

# The Reinsurance Collections Process: Proactive vs. Reactive

**W**hether your company is located in London or New York, Brighton or Boston the challenge of maximizing the economic value of your reinsurance assets grows more difficult each day.

Long gone are the days when [reinsurance collections](#) was an "accounting function" and the primary responsibility was to bill and patiently wait to apply the cash once it was received.

Today a much more proactive comprehensive strategy must be developed that incorporates and considers the combined efforts in the areas of reinsurance collections, arbitration, and commutation.



*"A proactive reinsurance services group that combines and coordinates the activities of reinsurance collections, arbitration, and commutation will realize the ultimate goal of maximizing the economic value of your reinsurance asset."*

## Collections

The collections efforts must be driven by a focused, dedicated [reinsurance services](#) staff whose sole function is reinsurance collections. Given the breadth of the issues at hand in today's environment it is necessary that a multi-disciplined reinsurance services group be created that includes expertise in the areas of underwriting, claims, and accounting. In addition, these professionals must have the ability to go on the road and meet with reinsurers face to face. Meetings of this type will pay far greater dividends than the other forms of dialogue,

which many times result in trading tersely worded emails and addressing lengthy letters. Payment trends and cash flow must be closely monitored. Any unexplained slow up in payment may be the precursor of cash flow issues or weakened financial position. Finally, the simplest but most often forgotten tactic in an effort to maximize cash collections is, whenever the opportunity arises, always ask for the money. It is also necessary to acknowledge that various situations will arise where alternatives to pure collections and recovery efforts

should be focused on, either through arbitration or commutation.

## Arbitration

Organizations need to be willing to arbitrate when appropriate. Ceding companies tend to fall into two camps. The first are the saber rattlers who continually threaten arbitration but never file, and the second who will file on any claim of any size once the balance is considered overdue.

Neither of these strategies lends itself to maximizing the economic value of the reinsurance asset. The dollar value of the claim and the specific issue in dispute should determine whether to arbitrate or not. For each specific case it is necessary to measure expected legal costs to be incurred, impact on internal resources, and duration of the arbitration process, against the potential reinsurance collections value.

## Communication

Commutation targets are the at-risk companies, and whenever possible it is extremely important to be the first in line to approach these companies. Being

proactive and moving to the head of the line can only be achieved by constantly monitoring the financial condition of your reinsurers.

Although most companies are very concerned about measuring and understanding the financial strength of a reinsurer when they are first added as a "new security," this type of financial scrutiny and review many times does not continue going forward.

A [reinsurance services](#) company can provide ongoing monitoring of your reinsurers. Publicly available information such as annual statements and quarterly reporting are excellent source of information that highlight potential future financial weaknesses. Reinsurance services companies prioritize targeted reinsurers based on the highest potential exposure and lowest financial strength rating. The objective in commuting is to do the deal before the company becomes front page news in the insurance trade journals.

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