contract that is reasonably expected to influence the reinsurer's decision to enter into the contract.

Where the evidence establishes that the parties intended for there to be a retention and that the reinsured entered into another reinsurance contract without authorization, courts typically void the reinsurance contract. This is because the breach of a material provision of a contract that clearly affects the decision to enter into the contract voids the entire contract. Alternatively, if the breach of the retention provision occurs after the contract has been in force for a number of years, the remedy may be termination of the contract without the reinsurer having to perform any further. This remedy is based on the theory that the non-breaching party may terminate a breached contract and no longer has to perform its obligations.



Conclusion

Retention provisions generally are material terms of reinsurance contracts that are important to a reinsurer's decision to enter into the reinsurance agreement. Breach of a retention provision is a fundamental breach of the reinsurance contract and, if proven, may result in rescission or termination of the reinsurance contract. Carefully drafted retention provisions avoid disputes. Ambiguities in retention provisions breed conflict. ■

How Big Will It Become?

by Richard G. Waterman, CPCU, ARE

The insurance industry uses the term "natural catastrophes" to refer to accidents or disasters that are simply beyond the power of anyone to foresee and for which no one can reasonably be blamed. For centuries scientists have attempted to gain insight into the causes of natural catastrophes to predict where, how frequent and how severe catastrophic events will become. Meteorologists, for instance, can predict with some precision where and when a hurricane will hit and roughly estimate how destructive it will be. Similarly, scientists know when

atmospheric conditions are right for the formation of tornadoes and when flooding is imminent on large rivers. However, when it comes to predicting earthquakes, similar understanding seems almost beyond science. As earthquake expert Christopher Scholz of Columbia University learned, when an earthquake begins "it does not know how big it is going to be." This raises the question. Why?

For *RISE* readers like me who are interested in chaos theory and try to

understand why disasters occur, I highly recommend a fascinating book by Mark Buchanan titled *Ubiquity, Why Catastrophes Happen*. At the outset, the author reminds us of unsettling chaos theory as depicted by the proverbial butterfly effect where a butterfly flapping its wings in the Amazon rain forest will trigger a severe thunderstorm over Kansas a few weeks later. To enhance their understanding of the phenomena of complexity theory, physicists for centuries have tried to capture the fundamental laws of the universe in timeless and

unchanging equations such as those of quantum theory or the theory of relativity because if the world is organized into a critical state then they would be able to predict the effects of any complex system. The scientists discovered that while the laws of physics are straightforward, the presence of inherent chaos explains why the world is so complex. Mark Buchanan explains in an understandable fashion the interrelationship of chaos theory and how critical states in our environment make it practically impossible to predict catastrophes.

Avalanche Sandpile Game

To study the general workings of chaos in nonequilibrium systems, in 1987 three physicists named Per Bak, Chao Tang, and Kurt Wiesenfeld began to play with a sand pile game in their lab at Brookhaven National Laboratory. They wrote a computer program to virtually pile up one grain of sand at a time until a broad mountain of sand edged slowly skyward. With each additional grain of sand, the sides became steeper and it became more likely that the next falling grain would trigger an avalanche in the pile. When an avalanche occurred, sand slid downhill to some flatter region below, making the mountain smaller, not bigger.

Playing the sand game, the physicists expected to gather some noteworthy information. First was the typical size of an avalanche. Secondly, how big the next avalanche was expected to become. After running a huge number of tests, counting the grains in millions of avalanches in thousands of sandpiles, the researchers found that there is no typical avalanche and when it began, there was no way to know how big the avalanche was going to be. Bak, Tang, and Wiesenfeld discovered that “Some involved a single grain; others ten, hundred, or a thousand. Still others were pile-wide cataclysms involving millions that brought nearly the whole mountain tumbling down. At any time, literally anything, it seemed, might be just about to happen.”

