

Keeping Up With Regulation

Society of Actuaries
2004 Spring Meeting
June 14, 2004 San Antonio,
Texas



Associations and Memberships

- SOA
- AAA
- ACLI
- CCH
- NALC
- LIMRA
- Others?

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Consulting Firm Publications



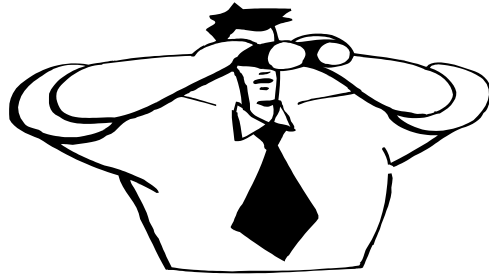
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Websites

- State Specific Sites
- Others
 - o www.washlaw.edu
 - o www.statelocalgov.net
 - o www.lawsonline.com

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Web Searches



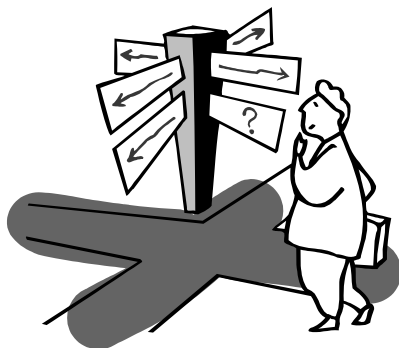
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Look Up Articles in Small Talk or Other SOA Publications



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How Many States Are You In?



- Do you have minimum production levels by state?
- Are you at least producing more net premiums in the state than the taxes and fees you pay?
- Are there onerous soft dollar costs?

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Maintain Good Communication with Company Colleagues

- Do you have a Compliance or Legal Department?
- When you see regulations that affect others in your company do you alert them?
- Do you have a committee meeting where you can discuss updates or concerns?



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Talk with Regulators

- Maintain good relationships.
- Ask if you're not sure.
- Desk drawer rules?

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Talk with Other Small Company Actuaries



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Are You a Member of the Smaller Insurance Company Section?



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A MILLIMAN GLOBAL FIRM



Milliman

Consultants and Actuaries

2001 CSO Update & Issues
Society of Actuaries Spring Meeting
June 14, 2004 San Antonio, Texas
Kent Scheiwe, FSA, MAAA
Indianapolis Office

2001 CSO Update & Issues

Current Status of 2001 CSO State Approvals

- 25 states have adopted
- 6 states have proposed

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2001 CSO Update & Issues

ACLI/Treasury Update

- ACLI currently working with Treasury
- ACLI letters of October 25, 2002, December 8, 2003, and February 26, 2004

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2001 CSO Update & Issues

ACLI/Treasury Oct 25, 2002 Letter

- Define “reasonable mortality charges”
- Request transition rules to 2001 CSO
- Secondary guidance on substandard risks and multiple-life contracts

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2001 CSO Update & Issues

ACLI/Treasury Feb 2, 2004 Letter

- Requests transition rules for Section 7702 & 7702A
- Requests reasonable mortality requirements for 7702 & 7702A
- “Insurers are seeking quick action”
- Guidance request is “modest”, but critical

#

2001 CSO Update & Issues

Plans for companies implementing the
2001 CSO Table

- How many companies have designed/priced a 2001 CSO product?
- How many companies have filed a 2001 CSO product?
- What product design issues have been encountered?

#

2001 CSO Update & Issues

Plans for companies implementing the
2001 CSO Table

- Any administration system issues?
- What is Marketing dept reaction to 2001 CSO table/products?
- Will 2001 CSO product be more profitable, have richer benefits, or higher commissions?

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2001 CSO, Reinsurance and Regulatory Issues in Smaller Companies

Society of Actuaries Spring Meeting

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A Berkshire Hathaway Company

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Popular Topic

- Session 4 PD
How Credit Worthy is Your Reinsurer?
- Session 21 D
Where is Your Reinsurer When You Need It?
- Session 49 OF
Pool Reinsurance

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Life Reinsurance Trends During the 1990's

- Market share
- Competition
- Mortality improvement
- Quota share
- Regulation XXX
- Closed block deals

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Current Trends in Life Reinsurance

- Consolidation
- Market hardening
- More audits
- Concerns with financial stability of reinsurers

