SOCIETY OF ACTUARIES Reinsurance Section

Reinsurance news

Issue 71 | November 2011

Life Reinsurance Data from the 2010 Munich Re survey

By David M. Bruggeman

Munich Re's annual survey, which is conducted on behalf of the Society of Actuaries' Reinsurance Section, covers U.S. and Canadian individual and group life reinsurance new business production and in force. The numbers are further subdivided into:

(1) Recurring reinsurance: conventional reinsurance covering an insurance policy with an issue date in the year in which it was reinsured;

(2) Portfolio reinsurance: reinsurance covering an insurance policy with an issue date in a year prior to the year in which it was reinsured, or financial reinsurance; and

(3) Retrocession reinsurance: reinsurance not directly written by the ceding company.

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This newsletter is free to section members. Current-year issues are available from the Publications Orders Department. Back issues of section newsletters have been placed in the Society library, and are on the SOA Web site, www.soa.org. Photocopies of back issues may be requested for a nominal fee.

Reinsurance news

Issue 71 | November 2011

Call for Articles for next issue of Reinsurance News.

While all articles are welcome, we would especially like to receive articles on topics that would be of particular interest to Reinsurance Section members.

Please e-mail your articles to Richard Jennings (*richardcjennings@gmail.com*) by November 30, 2011.

Some articles may be edited or reduced in length for publication purposes.

If you would like to assist in the editing process of the *Reinsurance News*, please contact Richard Jennings, Editor, *Reinsurance News*, or H. Michael Shumrak, Section Communications Leader at *Michael@H-MichaelShumrak.com.*

Outgoing Chairperson's Corner

By Larry Stern

Odds, Ends … and ReFocus 2012

It amazes me the lead time to produce our newsletter. In this day and age of "instant" news, we write a column now (in early September) for publication later (in late October or early November). How do I know what will be pertinent in a couple of months? I hardly know what I'm having for lunch when I sit down at my desk after breakfast each morning. With that in mind, and the fact this will be my last column as chair of the Reinsurance Section (I can almost hear the cheering as I pen—er, type this), I offer up some odds and ends, and a few comments about the upcoming ReFocus Conference 2012.

Larry Stern is president of Canterbury Consulting, LLC in Charlotte, NC. Larry can be reached at larry_stern@earthlink.net.

Typically section chairs use this space to recant the activities of the past year— accomplishments (and disappointments) of the section council. If you remember (just a few short weeks ago but a couple of months by the time you read these words), I sent out a blast email detailing the activities of the section through the summer months. In brief, we sponsored a paper competition—congratulations to the winners who have already been announced; planned sessions at the Valuation Actuary Symposium and 2011 Annual Meeting—all well-attended and successful; conducted another webcast—also highly successful and well-attended; funded continuing research; commissioned a fourth edition of the Tiller reinsurance textbook to be ready (hopefully) in June 2012; held elections for section council—congratulations to those elected; and last, but not least, conducted many LEARN sessions with state insurance departments throughout 2011. Whew, but regrettably, we have not been successful in attracting many non-life reinsurance individuals to our membership—a stated objective from a year ago.

But you were already aware of all of these activities! I only mention them again to bring accolades to the many from our section who have given of their time to volunteer for these activities. With a relatively large section membership, we have been successful securing volunteers to plan/participate in our meeting sessions, webcasts and activities. Volunteering is contagious—once you do it, you find yourself doing it more often. We are indebted to those who serve. I look at volunteering in two ways—as a form of giving back to the profession, and as a means of interacting with people with whom I may not have otherwise become acquainted. Reinsurance has always been a "people" business. I learned that a long time ago. However, even though I have been in the industry many years, I continue to learn from every experience when I volunteer and meet new people. Serving on your section council I knew many people through professional encounters; now I can say through volunteering and being elected, I can call more of these same people my personal friends. Get involved; volunteer! You may remember from many years ago, as Mikey said, "Try it, you'll like it!!"

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I want to thank all of you, our membership, for the privilege of serving three years on the section council and this past year as the chair. We have two others rolling off this year, having served for three years—Edward Hui, who headed up many of our research projects; and Len Mangini, who spearheaded communications and continuing education in the past. Kelly Levy will be taking the reins as chair for the next year. I wish her all the best as I will become a "friend of council."

And now truly last, but not least, a few words about the upcoming ReFocus Conference in Las Vegas, March 4–6, 2012. Indeed, this conference began as the pre-eminent reinsurance conference in the industry. It has grown into not just a reinsurance conference, but the pre-eminent conference in the industry. Each year the attendance has increased, as has the program content. You may view the topics as not all being reinsurance-related; however, you have to admit the sessions are relevant and pertinent to how we interact with client companies and competitors. CEOs and other major decision makers from major direct writers and reinsurers in the United States and around the globe are involved with this program. The theme for next March will highlight how external sources—governments, regulators, rating agencies, outside board of directors, etc.— influence how we conduct business as an industry. This conference is not just for reinsurers, but also for all those looking to "see the future first." If you go to one conference a year, make it this one! See you there.

Until next time, may all your experiences be "profitable" ones! ■

Incoming Chairperson's Corner

By Kelly Levy

As incoming chairperson of the Reinsurance Section Council, I have a confession. One that I hope you won't hold against me. I don't presently work for a Reinsurer or as a consultant or broker in the reinsurance industry. That's it. The secret is out.

Truth be told, membership in the Reinsurance Section is beneficial for many in the insurance industry, not just those directly working with or for Reinsurers. Underwriters and other insurance professionals, bankers, accountants, academics and regulators to name a few, would most certainly benefit from section membership and/or volunteering with the section.

Here's a little of what we have to offer so please help us spread the word:

- **Neuron stimulation** – Our research sub-committee generates topics worthy of thought provoking investigation. I hope you've had a chance to benefit from some of the research that we sponsored this year. (Check it out on the SOA website if you've missed it.)

- **A good party!** – Reinsurance Section socials, such as New Orleans cooking school and Chicago Blues bar mixers, are a great chance to meet new faces and have a little fun!

- **The adrenaline rush of performing in front of an audience** – Reinsurance Section sessions are regularly featured at Insurance industry conferences. We're always looking for a fresh, thought provoking point of view!

At the SOA Annual Meeting in Chicago we transitioned to the 2011/2012 Section Council. Thank you to Larry Stern for his leadership as Chair of the Section Council this past year. He will continue to work closely with the council in the planning of the annual ReFocus conference and we will be richer for his involvement. For the new council year we welcomed three newly elected members to the Section council: Audrey Chervansky, Paul Myers and Mike Kaster. Congratulations and welcome aboard.