To find out why such unpredictability was manifest in their sandpile game, the physicists developed a highly structured computer program intended to reveal significant patterns that would provide a clue to the causes of avalanches. The computer program was designed to look down on the pile from above and color the sandpile in according to its steepness. Where it was relatively flat and stable, it was colored green. Where it was steep and, in avalanche terms, ‘ready to go,’ the section was colored red. At the outset the pile looked mostly green, but as the pile grew, the green became infiltrated with more and more steep red areas. With the addition of more grains, the scattering of red danger spots grew until a dense skeleton of instability ran through the pile. The clue to the causes of an avalanche the physicists were looking for was found by observing how a single grain falling on a red spot can, by domino like action, cause sliding at other nearby red spots. Bak, Tang and Wiesenfeld observed, “If the red network was sparse, and all trouble spots were well isolated one from the other, then a single grain could have only limited repercussions. But when the red spots come to riddle the pile, the consequences of the next grain become fiendishly unpredictable. It might trigger only a few tumblings, or it might instead set off a cataclysmic chain reaction involving millions. The sandpile seemed to have configured itself into a

hypersensitive and peculiarly unstable condition in which the next falling grain could trigger a response of any size whatsoever.”

Critical Unstable Condition

Scientists refer to the unstable condition of the sandpile as the critical state. It is a point at which something triggers a change in the basic nature or character of the object or group. In the sandpile game, the critical state seemed to arise naturally and inevitably, which led the physicists to question whether the critical state in fact was common and could be observed elsewhere. “Could the special organization of the critical state explain why the world at large seems so susceptible to unpredictable upheavals?” A decade of research by hundreds of other physicists has explored this question and many subtleties as well. The research has revealed that unstable organization of the critical state does indeed seem to be ubiquitous and lies behind catastrophic events of all sorts.

If you are interested in learning why catastrophes happen, what sets off earthquakes, why massive traffic jams seem to appear out of nowhere, or why some forest fires become superheated infernos that rage totally out of control, I recommend reading Mark Buchanan’s book titled *Ubiquity, Why Catastrophes Happen*. ■



Reinsurance Section Committee Member Spotlight

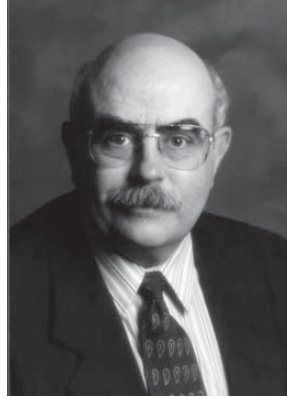


Sandra L. LaFevre, CPCU, ARe, is senior vice president, membership and education, of the Reinsurance Association of America (RAA). She joined the RAA in 1987, and is responsible for developing and implementing the Association's member services and education programs.

Prior to joining the RAA, LaFevre worked in Nationwide Insurance Companies' Government Affairs Department in Washington, D.C. and Annapolis, Maryland. In her more than 30-year career in the insurance industry, she has worked in government relations, as an underwriter and administrator in a multiple lines Washington insurance agency, and as a claims specialist in both a large agency and a major insurer.

LaFevre is a past president of the National Association of Insurance Women and was the founding chairman of the Board of Directors of the Insurance Scholarship Foundation of American (formerly NAIW Education Foundation). She has also served on and chaired the Reinsurance Section Committee, and the Public Relations and Annual Meeting and Seminars Committees of the CPCU Society. She was appointed New Designee Representative for the CPCU class of 1981.

LaFevre received the Chartered Property Casualty Underwriter (CPCU) designation in 1981 and the Associate in Reinsurance (ARe) designation in 1991. A native of Detroit, she attended Eastern Michigan University and the University of Maryland, and resides in Washington, D.C.



