

An interview with Mrs. Denisa DUMITRU, President STELLAR Re

# An Involved Observer

Prior to becoming a founding partner at Stellar Re, Denisa DUMITRU was in charge of Eastern European Underwriting at St Paul Re, Inc. in New York. Her career at St Paul Re spanned the years 1986 until 2002. In 1994 she was a recipient of the St Paul Companies Chairman's award for outstanding achievement. She was recognized for her role in initiating a joint venture between the St Paul Companies and the Rosgosstrakh Insurance Group.

Considering her wide experience in the East European insurance markets, we have asked Denisa to share with us her vision about the East European insurance markets.



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**PRIMM:** *Given the nature of your activity, you have been an educated observer of the development on the Central and Eastern European insurance markets after the fall of the Iron Curtain. Please share some of these impressions with us.*

**Denisa DUMITRU:** Indeed, during my career in the insurance/reinsurance field, I have always been close to the Central and Eastern European markets. I spent my first 17 working years with ADAS, the former State insurance monopoly in Romania, after which I worked another 17 years with St Paul Re, where I acquired most of the experience I have in international reinsurance and where I was in charge of the company's business in Eastern Europe. In 2002, together with Peter Aubrey-Smith and Sol Kroll, we decided to establish Stellar Re Intermediaries, Inc., an international insurance/reinsurance brokerage company. Everything was built on the experience that we have acquired in the reinsurance field: Peter Aubrey-Smith started his career with Lloyd's and then he moved in Germany, after which he had a top management position with St Paul Re, where he was in charge of all the international branches, which allowed him to have a good knowledge of the European markets; Sol Kroll also has a vast experience in legal counseling.

In 1990, when I started to represent St Paul Re on the Eastern markets, my business trips included a one-day stop in each country. Why was that? Because all Eastern markets were still under State monopoly and, practically, there was just one discussion partner for each country. Even if in some countries there were two companies, one of them was in charge with domestic business, the other one with international affairs, so that, in fact, domestic business was still under monopoly. Starting from this state of affairs, I have witnessed, over the years, the unfolding of a decentralization process on these markets. A lot of companies started to gradually emerge. But time sorted through these numerous companies and only the professional ones made it, those that took over the personnel specialized in the former State monopolies and that worked seriously and cautiously, that thoroughly considered the interests of their customers and of their shareholders.

**PRIMM:** *What was the reinsurers' position in what this development is concerned? Were they content to remain mere observers?*

**D.D.:** The reinsurers watched and also tried contribute to this development. I have the concrete example of St Paul Re, where I was working back then. Only a few of the contracts coming from Central and Eastern Europe met the underwriting criteria of St Paul Re. We were nevertheless aware of the fact that the markets from the former Communist countries represented a good investment opportunity for the future, so the decision was made to contribute to the training of insurance/reinsurance specialists on these markets. We invited specialists selected from the Eastern markets to come to the United States in order to attend various training courses organized either by our company or by specialized higher education institutions. What is interesting is that, although at first many were doubtful regarding the results – and here we need to consider the fact that our guests also had to cope with the language barrier and with the need to understand and to rapidly adapt to a life and working style that was completely different from their previous experiences – this initiative led to results that were often amazing. It is with pleasure that I recall the story of a specialist coming from Belarus who in the beginning spoke almost no English at all and who, by the end of her three-month period spent with the College of Insurance, besides getting the highest marks on her exams, also managed to deliver an insightful good-bye speech in a perfectly good English. One might say that, in general, the specialists coming from Eastern Europe were eager to acquire thorough knowledge in their fields of activity and, quite often, by the end of the training period, their results were better than those obtained by our own employees, trained during the same period. These people went back to their countries where, in most of the cases, they trained other specialists and they implemented the things learnt in the United States in their companies. In what we are concerned, these investments paid off – we managed to set the basis of solid relationships, the Eastern European specialists got to know us very well and we built solid connections based on trust, which is essential in our line of business.

**PRIMM:** *In the meanwhile, you have decided to set the basis of your own business and one of the first operations you have realized with Stellar Re was to open an office in Bucharest. Why here?*

**D.D.:** Of course, as I was born here, for me Romania was the first business objective when we started Stellar Re. My colleagues and I were very knowledgeable of the Eastern markets in general, but it was Romania I felt closest to, even from a professional point of view – after all, it was here that I learnt the first insurance/reinsurance notions. Therefore, Romania was our starting point, the local office here being also the point from where we manage our business on the Central and Eastern European markets where we have extended our presence. Primarily we specialize in maritime, aviation, property and liability insurance/reinsurance. When the market started to become really interested in credit insurance, we have extended our lines of business in this direction especially since, once the State monopoly of Eximbank on export/import credit insurance was terminated, the number of potential customers for this line of business significantly increased.