Simply by reading the recent reinsurance related headlines … "Collateral reform," "Solvency II, a boon to Reinsurer's," "Health Reform consequences," "Obesity and children," and you'll know we are in for a continued wild ride again this year. I look forward to riding in the front car with arms raised alongside you. ■

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Complete survey results can be found at Munich Re's website: www.marclife.com (look under Publications).

LIFE REINSURANCE PRODUCTION: WHERE HAVE ALL THE GOOD TIMES GONE?

It is difficult to find some good news to report about the 2010 U.S. life reinsurance survey results. The U.S. market recorded double-digit decreases for new business in every individual life category. The overall result was a decrease of over 55 percent in production compared to 2009. Most of the decrease can be traced to portfolio business as the number of acquisitions and/or block deals was much lower in 2010 versus 2009. This is expected to change in 2011 given recent acquisition activity within the reinsurance industry. The more telling statistic, however, is recurring new business production fell again in 2010, dropping 15 percent. Also, the U.S. retrocession market experienced another dramatic drop in production. Retrocession business was down over 50 percent in 2010 and has reached historic low levels. Canada reported a small increase of 1.5 percent in overall individual life production with recurring production remaining right around 2009 levels. Canadian portfolio and retrocession business both posted large increases in 2010 but their impact on overall production was minimal. The only good news in the United States was seen on the group side where group in-force premium rose over 20 percent in 2010. Canadian group in force also experienced a similar increase in premium.

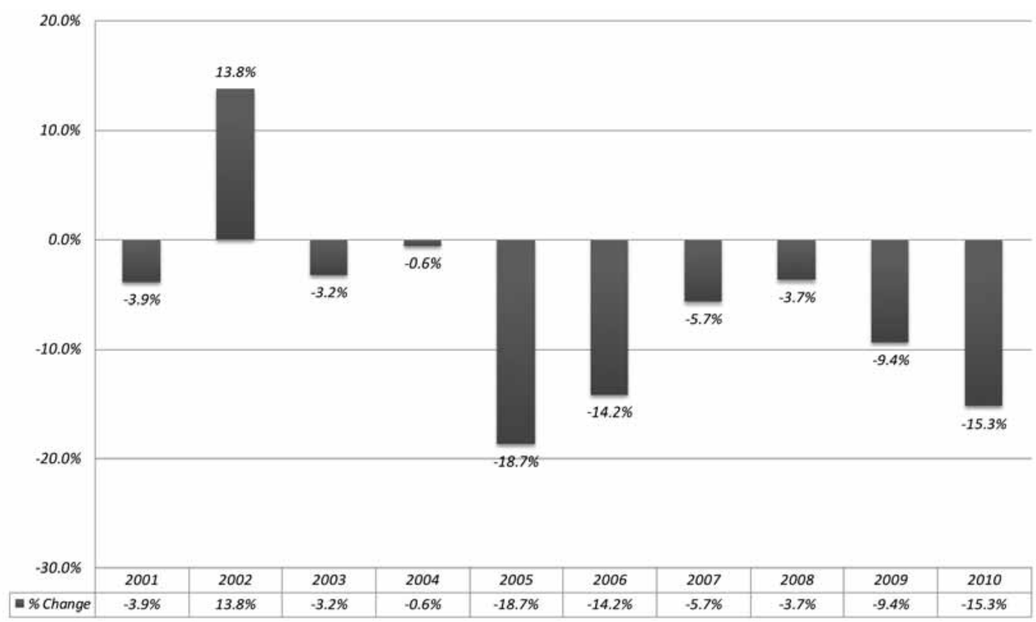
Individual life reinsurance production results for 2009 and 2010 are shown below:

Life Reinsurance New Business Production

	U.S.			Canadian		
	2009	2010	Change	2009	2010	Change
Ordinary Life						
Recurring	*$595,876*	*$504,962*	*-15.3%*	*$152,343*	*$153,032*	*0.5%*
Portfolio	*776,710*	*94,236*	*-87.9%*	*437*	*1,437*	*228.8%*
Retrocession	*14,817*	*7,226*	*-51.2%*	*731*	*1,380*	*88.8%*
Total Ordinary	*1,387,403*	*606,424*	*-56.3%*	*153,511*	*155,849*	*1.5%*

U.S. figures are in $US Millions, canadian figures are in $CAN Millions

Annual Percentage Change in U.S. Recurring New Business (2001-2010)



> **"THIS MARKS THE EIGTH STRAIGHT YEAR A DECREASE IN PRODUCTION WAS RECORDED, AND NINE OUT OF THE LAST 10 YEARS."**

U.S. RECURRING: EIGHT STRAIGHT IS NOT SO GREAT

It was another down year for U.S. recurring new business in 2010 as production dropped 15 percent from 2009. This marks the eighth straight year a decrease in production was recorded, and nine out of the last 10 years. It is also the largest decrease experienced since 2005. Needless to say, it's been a rough start of the new millennium. There were sizable drops in recurring production in 2005 and 2006, and the market has been struggling ever since. It is believed most of the drop in 2005–06 can be attributed to repricing efforts of the major reinsurers. The repricing effort prompted the direct writers to look at their own retention levels and many moved from first-dollar quota share to excess retention or increased their retention limit. In either case, the change reduced reinsurance levels. So while the 2005–06 drop could arguably be considered a "market correction" or even a "self-imposed" reduction, there were many factors at play in 2010. It is difficult to pinpoint a particular reason for the decrease but some likely suspects include decreasing sales on the direct side and direct writers raising retention limits. One also has to wonder if reinsurance prices pushed direct writers to retain more or if reserve financing costs prohibited reinsurers from offering competitive term coinsurance quotes. It is very likely each one of these factors played a part in the 2010 results.

The annual percentage change in U.S. recurring new business since 2001 is shown below:

The individual company results show some surprising changes in 2010 (see table below).

RGA reported $133 billion of recurring new business in 2010. This is on par with what it wrote in 2009. Not only did this allow it to retain the top spot in 2010, but because of the production changes of the other top reinsurers, the level of separation between it and the other reinsurers increased greatly. RGA's 2010 new business production was more than $55 billion higher than any other reinsurer. In addition, RGA captured over one-quarter of the entire recurring market share. This is pretty remarkable when you consider most large reinsurance pools include multiple reinsurers and direct writers are probably now, more than ever, aware of concentration risk.