Donald E. McGrath, CPCU, is vice president of claims at Benfield Inc. in San Francisco, California. He came to Benfield after a 16-year career with Swiss Reinsurance Corporation, where he held several claims positions including regional claims manager for the western United States. McGrath began his career with Safeco Insurance Company, and prior to moving into reinsurance, held various claims and management positions with Lumberman's Mutual (LMI) and Atlantic Mutual Insurance Companies. He is a graduate of California State University at Long Beach; and received his CPCU designation in 1989. He is a member of the CPCU Society's Mt. Diablo California Chapter.



Ralph K. Riemensperger, CPCU, is an insurance/reinsurance consultant located in Franklin Square, NY. Between 1963 and 1999, he held various claims positions with Liberty Mutual Insurance Company and Swiss Re America, where he rose to the position of assistant vice president. He served in the United States Marine Corps Reserve from 1962 to 1991, and was a team chief and team commander. In addition to his service on the Reinsurance Section Committee, Riemensperger also serves as sections liaison on the CPCU Society's Long Island Chapter board. He received the CPCU designation in 1984. ■

Farewell to a Friend

by Richard T. Blaum, CPCU, ARe



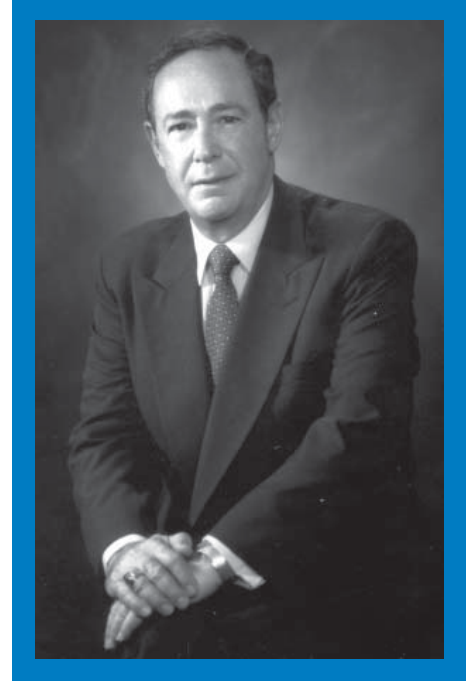
■ **Richard T. "Rick" Blaum, CPCU, ARe,** is an assistant vice president handling casualty claims at Swiss Reinsurance America Corporation in Armonk, NY. He has been with Swiss Re for 24 years, having begun his insurance career with Travelers Insurance Company in New York City in 1973, then moving to Hartford Insurance Co. in New York City and AFIA in Wayne, NJ. Blaum is a past president and a current director of the CPCU Society's New York Chapter; and became chairman of the Reinsurance Section Committee in September 2006.

He graduated with a B.S. in history from Mt. St. Mary's College in Emmitsburg, MD in 1972.

The insurance and reinsurance industry and the CPCU Society lost a most valued member recently when **George M. Gottheimer Jr., Ph.D., CPCU, CLU, ARe**, passed away, and I lost a dear friend. Many of you knew George and had at least an inkling of his professional and academic background and expertise. Some of the highlights included establishing the insurance/reinsurance consulting firm of Kernan Associates as well as a distinguished teaching career at St. John's University (formerly The College of Insurance). George was also a 1982 Loman Research Fellow.

George was respected as a leading authority in solvency matters and had testified before the U.S. House of Representatives on insurance and reinsurance solvency. His career also included work for various state insurance departments, guaranty associations, and agencies of the Federal government. In addition, his testimony has been cited in decisions in several U.S. Circuit Courts of Appeals on the subject of solvency, insurance agents and brokers responsibility, fiduciary responsibility, and policy coverage.

But I had the pleasure of knowing George ever since I received my CPCU designation in 1989 and became active in the CPCU Society's New York Chapter. As a past president and member of the chapter's board, George was a tremendous resource to whom we could turn to be certain we remained on the proper path. He lent a steady hand and calming influence when things were getting hectic, and he always knew who to call in Malvern to get a question answered. Over the years we developed a friendship as our paths crossed at many CPCU Society chapter events as well as Annual Meeting and Seminars, and various workshops and symposia. We were also able to enlist George to moderate or participate in several panel discussions. I will miss his genuine friendship, good nature, impeccable character, and subtle sense of humor. During the flurry of e-mails that



flowed when we learned of his passing, one of our New York Chapter Board members, Francine Myles, best described George—he was truly a gentlemen and a scholar.

