

## Blame It on the Soup

(LONDON) The renowned scientist Stephen Hawking announced today that he has discovered the underlying cause of property/casualty underwriting cycles. Speaking from his office at the University of Cambridge, Hawking revealed that the solution came to him during an episode of "UK Pop Idol."

"While much of my published work has come in the field of theoretical physics, I've always been fascinated by the underwriting cycle," said Hawking. "It's been a true puzzle how grown men and women could cooperatively engage in such destructive economic behavior with the lessons of the past so close at hand. If information can escape from black holes, as I've recently proven, you'd think that the shared experiences of the insurance community could be passed down from one generation of insurance professionals to another."

Hawking will reveal his solution next month at a special seminar sponsored by the Casualty Actuarial Society scheduled in Fargo, N.D. "I feel fortunate to be able to unmask the true cause of this age-old insurance dilemma, and I welcome the opportunity to present my findings to such an august assemblage of actuaries," Hawking told reporters. "Besides, I've never been to Fargo."

Speculation about Hawking's findings was running high. Some industry experts wondered if a genetic link had been uncovered, citing Hawking's recent interest in the 17-year life cycle of the cicada. But sources close to Hawking, speaking on condition of anonymity, suggested that the scientist may have found a direct link between erratic underwriting behavior and the ingredients used in Campbell's cream of mushroom soup.

A spokesperson for Campbell's admitted that the company has periodically introduced new varieties of mushrooms into its soup mix (most notably during the early 1980s and then again in the early 1990s), but she was unaware of any complaints from the insurance community.

A spokesman for Lloyd's of London agreed that it would be interesting to know the cause of underwriting

cycles but reflected that the elimination of such cycles would be bittersweet. "Nothing will ever cure a day of poor underwriting results like a pint of Guinness," he reflected.

In a related story, the president of one major insurance carrier was heard to remark, "Hawking did what? That's bad news. Without cycles, what is there to exploit?"

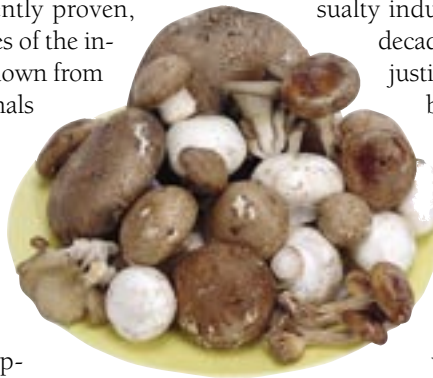
OK. So perhaps this news account is a bit more fiction than fact. But how, then, are we to explain the roller coaster ride of profit and loss that the property/casualty industry embarks upon at least once a decade? Just as important, how are we to justify it to our customers, the insurance buyers, who seek our product as a means of minimizing budget fluctuations, not causing them?

In the June 14, 2004, edition of *BestWeek*, Lance Ewing, an insurance buyer for Caesar's Entertainment, described his view of the cycle this way: "It's become a wild ride, and as you pull into the station at the end of the ride, there's your broker, with cotton candy and soda in hand saying, 'Wasn't that fun? Ready to go again?'"

A skeptic might conclude that the invisible hand of "naïve capacity" is to blame for this unpredictable behavior, but Robert Conger and Charles Wolstein believe otherwise. Writing in *Emphasis* (a Towers-Perrin publication), they state that "systematic patterns of mis-pricing are caused not merely by external, macroeconomic, and competitive factors inherent in the business. They are also caused by a failure in the decision process to effectively use feedback to improve performance."

Uh, oh. Are Conger and Wolstein actually suggesting that actuaries and underwriters be held accountable for actions that contribute to these cyclical events? Or that the cycle itself can be muted by better controls and training? I was always taught that the benefit of working in a long-tail line of business was that it gave you time to transfer to a new area of operations before the waves of past results crashed onto the shores of current financial statements.

Oh, well. It's not time to panic yet. I still think it has something to do with the soup.



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