U.S. Ordinary Recurring Reinsurance (U.S. Millions)

	2009		2010		
Company	Assumed Business	Market Share	Assumed Business	Market Share	Change in Production
RGA Re.Company	133,591	22.4%	132,936	26.3%	-0.5%
Generali USA Life Re	70,023	11.8%	77,782	15.4%	11.1%
Transamerica Re	107,834	18.1%	76,039	15.1%	-29.5%
Swiss Re	114,752	19.3%	70,599	14.0%	-38.5%
Munich Re (US)	80,564	13.5%	59,157	11.7%	-26.6%
Hannover Life Re	19,361	3.2%	24,971	4.9%	29.0%
Canada Life	19,191	3.2%	19,698	3.9%	2.6%
SCOR Global Life (US)	17,503	2.9%	16,535	3.3%	-5.5%
General Re Life	10,088	1.7%	10,041	2.0%	-0.5%
Ace Tempest	10,265	1.7%	6,478	1.3%	-36.9%
Wilton Re	7,168	1.2%	5,264	1.0%	-26.6%
Optimum Re (US)	4,855	0.8%	5,034	1.0%	3.7%
RGA Re (Canada)	400	0.1%	428	0.1%	7.0%
Employers Re. Corp.	281	0.0%	0	0.0%	-100.0%
TOTAL	595,876	100%	504,962	100%	-15.3%

Most of the other top writers did not fare quite as well in 2010. In 2009, RGA, Swiss and Transamerica were closely aligned as the top three recurring writers, with each company reporting over $100 billion in recurring new business. Munich Re held the fourth position, followed by Generali. But look what happened in 2010. Swiss's production dropped almost 40 percent; Transamerica's production dropped almost 30 percent; and Munich Re's production fell over 25 percent. Generali's 11 percent increase allowed it to capture the number-two spot in 2010, up from the fifth spot in 2009. Generali was the only top-five reinsurer to record an increase in production in 2010. Even though the top-five players remained the same, there was some shake-up in the positioning with Generali moving up to the

CONTINUED ON PAGE 8

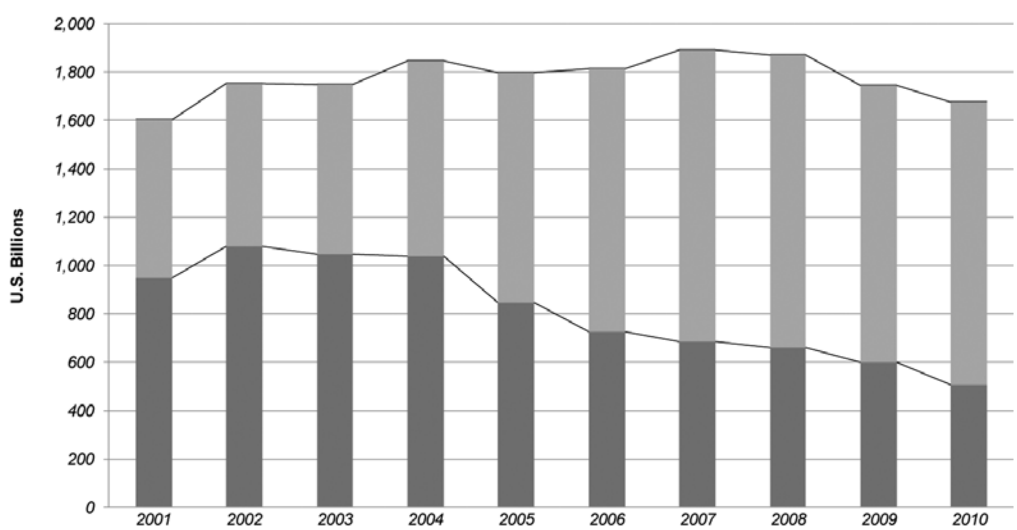
number-two spot. Another concerning statistic is the level of the drop in production from the top-five reinsurers. Collectively, the top five wrote $90 billion less in 2010 compared to 2009. Not coincidently, this just happens to also be the amount of total recurring market decrease. With that being said, the top-five reinsurers continue to make up the large majority of the market share. In 2010, the top-five reinsurers captured 82 percent of the recurring new business market, just slightly down from 85 percent in 2009.

One trend also continuing in 2010 was the large production gap between the number-five reinsurer and the number-six reinsurer. There is a $34 billion gap between these two spots (Munich Re at $59 billion and Hannover at $25 billion), which leads us to the next set of reinsurers: Hannover, Canada Life, SCOR and General Re. These four companies captured positions six through nine in recurring new business. Collectively the group recorded an 8 percent increase in production for a total market share of 14 percent. The largest increase was reported by Hannover, who reported an increase of over $5 billion in 2010, a 29 percent increase from 2009. The other three companies in this group had recurring writings that were fairly stable compared to 2009. Canada Life had a small increase of 2.6 percent; SCOR had a 5.5 percent decrease; and General Re's business fell less than 1 percent.

To round out the list, Ace Tempest and Wilton both recorded double-digit decreases, while Optimum reported a small increase in production. Each of these companies has a market share around 1 percent.

We can expect more change in 2011 as SCOR recently announced it has acquired Transamerica Re for $1.4 billion. How this will impact the recurring market has yet to be seen, but it will be watched closely since Transamerica Re was the top coinsurance writer during the last two years. Speaking of coinsurance, the level of coinsurance new business, as a percent of the overall recurring market, fell from 37 percent to 34 percent in 2010. However, based on in force, the percentage of coinsurance remains relatively high at 52 percent. This illustrates just how much coinsurance business was written in the early-to-mid 2000s and confirms the drop in coinsurance production has been a key contributor to the overall drop in recurring new business.

U.S. Ordinary Individual Life Insurance Sales



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
% Reinsured	59.2%	61.5%	59.7%	56.2%	47.0%	39.9%	36.1%	35.2%	34.2%	30.2%
Amt Retained	653	675	705	809	952	1,089	1,207	1,212	1,148	1,170
Amt Reinsured	947	1,078	1,043	1,037	844	724	683	658	596	505

COMPARISON WITH DIRECT MARKET: U.S. CESSION RATE FALLS TO 30 PERCENT

Estimates from LIMRA show direct life sales in the United States were down in 2010. LIMRA estimates U.S. life insurance sales dropped 4 percent in 2010. (Note: this is by amount; based on premium, sales actually increased 4 percent.) Much of the drop in sales was linked to term sales, which fell 12 percent. UL sales actually experienced an increase of 29 percent. The uptick in UL sales is thought to be attributed to a couple of items. First, the improving economy made UL products more attractive. Second, the increase in TermUL sales helped boost overall UL sales. The combination of direct sales down 4 percent and recurring down 15 percent equates to a cession rate right at 30 percent. This is the lowest the cession rate has been in 15 years.