While I will miss George and mourn his passing, the sorrow is tempered by the knowledge that I am a better person and better professional because George Gottheimer touched my life. ■

Sections Strategic Implementation Task Force Report Summary

by Kathleen J. Robison, CPCU, CPIW, ARM, AU



■ **Kathleen J. Robison, CPCU, CPIW, ARM, AU**, has more than 30 years of experience with leading claims organizations, and possesses a wide range of commercial and personal insurance coverage knowledge and applicability. K. Robi & Associates, LLC, which she founded in 2004, provides customized consultant services in the property and casualty insurance fields, including expert witness testimony, litigation management, claims and underwriting best practices reviews/audits, coverage analysis, and interim claims management. She can be reached at (423) 884-3226 or (423) 404-3538; or at info@krobiconsult.com.

A Brief History

At the CPCU Society's 2005 Annual Meeting and Seminars, the Board of Governors created a Sections Strategic Task Force. The task force developed a strategic vision for sections. It was presented to the Board at the 2006 Annual Meeting and Seminars in Nashville, in September.

The Sections Strategic Task Force proposed the sections' strategy should be, "to position sections as a provider of readily available, high-quality, technical content to stakeholders." The level of content and delivery would vary based on the audience. To successfully accomplish the strategy, the task force recommended a series of strategic initiatives aligned with four key perspectives: Organizational Structure (OS), Leadership Development (LD), Membership (M), and Value-Added Services (VA).

The Board of Governors accepted the report and referred it to the Executive Committee to develop detailed recommendations for consideration by the Board at the April 2007 Leadership Summit meeting. The Executive Committee created the Sections Strategic Implementation Task Force to develop the detailed recommendations.

Board Approved

The Sections Strategic Implementation Task Force outlined implementation steps for each of the Sections Strategic Task Force's categories of recommendations. On April 20, 2007, the CPCU Society's Board of Governors approved and accepted the Sections Strategic Implementation Task Force report.

The Board approved the formation of the Interest Group Resource and Governance (IGRG) Task Force to manage the implementation of the various tasks recommended except for OS4—Open Interest Groups to all Society members.

The Board requested that the Sections Strategic Implementation Task Force remain in existence to undertake the necessary research on OS4 and present to the Board at the 2008 Leadership Summit meeting.

The Board decided it will announce at the 2007 Annual Meeting and Seminars in Hawaii the timetable for moving from the name sections to interests groups. Until that time the title will remain "sections."

This article summarizes the Sections Strategic Implementation Task Force report and recommendations.

Task Force Members and Structure

W. Thomas Mellor, CPCU, CLU, ChFC, chaired the task force. Members of the task force were: **Karl M. Brondell, CPCU**; **Nancy S. Cahill, CPCU**; **Robert Michael Cass, J.D., CPCU**; **Donald William Cook, CPCU**; **Todd G. Popham, CPCU, CLU**; **Kathleen J. Robison, CPCU, CPIW, ARM, AU**; **Brian P. Savko, CPCU, CLU, ChFC**; and **John J. Kelly, CPCU**, as CPCU Society liaison. **Tom Mellor, CPCU**; **Nancy Cahill, CPCU**; and **Kathleen Robison, CPCU**, served on or consulted to the previous Sections Strategic Task Force.

The original Strategic Sections Task Force distributed its recommendations into four categories: Organization Structure, Leadership Development, Membership, and Value-Added Services. The current task force agreed on a division of work and organization structured around these four categories, and divided themselves into four teams. Each team identified steps to be undertaken in order to implement the recommendations.

