

ART DISCUSSION

Alternative Risk Transfer (hereinafter referred to as ART) has been misunderstood and misrepresented by a variety of practitioners of the black arts from one continent to another. This paper will briefly inoculate you against the vicissitudes of this induced pandemic contagion and enable you to avoid falling prey to the disease. The origins of this diabolic microbe have been rumored to be traced to the inner sanctums of certain board rooms in the Cathedral of Marsh or the Abbey hall of Lloyds. Another outlandish conspiracy theory ties its development to actions involving the clandestine Council on Foreign Relations or perhaps even the NAFTA Chroniclers who see this as a way to undermine the cosmic culture of insurance and risk that has served so many so well for so very long. Various strains have appeared, flourished, and then disappeared almost as quickly as they occurred much like coastal windstorm capacity. The Center for Business Disease Control (hereinafter affectionately monikered as “Dread”) has been unable to isolate and study the long-term effect.

1. **ART Impressionism.** This particularly virulent form of the ART Virus arose out of or resulted from the process of converting certain English tea houses into halls of caffeine. It attacked accountants and regulators leaving them convinced that risk had been transferred when all others plainly saw this could not be the case. Symptoms included off color investments (shall we say securitized retroceded subprime CDOs or CDSs), impressionistic but incomplete structuring or process patterns, reliance on the passage of time to create the miracle of future interest to offset the dead fish stench contained in the basket, invisible side letter proffering vast amounts of ephemeral wealth and stunning portfolios arranged to visually enthrall and create angular dizziness not seen since the movie Vertigo.

2. **ART Surrealism.** The passing of the Berlin Wall seems to have triggered this microbic assault. It may have been the Comintern's dying gasp or the Red Chinese Army practicing for Tiananmen Square. Bermuda based visual artworks masqueraded as insurers and reinsurers in a seemingly endless array of portfolios and capitalizations all tied to the Bank of Butterball. The risk nexus never attached and always seemed more than a little skewed as if the mad hatter had been let loose on reinsurance and unwary investors. It all made perfect sense but very little money. Particular managers on Bermuda and Lloyds syndicates expired rapidly from the fever taking with them the financial portfolios of more than one loss proof investor.
3. **ART Cubism.** This onslaught attacked mercilessly the principle of risk transfer. Chief victims of this disease involved investment counselors looking to squeeze a greater bond return from a developing opportunity...to pay losses. Tremors followed by delirium usually resulting in substantive financial impairment and mental arrest followed by untimely passing (formerly death). What had been a very bad reinsurance contract bankrupting both parties reappeared by the miracle of paper and ink guaranteed by fresh new capital unaccustomed to the rough and tumble ways of insurance, and recast now as a magic carpet ride known as a cat bond. Bonds tread where no reinsurance agreement could go like an off road truck racing through the Baja. Protection ensues from ambiguous terms, unlikely interpretations, and unassailable wordings protecting the holder of the bond from relinquishment of the bond or funds.
4. **ART Romanticism.** Usually reserved for the few survivors of previous market cycles this disease sapped the vitality then the life force from these hardy survivors making them prey to the foibles of the cycle repeated. Mutterings, inane dribble, and incessant nail biting accompanies these great warriors to their malaise laden Gotterdammerung. Their demise has both death and sting. The disease causes them to see risk as premium and funding but to deny and ignore the principle of loss payment. This disease seems to reappear each fall as coastal reinsurance renewals season approaches and just as quickly abates after the first Hurricane hits the following year. Emotions and passion replace sanguinity and reason leading to billions and billions of ill-timed losses from whence these victims join

their ancestors the Woolly Mammoth in the hoary tradition of the extinct somewhere next to Valhalla. They go out like snuffed candles with failed promises and a whimper not a bang.

5. **ART Realism.** Connecting insurance with realism is doublespeak for justifying stupidity and greed behind a wall of well-imbedded expenses. Suits and computers govern the decisions constructed on the basis of IRR return rate but never on the payment of claims. Objective reality becomes focused on win now and then take the others winnings later so you can win more for less...practically. The holder of the gold becomes the provider of the truth and all bow down before their preeminence because they have both truth and gold. This then leads to the reappearance of Impressionism and the cycle repeats.