The graph below shows the U.S. cession rate from 2001 to 2010. The darker bar represents the amount reinsured, the lighter bar is the amount retained, and together they represent total U.S. individual life sales. A drop in the cession rate has occurred every year since 2002. In 2002, the cession rate was at its highest point ever, just over 60 percent. The decline has been more rapid since 2004 when the cession rate was 56 percent. One item to point out is just how much the reinsured *amount* has dropped over the last few years. Yes, the cession rate dropped to 30 percent, but look at the amount reinsured in 2004 compared to 2010. In 2004, $1.04 trillion of recurring was reinsured compared to $505 billion in 2010. This means the amount of U.S. recurring life reinsurance has been cut in half in just six years' time. That is a reduction of over one-half trillion in recurring volume since 2004. While the reinsured amount has dropped 51 percent since 2004, direct life sales have dropped only 9 percent during the same period. Most of the direct sales decrease has occurred in the last two years and is likely related to the economy.

CANADA RECURRING: STEADY AS SHE GOES

Recurring business in Canada remained stable in 2010. Canadian reinsurers reported $153 billion of recurring new business in 2010. This was an increase of less than 1 percent compared to the 2009 figure.

Estimates from LIMRA show Canadian direct sales actually rose about 8 percent in 2010, which would seem to be positive news given the state of the economy in 2010.

Canadian reinsurers enjoy a much higher cession rate compared to the United States. Where the United States is currently experiencing a cession rate of 30 percent, the Canadian rate is over twice that level—approaching 70 percent in recent years. But comparing Canadian recurring figures to LIMRA's direct sales estimate, it appears the Canadian cession rate slipped around 5 percent in 2010. I estimate the 2010 Canadian cession rate to be in the mid-60 percent range. Unlike the United States, which still reinsures a large portion of life insur-

Company	2009 Assumed Business	2009 Market Share	2010 Assumed Business	2010 Market Share	Change in Production
RGA Re (Canada)	*50,441*	*33.1%*	*52,623*	*34.4%*	*4.3%*
Munich Re (Canada)	*49,303*	*32.4%*	*48,324*	*31.6%*	*-2.0%*
Swiss Re	*44,190*	*29.0%*	*35,208*	*23.0%*	*-20.3%*
SCOR Global Life (Canada)	*4,061*	*2.7%*	*7,773*	*5.1%*	*91.4%*
Optimum Re (Canada)	*4,007*	*2.6%*	*4,903*	*3.2%*	*22.4%*
Aurigen	*341*	*0.2%*	*4,201*	*2.7%*	*1132.0%*
TOTALS	**152,343**	**100%**	**153,032**	**100.0%**	**0.5%**

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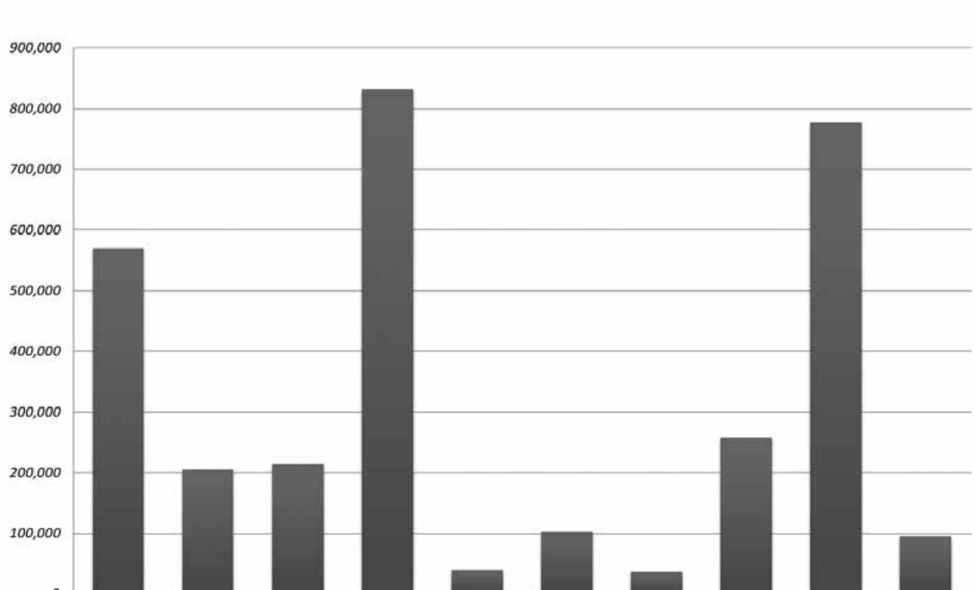
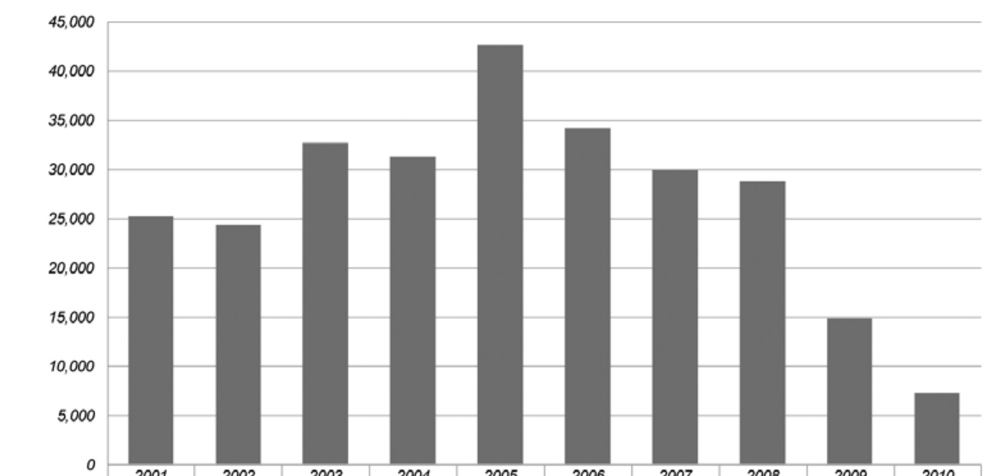
U.S Portfolio ($ Millions)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Portfolio	569,358	204,242	213,656	831,703	38,747	101,926	35,058	256,786	776,710	94,236

U.S. Retrocession ($ Millions)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Retrocession	25,141	24,318	32,614	31,249	42,625	34,159	29,879	28,812	14,817	7,226

ance on a coinsurance basis, there was very little coinsurance reported in Canada. Virtually all of the Canadian new business was written on a yearly renewable term (YRT) basis—97 percent was YRT and only 3 percent was coinsured. Based on in force, the coinsurance percentage is slightly higher—approximately 10 percent of the total.