Special Note: *The task force understands that the actualization of its recommended implementation process will not be accomplished quickly. It will require the*

contributions, deliberations, and efforts of a large number of Society volunteers. It will also take time. The task force believes a two- to three-year timetable is realistic.

Organizational Structure

OS1—Re-brand Sections as Society Interest Groups

1. Authorize and implement new interest group names specifically using the words *Interest Group* in the title (e.g. *Claims Interest Group*) and formally identify interest groups collectively as *CPCU Society Interest Groups*.
2. Determine appropriate interest groups that should exist by aligning the groups with current industry functions or by roles (such as leadership or project management).
3. Institute changes in verbiage from *Section* to *Interest Group* in all formal Society communications and materials (current sections publications, Society web site, stationery, etc.) to be effective on a specified date.
4. Communicate the changes to Society members, including impacts and rationale, via print and electronic media. This should be done in advance of the change date and also after the change date.

Special Note: The re-branding of sections as Society Interest Groups will be announced at the 2007 Annual Meeting and Seminars in Hawaii. A timetable will then be established for items 3 and 4.

OS2—Create CPCU Society Interest Group Resource and Governance (IGRG) Task Force

To manage and direct all of the changes recommended, the task force proposes the formation of the Interest Group Resources and Governance Task Force (IGRG). The IGRG's leadership and direction will provide continuity, consistency, and quality to this crucial transformational project.

The CPCU Society's president-elect will chair the IGRG. Each of the other members will be responsible for chairing a specific subcommittee dedicated to the implementation of a recommended group of tasks. (See Table 1.)

The recommended composition and responsibilities of the IGRG members are as follows:

- Society president-elect—chairman.
- Society vice president—assistant to the committee chairman/realignment.
- Two current section chairmen—leadership operations manual/educational webinar and symposia.
- One past section chairman—realignment.
- Two current or past web liaisons—leadership operations manual and web liaison section/educational endeavors (web site).
- Two current or past newsletter editors—leadership operations manual and newsletter edition section/educational endeavors (newsletter).
- Two task force members from the 2006–2007 task force or from the 2005–2006 task force. Immediate responsibilities to include Scorecards/SWOT Analysis.

Special Note: These recommendations encompass both the breadth and depth of sections' organization, products, services, and membership. The Sections Strategic Implementation Task Force quickly realized the enormity and complexity of the

undertaking. It requires a large number of section and Society volunteers. If the reader is interested in servicing on this task force please let the Society know by e-mailing your name and e-mail address to Mary Drager at mdrager@cpcusociety.org.

OS3—Assess Current Sections and Align them with Major Industry Functions

1. Form a representative group of section members to determine the best alignment, including the possibility of combining, broadening, or eliminating current sections, and/or fostering the creation of new groups based upon industry findings. This group should undertake a research effort that focuses on aligning groups with current industry functions. (See Table 1).