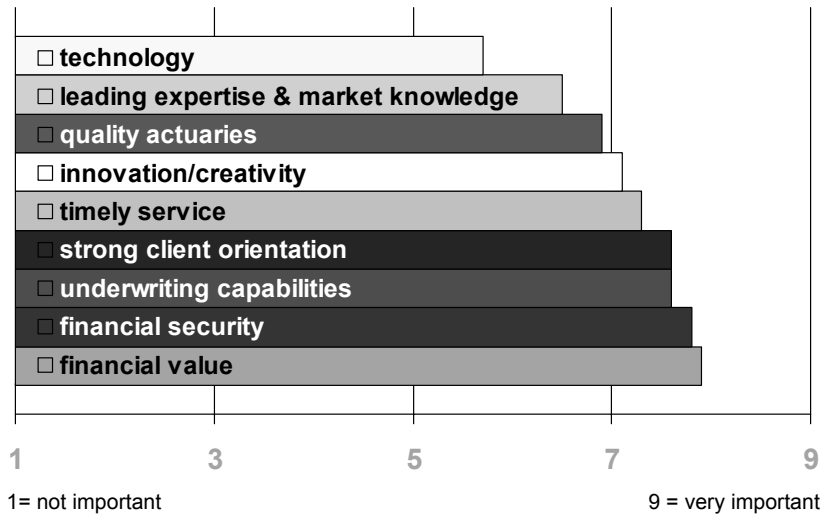
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Consolidation

- ERC, Phoenix Re, AUL
- RGA Re, Allianz Re
- Swiss Re, M&G, Life Re, Lincoln Re
- Munich Re, CNA Re

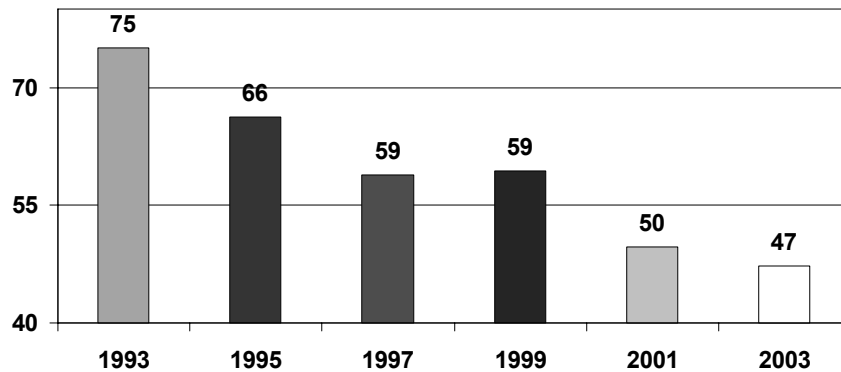
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Cedants rank evaluation factors for reinsurers



Source Flaspöhler Research Group 25

% of cedants very satisfied with reinsurers



Source Flaspöhler Research Group 26

What cedants want from reinsurers (a sampling of replies)

- Focus on basics
 - Commitment, honesty, flexibility
 - Partner relationship at multiple levels
 - Low turnover and employees with focus on customer service
 - Sales reps with technical knowledge, without arrogance
 - Reinsurers sticking to reinsurance

Source Flaspöhler Research Group

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What cedants want from reinsurers (a sampling of replies)

- Customer-focused delivery system with unique products and services
 - Understanding of insurer's strategies, help assessing and meeting their needs
 - Underwriting capabilities, client education & facultative support
 - Technology that streamlines reinsurance process
 - Common platforms for facultative submissions, underwriting audits and pricing reviews
 - Proprietary research that assist clients to grow and to develop appropriate regulatory responses
 - Product development
 - XXX reserve relief
 - Low prices plus flexibility

Source Flaspöhler Research Group

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What cedants want from reinsurers (a sampling of replies)

- Financial strength
 - Ratings
 - Strong credit quality

Source Fiaspöhler Research Group

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Tenets of buying reinsurance

Client assumes credit risk of reinsurer

for that they cede underwriting risk

*Warren Buffett
Stamford, CT
March 2003*

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Reinsurance market conditions: 2004 changes

- 10% retention still norm, but shift to higher retentions: 20+%, excess
- Services eliminated
- Rates increasing
- Client dissatisfaction with reinsurers growing
- Consolidation leads to shrinking marketplace

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Some Discussion Points

1. Hardening reinsurance market? If so, how is it impacting smaller companies?
2. What concerns do you have with the consolidation among life reinsurers?
3. Some reinsurers have become concerned about alignment of risk : 1st \$ QS % vs. XS retention arrangements. Are these concerns valid?
4. We are seeing more audits by reinsurers and increasing scrutiny of underwriting practices and guidelines. How is this affecting client relationships? Where do you see this heading?
5. How have recent changes in the marketplace influenced the way that you purchase reinsurance?

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