



**2006 RIMS Conference Blog**

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## **Buyers Irate Over Collateral Requirements Lack of transparency reciprocity leaves one risk manager fuming**

At the start of Wednesday's session on high collateral requirements, Michael Pastorius, senior vice president, Lockton Insurance Brokers, lightheartedly asked the risk managers whether anyone was overcollateralized.

It seemed to be a given, based upon the collective moan and show of hands. As a California risk manager sitting next to me explained, the collateralization tends to build up at each renewal, so after a few years it's inevitable that your company will end up over-collateralized. So ultimately, insurers are in the catbird's seat.

Despite the transparency buzzword that insurers and brokers now like to bandy about ("look how client-friendly we are!"), clearly the concept has not found its way into the collateral adjustment process.

Initially, the collateral is based upon an extensive analysis of a company's financial statements, loss history, claims practices and anything else that might predict its exposure. When it really gets tricky is during the adjustment process, when the insurer studies the original baseline assumptions compared with a company's current loss data, and predicts future losses. It's what's known as "loss pick." That's when the fun begins.

As one risk manager complained to the panel, particu-

larly to ACE USA's John Edmonds, senior vice president of credit management and the only carrier representative on the panel, when his adjustment rolled around last year, his insurer required him to cough up an additional letter of credit for \$24 million. The risk manager's calculations, based upon the same criteria, produced an \$18 million figure.

So as a responsible risk manager, he asked his insurer to share their computations with him so he could see how they arrived at their number. Here's where that transparency thing kicks in. The insurer and its actuary refused, but thought it was completely OK to ask the risk manager to see his calculations. Ultimately, the risk manager ended up negotiating the increased collateral level to \$20 million, but he wasn't happy about it.

Michael Adreani, partner with Roxborough, Pomerance & Nye, the attorney on the panel, was rather blunt. If your insurer refuses to show you its calculations, then legal action may be your only recourse. Don't just settle for the standard insurer line, "trust me."

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