OS4—Open Interest Groups to All Society Members

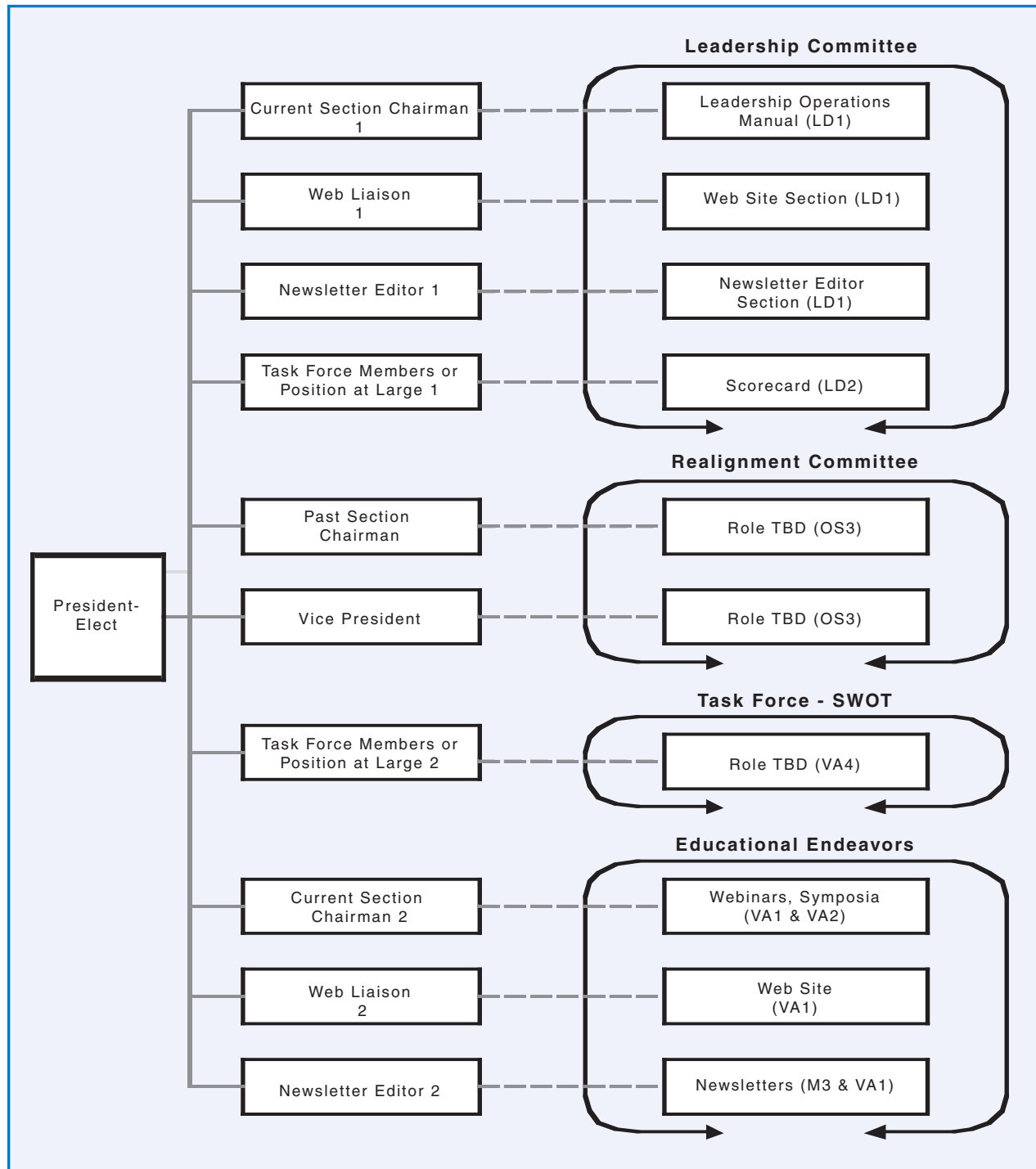
1. Determine the reaction and position of companies and members to this proposed change—especially if section membership dues are incorporated into general membership dues.
2. Determine a dues policy for members who wish to belong to more than one interest group (i.e. should they be surcharged for this?).
3. Determine a dues policy for lifetime retired members who wish to belong to one or more interest groups.
4. Determine the expense impact to the Society that would probably result from a significant increase in the interest groups' collective population.
5. Determine the impact to Society administration from an

Continued on page 12

Sections Strategic Implementation Task Force Report Summary

Continued from page 11

Table 1
Proposed Interest Group Resource and Governance (IGRG)
Task Force and Sub-Task Forces



organizational, staffing need, and technological perspectives that could result from a significant increase in the interest groups' collective population.

6. Examine any potential negative consequences (e.g. possible dilution of perceived value in belonging to an interest group) that might result from including interest group membership within general membership.