There were no changes to the positions of the players from 2009 to 2010. The top three Canadian writers are still RGA, Munich and Swiss, and these three still dominate the Canadian market. In total, these three companies represent 89 percent of the total reported recurring. RGA was the leader with $53 billion, followed by Munich Re at $48 billion and Swiss Re at $35 billion. There is still a significant drop-off in production from the number-three writer to the number-four writer. Swiss Re wrote $35 billion to SCOR's $8 billion. However, if not for the "Other Three" reinsurers—SCOR, Optimum and Aurigen—the Canadian market would have reported a decrease in 2010. In fact, the collective market share of the "Other Three" doubled in 2010, going from 5.5 percent in 2009 to 11 percent in 2010. Could it be the "Big Three," who held such a dominant role in the Canadian market for many years, are losing a bit of market share to the other players? It's much too early to tell, but perhaps next year's results will provide a better indication if this is a trend in the Canadian market.

Totals for Canadian recurring ordinary reinsurance assumed in 2009 and 2010 are as follows:

PORTFOLIO AND RETROCESSION: UNITED STATES DOWN, CANADA UP

Compared to 2009, U.S. portfolio activity was relatively slow in 2010. Granted, 2009 was a big year for portfolio as we saw some very large acquisitions finalized. Most notably, the ING Individual Life reinsurance block acquired by Hannover in 2009 was over $500 billion. In 2010, Canada Life reported the largest amount of portfolio business, $72 billion. This accounted for over 75 percent of the total 2010 portfolio

"RETRO LEVELS HAVE REACHED HISTORIC LOWS NOT SEEN IN OVER 25 YEARS."

amount of $94 billion. As shown in the graph below, it is not unusual for portfolio to exhibit large swings from year to year, especially if there is acquisition activity within the reinsurance market. This was the case in 2001 when Swiss Re acquired Lincoln Re, and again in 2004 when Scottish Re acquired ING Re. Thus the same ING block is responsible for two of the largest spikes in portfolio amounts (2004 and 2009).

In 2011, Hannover Re acquired a specific block of the Scottish Re life reinsurance block. Hannover's acquisition, along with SCOR's acquisition of Transamerica Re, should have portfolio production reaching record-breaking heights in 2011.

U.S. retrocession levels have steadily declined since 2005. This decreasing trend is consistent with the trend seen for direct reinsurance, but retrocession levels have fallen much faster. To illustrate, in 2005, the retro market reported $43 billion of production; in 2010, the number was $7 billion. This is an 83 percent decrease. To put in perspective, the total 2010 retro market amount of $7.2 billion is less than the amount reported by the *ninth* leading recurring writer. Retro levels have reached historic lows not seen in over 25 years. As direct writers and reinsurers continue to retain more of their business, one has to wonder how long this slide can continue before it impacts the number of players in the market. We already saw one of the larger retrocessionaires, Sun Life, acquired in 2010 by Berkshire Hathaway.

Canadian portfolio new business increased over 200 percent in 2010, and Canadian retrocession rose almost 90 percent. This is wonderful news, but it does need to be put in perspective relative to total Canadian new business. As a percentage of total Canadian new business production, portfolio and retrocession only make up around 2 percent of the total amount reported in 2010. Recurring accounted for 98 percent of Canadian ordinary life reinsurance. To illustrate further, portfolio and retrocession reported about $1.4 billion each in 2010 compared to recurring's $153 billion. So, while this is good news for portfolio and retrocession, the impact on the total market is minimal.

GROUP: PREMIUMS RISE

There was a change in the reporting basis for group life data in the 2010 survey. All group numbers are now based on premium instead of amount at risk. Since true group new business is sometimes difficult to determine accurately, we will focus on group in-force figures. Below are the total group in-force results for the United States.

U.S. Group Premium (000)

Type	2009	2010	2010 Share	Change
Traditional	*284,280*	*419,263*	*22.2%*	*47.5%*
Portfolio	*1,192,847*	*1,406,467*	*74.3%*	*17.9%*
Retrocession	*69,778*	*66,929*	*3.5%*	*-4.1%*
Total	**1,546,905**	**1,892,659**	**100.0%**	**22.4%**

(All Amounts in $US)

One item that jumps out is how large the portfolio premium is compared to traditional premium. Group portfolio accounted for almost 75 percent of the in-force premium reported. Canada Life and Hannover Life both reported very sizable portfolio premium numbers. On the traditional side, which made up 22 percent of the total group in-force premium, Swiss Re accounted for over 50 percent of the total traditional in-force premium reported. Rounding out the top-five group reinsurers were Munich Re, RGA, Group Reinsurance Plus and General Re. Overall, U.S. group in-force premium rose 22 percent in 2010.

Canada recorded a similar overall increase in group in-force premium as experienced in the United States. A 25 percent increase was reported in 2010, mainly fueled by Munich Re Canada's increase. Munich, SCOR and Swiss Re were the top group premium writers in 2010. In contrast to the United States, which had a significant level of portfolio premium, virtually all of the premium reported in Canada was traditional business. As seen in the table below, there was no portfolio business reported and just a very small amount of retro premium.

Canadian Group Premium (000)

Type	2009	2010	2010 Share	Change
Traditional	*568,161*	*709,039*	*100.0%*	*24.8%*
Portfolio	*0*	*0*	*0.0%*	*0.0%*
Retrocession	*287*	*331*	*0.0%*	*15.3%*
Total	**568,448**	**709,370**	**100.0%**	**24.8%**

(All Amounts in $CAN)

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The **Haimish Period**

By Rick Flaspöhler

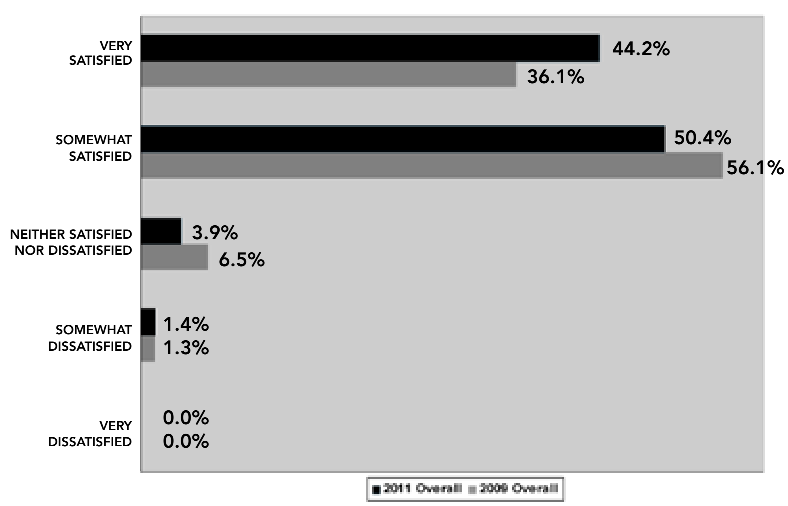
They're not yet joining hands and singing kumbaya, but actuaries and reinsurers seem to have recently fashioned unique and useful new bonds.

