ABSTRACT OF THE DISCUSSION OF PAPERS READ AT THE PREVIOUS MEETING

THE ORIGIN AND DEVELOPMENT OF REINSURANCE—EDWIN W. KOPF VOL. XVI., PAGE 22

WRITTEN DISCUSSION

MR. JAMES S. ELSTON

The Society is deeply indebted to Mr. Kopf for this comprehensive paper which treats the subject after the same thorough study which Mr. Kopf has applied to previous subjects on which he has written for the Society. The scope of the subject is so broad that Mr. Kopf necessarily treated the development of life reinsurance less completely than he did that of fire and casualty reinsurance. Further, it must be remembered that Mr. Kopf is writing primarily for the actuaries of casualty insurance companies. Nevertheless, inasmuch as life reinsurance has been included, it seems as if mention might be made in the discussion of the paper of several important features to supplement Mr. Kopf's paper.

In the first place, several references might be given which are not included in his "Select Bibliography", presumably because these papers were not used as references or authorities for his comments. The first important paper that might be mentioned is that of Mr. Henry Moir on "Reassurance of Surplus Risks" in Volume VII of the Transactions of the Actuarial Society of America. One of the most comprehensive papers on life reinsurance in the United States was that of Mr. W. N. Bagley and Mr. J. M. Laird on "Life Reinsurance" in Volume XXIII of the Transactions. The chapter on Reinsurance in Charles K. Knight's "Advanced Life Insurance" may be mentioned though it adds little additional to the subject.

In the 35 years immediately preceding the 20th century very few, if any, of the companies in the northeastern part of the United States had reinsurance agreements, but it was their practise to issue policies for amounts greater than they felt they could themselves keep and to protect such excess by reinsurance obtained from neighboring companies. The reinsurance policies usually were on the corresponding policy forms of the reinsurer and the premium rates, commissions and general policy conditions were those of the reinsurer.

About 1903, as stated in Mr. Kopf's paper, the risk premium method came into use and at the same time automatic reinsurance agreements, the latter, strangely enough, derived from similar treaties applying to accident and health insurance. The risk premium method did not gain much popularity among the northeastern companies at that time, although it was used until 1914 with reinsurances given to certain foreign reinsurance companies. Most of this was with the Munich whose operations Mr. Kopf describes on page 31.

The breaking down because of the World War of all of the foreign life reinsurance facilities naturally caused the companies to turn to the others in the United States for the necessary outlets and as a result the risk premium method has been used for the past dozen years, almost exclusively by some of the large companies in the northeast.

Mr. Kopf mentions the Reinsurance Life Company of America formed in 1917. In 1919 the American Life Reinsurance Company was started in Dallas, Texas, for the purpose of writing only reinsurance, but a few years later it wrote direct business also. It has recently been reinsured, its direct business by one company and its reinsurance business by another company.

It may be mentioned that a few companies in the middle-west have been very active in writing reinsurance for the past 25 or 30 years, chiefly upon the amount at risk plan. In fact their reinsurance departments have been so active that a very large part of their total business is reinsurance. One of these companies now has nearly $400,000,000 of reinsurance in force.

As Mr. Kopf states, the risk premium method has not been generally adopted in Canada; however, it is now being used by one of the large Canadian companies, probably in connection with reinsurance business to be derived from the United States.

At the present time there are a number of so-called "pools" to be found among the United States companies, particularly the smaller companies. These pools, which are reinsurance arrangements for the exchange of reinsurances, both automatic and facultative, among the companies involved seem to have come about in the following manner: The companies, the number ranging from three to seven, whose home offices are comparatively near each other, have perceived great advantages to be derived from the cooperation incident to exchange of reinsurance among themselves, as compared with a method of securing reinsurance from companies much greater in size and perhaps located at the other side of the continent. They write about the same kind of business in the same territory; their home office and field conditions are substantially the same and, in general, their ways and ideas of conduct in life insurance business are substantially in accord; also, they believe that the cost of reinsuring their own excess risks will be offset by the profit coming to them on business they receive in exchange. Of course, this balance exists only if there is a uniform mortality on the reinsurance and such uniform mortality is not found as a rule. In the main, however, the pool arrangement seems to be satisfactory to those who have adopted it and are using it conscientiously. Certain of these pools not only exchange business among themselves, but also reinsure excess lines of companies outside the group and, in instances of very large risks, go to other companies for the amounts in excess of their own handling facilities.

In brief, the disruption of life reinsurance arrangements with foreign companies during the war was met principally in three ways—by the development of reinsurance departments in several large insurance companies, by the formation of pure reinsurance companies, and by the development of the "pools" described above. Of course the practice of obtaining reinsurance for large individual risks on a facultative basis without definite treaty relationships has also continued.

I am indebted to Mr. W. M. Bagley for many of the suggestions and concrete facts in this discussion.