Special Note: *The Board requested that the Sections Strategic Implementation Task Force remain in existence to undertake the necessary research on OS4 and present to the Board at the 2008 Leadership Summit meeting. The IGRG will not be responsible for OS4.*

Leadership Development

LD1—Formalize Standard Section Leader Training and Orientation for the Chairman, Newsletter Editor, and Web Liaison. This Training Will Include an Operations Manual and an Updated List of Best Practices.

1. Form a task force to develop an operations manual on leadership requirements for interest group chairmen, web liaisons, and newsletter editors. The task force should establish a formal process for continuously updating the best practices. This should be a how-to manual on how to lead a section. The operations manual should include an overall section on the section leadership responsibilities. Within the operations manual there should be specific sections devoted to the responsibilities, tasks, checklists, timelines, etc. for the chairman, web liaison, and the newsletter editor.
2. Provide leadership training for incoming section chairmen, web liaisons, and newsletter editors. This

training should occur before the person assumes his or her section leadership position. This training should occur at Leadership Summit, mid-year meetings, or chapter sponsored Society/NLI courses. Variations in leadership experience among interest group leaders should be taken into consideration when developing the leadership training. Outgoing interest group chairmen should continue to be a resource to the incoming leaders.

Leadership training for incoming section leadership should consider that those who have no leadership experience will require both basic management training (organizing, planning, controlling, decision making, motivations, and leadership), as well as training in "virtual leading" and/or leading volunteers. Those who have prior on-the-job leadership experience may require leadership techniques for motivating volunteers and/or leading "virtual teams."

3. In addition to leadership training, specific training for incoming web liaison and newsletter editors should be established. Two task forces should be formed, one for the web liaison position and one for newsletter editors. The task forces should develop the training curriculums for both positions. Training could be done by Society staff in Malvern or as an online course. The outgoing web liaisons and newsletter editors should continue to be a resource to the person coming into the positions.

LD2—Create a Developmental Scorecard for Section Volunteers and Society Members. *(This is something that section members and volunteers can present to their employer evidencing the technical and developmental value of membership.)*

1. A task force should be formed to develop a "tactical scorecard," that can be used by section leadership to measure the section's progress toward strategic goals and related tasks. The scorecard criteria should be developed based on the results of the section SWOT analysis, as proposed under section VA4—Conduct SWOT analysis for each section. Each criterion should have a set of tasks, which are required to achieve the goal.
2. A task force should be formed to develop a "value scorecard," which can be used by section members to evidence the technical and developmental value of membership. Consideration can be given to expanding this scorecard to the value of membership in the Society, not just interest group membership. Development of the "value scorecard" should consider:
 - a. The value to the member and the member's employer of involvement in particular activities.
 - b. The role of the individual during the particular activities, i.e. leader, committee member, etc.
 - c. The skills and experience obtained as a result of involvement and role in particular activities.

Membership

M1—Create Value Statements and other Communications Tools to Promote Interest Groups

1. Collect the value statements and other communications currently used by the existing sections. Assess the current state of the value statements and communications against the new interest group branding strategy.

Continued on page 14

Sections Strategic Implementation Task Force Report Summary

Continued from page 13

2. Assess and incorporate branding strategy for interest groups.
3. Solicit feedback from interest groups on gaps between current state and future state (focus groups, surveys, etc.).
4. Draft language for new value statements and communications, targeting the increased value (technical content, reduced cost, etc.) to existing members and incorporate new value statement and communications messages into society publications.

M2—Establish Affiliations between Interest Groups and other Industry Organizations (e.g., PLRB, The “Big I,” and RIMS)

1. Identify key organizations to focus our research by soliciting feedback from sections and the CPCU Society.
2. Assess the current collaboration between interest groups and key industry organizations (focus groups, surveys, etc.).
3. Assess the current collaboration activity against new opportunities with joint sessions with interest groups and key industry organizations.
4. Draft and validate an action plan to build collaboration.
5. Confirm plan with interest groups and industry organizations.
6. Publicize new direction in CPCU Society publications.