David Brooks, the brilliant columnist for the *New York Times*, recently published a story about an assignment that gave him the opportunity to enjoy a safari with his family. While visiting Kenya and Tanzania, Brooks describes notable differences between the "simple" camps and the "luxurious" camps; the former typically lacking electricity or running water and the latter offering regular showers and even pools.

According to Brooks, what the simple camps had and the luxurious camps lacked was "*haimish*." He described haimish as, "… a Yiddish word that suggests warmth, domesticity and unpretentious conviviality," and proposes a link between a lack of amenities and closer social bonds.

While reading this editorial I couldn't stop thinking about the environment for direct writers and reinsurers today. Long gone are the days of attractive investment opportunities, a favorable regulatory environment, and easy-on-the-relationship underwriting standards and audits.

Q2- Would you rate your overall level of satisfaction with the life reinsurers you use as …?



While today's "simple camp" environment continues to present direct writers and reinsurers with difficult problems, one very positive outcome is that direct writers and reinsurers appear to enjoy more haimish relationships as they've come together to figure out the best way to move forward, and to survive.

CEDANT SATISFACTION WITH REINSURERS CONTINUES TO IMPROVE

For the fourth time in a row in our biennial survey, cedant satisfaction with reinsurers improved during the two-year period between surveys. Over 44 percent of all cedants indicated they were "Very Satisfied" with the reinsurers they use in the latest measurement, and another 50 percent indicated they were "Somewhat Satisfied." Only 1.4 percent of all cedants indicted any level of current dissatisfaction with reinsurers.

In every life reinsurance survey we've conducted since 1991, actuaries have proven harder to please than underwriters and 2010 was no exception. While 66 percent of underwriters indicated they were "Very Satisfied," only 33 percent of actuaries answered that they were "Very Satisfied" with reinsurers used.

SIX TIMES AS MANY CEDANTS SEE RELATIONSHIPS IMPROVING VERSUS DECLINING

Another positive sign for cedants and reinsurers is the proportion of cedants who report relationships with reinsurers are improving versus the proportion reporting a decline. The 2011 results show that 36 percent of all cedants (and 33 percent of actuaries) report that reinsurer relationships are improving, while only 6.2 percent of all cedants (and 7.9 percent of actuaries) report declining relationships.

The following are typical of the responses given by actuaries when asked to describe the specific way(s) in which relationships are improving:

- "While not true of all of our reinsurers, I am finding that most of our reinsurance partners are being more creative at coming up with solutions to issues, whether it is at the case level or at the treaty level."

"… EIGHT OF THE 13 REINSURERS IN THIS STUDY HAVE MORE CLIENTS RECOMMENDING THAT FRIENDS AVOID THAT REINSURER THAN RECOMMENDING FRIENDS CONSIDER THAT REINSURER."

- "The partnerships have deepened as the reinsurers have become more moderate and our underwriting philosophy and implementation have solidified."

- "Starting to realize that we're in a partnership and are becoming more flexible, as well as providing more value-added services."
- "More direct contact with them. Personally getting to know them and being able to call them on the phone to discuss a case directly instead of just getting a decision."

An analysis of key words across all responses reveals that 39 percent of cedants used the word "relationship" or "partnership" when describing the specific ways in which relationships were improving, and 38 percent used the word "communication."

REINSURER QUALITY RATINGS ARE AT AN ALL-TIME HIGH

In each of our biennial surveys we ask cedants to rate those reinsurers with whom they are familiar on a 1-9 scale, with 9 = Very Good and 1 = Very Poor. The chart below shows the *mean* reinsurer quality rating on each factor for each survey going back to 2003.

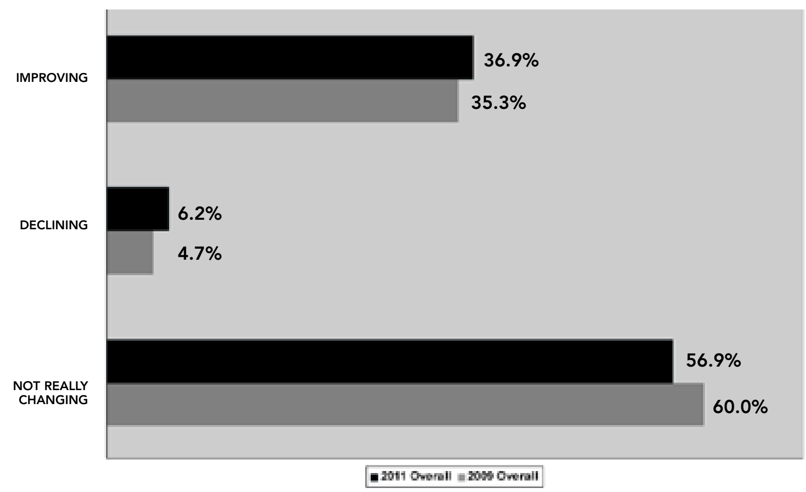
With only a few exceptions the mean reinsurer rating for every factor, in every survey since 2003, was below "6."

Remarkably, in 2011 the mean reinsurer rating rose above "6" on every important reinsurer evaluation factor except one. Note, however, that the mean rating on that one factor, "Effective Training Courses and Seminars," showed a greater absolute increase in value than for any other factor except "Financial Security."

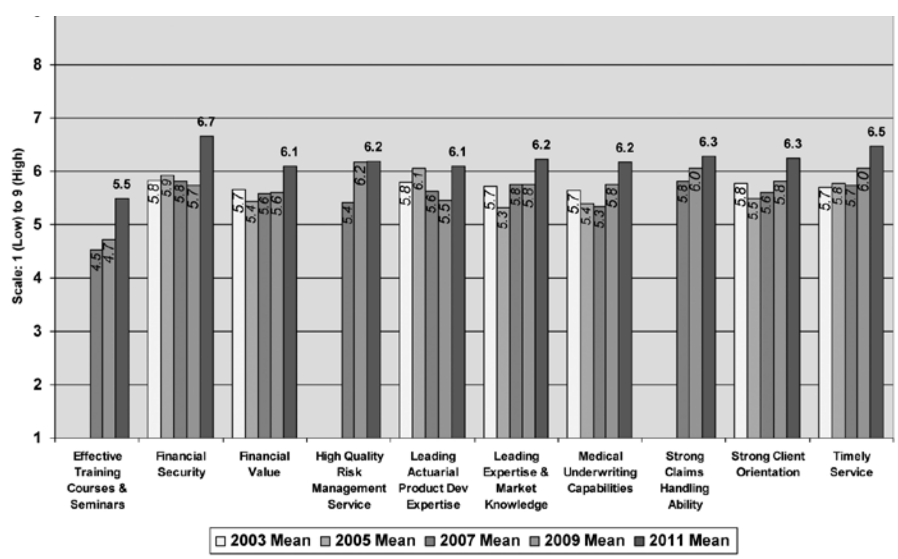
THE FLY, THE FLY; ALWAYS A FLY IN THE OINTMENT

Marketing researchers typically measure gray-matter output, and the stuff we find is rarely (contrary to popular opinion) exceptionally consistent or cogent. When examining the results of a study and viewing the examples of output presented thus far, red flags will appear in the mind of any experienced researcher. So it is with these results.