STELLAR Re commits itself to these 4 fundamental and universal values:

- > **TRUTH:** Open and straightforward business dealings. Honesty and integrity governing all our actions
- > **RESPECT** for others regardless of their differences, beliefs or opinions
- > **EQUITY:** Fairness is a prerequisite for trust in both our business dealings and personal relationships.
- > **RESPONSIBILITY:** Taking responsibility for our actions is a duty owed to business partners, fellow employees and society in general

**PRIMM:** *And yet, your business is not limited to the Eastern markets, so you can make a permanent comparison between these markets and the mature ones. What would the conclusions of such a comparison be?*

**D.D.:** The essential difference between Eastern and Western markets lays in their level of maturity and, equally important, in the quality of their economic environment. It still is much more difficult to work on younger markets than on the Western ones, but it is not because of the insurance companies, but because of the systems they operate in. In my opinion, most difficulties pertain to the quantity and quality of the available information. If a Western company can base its actuarial calculations on 20, 50 and possibly 100 year old statistical data, this is almost impossible in the East, where there are no solid data bases yet. For instance, a company wishing to enter a new line of business does not even have the possibility to analyze statistical data for the 10 – 15 years that have elapsed since the liberalization, which would help it to estimate the real exposure for a certain category of risks.

The situation is similar in what the MTPL is concerned, even if, at least regarding the tariffs, there are certain legal limits. In other countries with mature markets, there are measures aimed at protecting insurance companies against the antiselection risk – that means that the insurance policies bought by people deemed to have a higher risk exposure (for instance, drivers with a high claims rate or drivers who are very young, beginners or, on the contrary, very old, etc.) are proportionally redistributed between insurance companies based on a very well controlled system. These types of mechanisms are not yet perfected on younger markets. This is why, we, the brokers, have to also undertake the task of providing consultancy on these markets. Even if there are good specialists on the market – and, after 15 years of activity, there are quite a few of them – there is no local experience for many types of risks for which the demand is only in its initial stage (for instance, insurance coverage for special animals: there is even insurance for snails in breeding units, but how many insurance companies have experience in such a line of business in Romania?). The reinsurance brokers have the task to create and maintain this connection between the insurance and the reinsurance markets and this task is even more visible during difficult moments when the assistance we can provide to ceding companies is of the utmost importance.

Then, there are a lot of difficulties generated by the aggressively competitive environment. Of course, competition is



Always an active participant at the insurance market main events, Denisa DUMITRU at ICAR 2005.

natural on a free market, but on these young markets the rush for market share led to practices that are not always constructive for long time interests. It is also true that the reinsurers encouraged these practices for a while. Eager to control ever larger market shares, they started by offering extremely low premium rates at the beginning of the '90s. I recall that for a country like ours, with high exposure to cat risks, there was a "rate on line" of less than 1%, which today could easily be seen as an underwriting "crime". By offering reinsurance rates this low, the reinsurers encouraged ceding companies to promote very low insurance prices. The new choice of the reinsurers to strictly align to technical quotations and to get involved more restrictively in certain lines of business, especially in what property insurance is concerned, generated a shock on the local markets and major changes could occur here.

**PRIMM: The last decade saw the emergence of new players on the international reinsurance market from Central and Eastern Europe. Could these new players become a solution for local ceding companies?**

**D.D.:** The Eastern ceding companies are quite often confronted with difficulties in placing a risk in reinsurance and it is not the quality of the risk that generates this situation but the premium volume. There are a lot of Western companies that follow a certain standard that does not allow them to accept a premium volume below a certain limit. It gave us great satisfaction to see that certain Eastern countries had the courage and the resources necessary to establish reinsurance companies, such as Polish Re (which now has a BBB rating and it might have deserved more but there is a rule according to which the rating of a company cannot be higher than that of the country where it is registered), Sava Re (also a BBB rating), as well as the Russian companies Moscow Re and Transsiberian Re. For us, it is a pleasure to work with these companies. We were also glad, many years ago, when Romania considered the possibility of establishing a reinsurance company. Unfortunately, when the project was about to be put into practice, major difficulties confronted the Romanian economy and many foreign investors retired from the market or postponed their projects *sine die*. This is what stopped the development of our project.

**PRIMM: Does the Romanian market have enough capital resources to establish a reinsurance company?**

**D.D.:** I believe so and I am glad to see that this idea starts to be reconsidered again. I myself was involved in the previous project for establishing a reinsurance company and I persuaded St Paul Re, the company I was working for at the time, to invest. The American part was supposed to have the controlling shares and the Romanian insurance market should have contributed with the other 49%. In my opinion, it would have been very good if the project turned to life six or seven years ago. Because now, the company could have been strong enough to face competition, especially given the opening of the market which will come after 2007. It might be that the initial capital would not have been sufficient for expansion but I am fully persuaded that it would have grown and, in time, it would have attracted other investors, such as the World Bank, which is always interested in supporting the development of private companies on the Eastern markets, or maybe EBRD, or, who knows, other reinsurance corporations. Unfortunately, plans did not work out but I am optimistic they might work out this time around. I strongly believe that it is never too late if things are thoroughly considered.

**PRIMM: Could you give us a conclusion?**

**D.D.:** Often times I thought about the development of Eastern markets and I compared it to a similarly sensitive process: champagne making.

At first, there are the grapes: they are sweet, attractive to everybody ... more like the "virgin" markets from Eastern Europe.

Then you have the grape juice: it is sweet and tasteful but it ferments ... and the markets "fermented" themselves, during the structuring and consolidation process.

At first, wine is sour (and so were the major claims from 1995 – 2002, at least for the reinsurers) ... but, if you give it enough time and have patience to wait for things to be done properly, wine turns into champagne and everybody is pleased and satisfied by it.

Daniela GHEȚU