M3—Refresh the Interest Group Newsletters

1. Examine alternative publication options to current newsletters, including the potential use of a magazine-styled compilation of comprehensive interest section information and articles in a journal-style publication.

M4—Designate Liaison(s) to Promote Interest Group Benefits to Chapters, Major Employers, and the Insurance Services Community

1. Identify the key major employers and insurance services community organizations.
2. Assess the current outreach underway between interest groups and local chapters, major employers, and the insurance services community (focus groups, surveys, etc.) and identify gaps.
3. Identify responsibilities of a liaison and prepare training conducted for liaisons by the Society.
4. Identify liaison volunteers, establish a process for selecting them, and introduce and promote them through various industry publications.

M5—Strengthen Connection between CPCU Society and Accredited Risk Management and Insurance Degree Programs

1. Identify the key major insurance degree programs to focus our research by soliciting feedback from sections and CPCU Society.
2. Assess current outreach underway between sections and key insurance programs (focus groups, surveys, etc.).

3. Identify new collaboration opportunities with joint sessions between interest groups and industry organizations and develop and implement an action plan to institute collaboration between interest groups and insurance degree providers.
4. Publicize new direction in CPCU Society publications.

Value-Added Services

VA1—Develop Consistent Format and Content Standards for Core Interest Group Offerings (Newsletter, Web, Symposia)

1. Create a committee for each—newsletter (this dovetails with M3 and might best be accomplished there), web, symposia. Each committee should be composed of section members responsible for the format. Each committee chairman would be a member of the Interest Group Resource and Governance Committee.
2. The committee establishes guidelines and templates for each: newsletter, web, symposia.
3. The committee is responsible for coaching and mentoring the sections on the guidelines and templates.

VA2—Expand Delivery Methods of Technical Content

1. Establish a vehicle, guidelines, and templates for webinars. The webinars would focus on pertinent and timely topics that are delivered in one hour or less. The structure should be such that it will easily facilitate the rapid development and presentation of a topic.
2. Establish guidelines, templates, and vehicles for teleconferences and videoconferences.

3. Expand delivery of technical content by partnering with other insurance organizations and presenting at their meetings.
4. Each committee outlined in VA1 would also be charged with the responsibility of identifying avenues to expand the delivery methods of technical content.

VA3—Encourage Interest Groups to Convert Highest Rated Annual Meeting Technical Seminars into Symposia

1. Within 30 days of the Annual Meeting and Seminars, the Interest Group Resource and Governance Committee selects three to five technical seminars. The selection is based upon the rating feedback sheets, number of persons attending the seminars, and the pertinence of the information content.
2. The Society and the section seminar liaisons will format and package the seminars making them available to the chapters and as regional meetings as in VA3.
3. The top three to five seminars would be packaged into a day of training, knowledge transfer, and held four to six months after the Annual Meeting and Seminars at three different strategic sites around the country.

VA4—Conduct SWOT Analysis for Each Interest Group; Implement Findings

1. Introduce the SWOT concept to the section chairmen during the sections leadership meeting with reference material at the Leadership Summit in Orlando.
2. At the 2007 Leadership Summit, the section chairmen would identify a committee member responsible for the SWOT analysis as a “point person” for contact.
3. Designate a SWOT coordinator to liaison and assist the section SWOT “point persons” in conducting the SWOT within each section. The SWOT coordinator would be a member of the section task force, and ideally would transition to serve on the initial Interest Group Resource and Governance Committee. This group would develop a SWOT template to be used by all sections. In addition, they would develop and conduct a SWOT training program.
4. Before the 2007 Annual Meeting and Seminars, a SWOT training program for section chairmen and all other interested section committee members would be conducted through an appropriate medium.
5. At the 2007 Annual Meeting and Seminars, the section chairmen will conduct the SWOT analysis with his or her committee and complete the SWOT templates.
6. Society Interest Group Resource and Governance Committee would review, coordinate, encourage, and challenge each interest group to then create interest group goals based upon the SWOT. ■

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