Q3- Are your relationships with reinsurers, overall, …?



2003-2011 yearly Factor Mean ratings (All Re Together)



In 2003, *The Harvard Business Review* published an article by Fred Reichheld in which he unveiled a powerful and effective measurement of customer satisfaction and loyalty. The surprisingly simple measurement is the result of asking your customers the single question: "On a scale of zero to 10, how likely is it that you would recommend us to your friends or colleagues?"

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It turns out that customers who respond with a "9" or "10" are those who go out of their way to recommend that company to colleagues and friends whenever and wherever they get the opportunity. Those who respond with anything from "0" through "6" go out of their way to recommend that friends and colleagues avoid doing business with that company. Somewhat surprisingly, clients who answer "7" or "8" just don't talk about that company.

The Client Advocate Score™ we calculate for every life reinsurer shows whether each reinsurer is net positive, neutral or net negative with regard to being recommended by customers. The higher the score, the greater the proportion of "9" and "10" responses relative to "0" through "6" responses and the higher a reinsurer's Client Advocate Score. In a typical reinsurance survey (we complete nine different reinsurer surveys across Europe, Asia, Latin America and the United States) the mean reinsurer Client Advocate Score is 0.

Given the exceptionally positive feedback about cedant-reinsurer relationships in the 2011 U.S. survey, one might assume that Client Advocate Scores in the 2011 study would also be very high.

They are not.

Only four of the 13 reinsurers, for whom a score was calculated from data collected in the 2011 survey, earned a score above "0." The high score earned by any reinsurer was 45.6.

However, eight reinsurers received net negative scores, and one reinsurer received a score of 0. In other words, eight of the 13 reinsurers in this study have more clients recommending that friends avoid that reinsurer than recommending friends consider that reinsurer.

"SOMETHING THERE IS THAT DOESN'T LOVE A WALL …"

While the direct writing environment has changed significantly over the past 15 years, cedant-reinsurer relationships are still evolving toward the state necessary to meet today's challenges. Much progress has been made, but let's not forget that almost 70 percent of direct writers indicated they were "Very Satisfied" with reinsurers in the late 1990s, and there is still a lot of work to be done.

A quick review of data from our studies in the late 1990s also reveals a significant level of cedant dissatisfaction back then with what was perceived as "impersonal relationships," "inexperienced reps" and "irresponsible underwriting."

As Robert Frost so elegantly pointed out in his poem, "Mending Wall," there is always something trying to bring down a wall. And it's just possible that the wall that went up between direct writers and reinsurers early in the new century is being brought down by something as simple, and gratifying, as "haimish."

Disclaimer:
The FLASPÖHLER|RESEARCH GROUP 2011 Life Reinsurance Effectiveness Survey NA was initiated in 1993 as a biennial study of Life direct writers' opinions of reinsurance and reinsurers. The 2011 report is based upon interviews with 484 respondents. Over 190 companies are represented. Each survey respondent was named by one or more of the study's reinsurer co-sponsors as being an important decision-maker for evaluating and selecting reinsurance.

All interviews were conducted with individuals after they first received an email from FLASPÖHLER|RESEARCH GROUP requesting their participation. Interviews were conducted over the Web. Each Web respondent was given a unique access code which allowed him/her to gain access to the survey questionnaire.

All contacts were offered the 2011 Life Reinsurance Executive Summary of Findings as an inducement to participate in the study. In preparing the survey instrument, FLASPÖHLER|RESEARCH GROUP worked with the study sponsors to ensure that key areas were addressed. All interviews were completed in October–November 2010. The average interview length was 33 minutes.

The survey instrument consisted of about 40 questions about reinsurer utilization, perceptions of reinsurers and related topics. Thirteen (13) reinsurers were evaluated.

Some of the characteristics of the intelligent, Web-based interviewing system include:

Random Order Questioning—The web survey utilized sophisticated technology to ensure that the multi-part questions were presented in a truly random order to filter out any artificial bias that might exist if those questions were presented in exactly the same sequence every time.

Knowledgeable Responses—The surveys were conducted using a technique called "adaptive interviewing." In other words, respondents are only asked to rate reinsurers with whom they are familiar. By eliminating the "noise" created by asking respondents to rate unfamiliar companies on unimportant factors, this technique provides sponsors with highly accurate and meaningful information.

Social Media **Goes Corporate**

By Simon Woodward

You might have tried Facebook a few times. Maybe you found a couple of old friends from high school. Your kids are always on some social site or another. But you can't see why you would use these things at the office. After all, you work in reinsurance. Well, you may be missing out on considerable business opportunities—and actually exposing yourself to risk. Those who attended the Risk Talk on "Social Media Goes Corporate," held in June 2011 at the Swiss Re Centre for Global Dialogue near Zurich, Switzerland, heard how smart firms are learning to embrace and manage their social presence.

"Companies have to recognize the difference between social media and social business," noted Jon Mell, Social Collaboration leader at IBM. "Social media is no more than a channel. Social business is how to use new technology platforms to become a person-to-person organization." Having a corporate Facebook page is no proof of a social company, maybe just a small step in the right direction.

IBM should know. One of the leading technology distributors in the world, its market representatives have their own page on the corporate Internet. Around 20,000 IBM employees have a Twitter account—even though IBM has no official centralized presence. As an IBM customer, you can personally contact your local sales vendor in seconds; and expect a personalized, tailored response very shortly afterwards.

Maybe a company in IBM's field has to be ahead of the curve. But businesses from all sectors are seeing the advantages of coming into social business. Swiss Re has established its own internal social networking platform called Ourspace. Employees can autonomously share documents, collaborate through discussions and reach out via blog. Externally Swiss Re has also started to be present on sharing and networking platforms such as LinkedIn and Twitter, and users of Swiss Re's Internet site can also make direct contact with the market responsible from the relevant areas. "The financial crisis of 2008 led to a reassessing of organization and priorities within Swiss Re," said Christoph Isenschmid, head of eCommunication Channels at Swiss Re. "We also had to approach the way we communicate and

engage afresh. That included reappraising our communication and collaboration platform strategy as well as providing the necessary encouragement and guidance to employees."

STARTING SMALL

Traditional communications have been black box, broadcast top-down to the masses. Social businesses are a complex web of bottom-up and top-down messages, issued from a variety of named individuals, interactively. This is a big shift for many businesses, in terms of processes, IT systems and, not least, culture.

Both Swiss Re and IBM initiated their social business culture internally, developing platforms encouraging cooperation and collaboration between employees. IBM even went as far as having its employees draft its user guidelines for social platforms and only then asking the lawyers to sign off on them. The key underlying metric was to follow existing corporate guidelines in the virtual world. If you wouldn't write it in an email, don't write it online.

Establishing an online internal social platform experience helps align employees to external platforms. These platforms can either be exclusive and protected—for

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example, Swiss Re created RiskConnect to interact with external risk experts—or companies can utilize existing platforms, such as Facebook or Twitter. This should be on the same open, honest and credible way in which internal interactions are undertaken. Companies should resist the temptation to manage, top-down, their social media presence. Such an attempt undermines authenticity and will arouse suspicion.

MANAGING THE RISKS

"For lawyers, social media is an abyss," stated Ivan Mijatovic, senior intellectual property counsel for Swiss Re. "It is an uncontrolled space where anyone can say anything. But here's the thing: You're on there whether you like it or not."

The Internet age has also brought a boom in activity for intellectual property lawyers. Rip-off merchants do not even have to be particularly sophisticated to produce a faked mirror company site. This activity ranges from brand infringement to outright criminal fraud. Such sites take a lot of monitoring—but can be shut down once discovered.

Say, however, that an individual has a bad experience chasing an insurance claim. It could feature something very emotive, maybe a sick child. The individual writes about the experience on Twitter, explicitly criticizing the insurer. A news agency picks up on the story, and it quickly goes viral. Others join in with their criticism of the insurer, citing similar experiences. A Facebook campaign is launched. Newspapers send reporters to get the full story. Some customers cancel their policies. The whole thing happens within days, maybe even hours.

Lawyers are of little use here. Panicky denials, drafted news-release style, let alone legal action, are only likely to inflame the situation. The insurer is better served by a three-pronged approach. It needs to know what is going on and monitor its social media presence to respond as quickly as possible. It must have employees adept with Twitter or similar social media sites. But the company should also be able to accept and quickly respond to criticism—not merely shutting it down. The decision maker in the particular case should be ready to address individuals directly on a person-to-person basis. Social media savvy and etiquette is vital. Lastly, companies should have contingency plans for the worst. They need to think and plan for difficult social media situations that can escalate in an uncontrolled way very quickly.

The potential risk to reputation in an online world can be considerable. However, the potential damage of ignoring the online sphere and not engaging as a social business can be even greater. ■

Penetrating the Elusive Middle Market for **Life Insurance**

By H. Michael Shumrak

Michael Shumrak, FSA, FCA, MAAA, is president of Shumrak & Company Consulting Actuaries & Reinsurance Intermediaries, in Amelia Island, Fla. Michael can be reached at MichaelShumrak@gmail.com.

THE HUGE OPPORTUNITY

As our industry continues to struggle to find new markets for growth, one of the obvious opportunities is the fact that a large percentage of the middle market either has no or too little life insurance. Let's define this market as heads of households and their spouses aged 20 to 65 with annual incomes between $25,000 and $75,000. Conservatively assuming there are only 50 million people in the United States today in these age/income ranges, and on average their life insurance protection shortfall is $100,000 (within a range of $50,000 to perhaps $500,000) that would cost them $250 per year, this represents a market size of $5 trillion face amount and $15 billion in recurring annualized premium. If a life insurer were able to achieve a 1 percent penetration, that would add $5 billion of face amount and $150 million of annualized premium to its life insurance portfolio. Since this opportunity and its potential size are no secret, why have we not seen any significant success?

THE DAUNTING CHALLENGES

Three key factors come to mind that explain the "why not":

1. *"Everyone" focusing on the big sales.* Most of our industry's life insurance sales focus is driven by traditional life insurance agents who, naturally, have increasingly focused on maximizing their income by focusing on selling larger policies to the healthiest people—a saturated, low-margin market for insurers.

2. *High distribution costs.* For those agents just starting out and/or focusing on this market, the distribution costs for life insurers must be set at the highest first-year commission levels such as 100 percent or more in order for the agents to attempt to make a living by selling greater volumes of these smaller policies.

3. *Higher underwriting and mortality costs.* If one were to spend $500 for a medical underwriting process, this represents only 5 percent of first-year premium for a "larger" policy whose annual premium is $1,000. However, it represents 200 percent if the annual premium is only $250, which renders this approach unfeasible since total first-year acquisition costs would be 300 percent of first-year premiums. If a typical simplified underwriting process is applied, the underwriting cost might be reduced to $125, but that is still 50 percent of premium resulting in 150 percent of first-year premium total acquisition costs. In addition to these high relative-to-premium cost levels, the expected mortality would be materially higher due to the simplified underwriting.

Even though price per unit is less of an issue compared to the high policy size markets, this combination of high total acquisition costs and higher mortality would add pressure in the effort to balance "affordable" premium levels versus reasonable profits.

ONCE UPON A TIME THE INDUSTRY MADE IT WORK

Ironically, those of us who have been around many years—or have had the occasion to review the industry's history, or work on evaluating the profitability of closed blocks in demutualizations—realize that many of the largest, long-standing life insurance companies built their businesses through successful focus on the middle market through their debit distribution channels. Debit agents walked their neighborhoods and sat at the kitchen tables of their prospects selling them small amounts of life insurance and then returning each week to collect the premium and upgrade their clients' life insurance coverage. Since they generally "walked" their debit territory, the time and cost to cover their territory were minimal. Both the sales volumes and the profit margins were high, but over time the economics for the sales agents eroded so this approach went the way of the buggy whip.

As these debit operations closed down, the industry's focus on the associated market segment waned. Over recent decades, the industry has attempted to refocus on this segment, with mixed success, through more efficient distribution methods. Four of these are controlled distribution via lead generation, worksite marketing, direct response and more recently the Internet.

For a new approach to the middle market to generate high volumes and strong profit margins, it must have the following three attributes:

1. *Scalability.* Provide the insurer with sufficient control over the sales process so as to generate large volumes of sales per period of time.

2. *Reasonable distribution costs.* Contain total policy acquisition costs expressed in terms of percentage of first-year premium at a level no greater than that for traditional distribution of larger policies.

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3. *Underwriting process with reasonable mortality costs.* The expected underwriting process applied must balance acceptance rates with a reasonable level of expected mortality. If overly loose, sales volumes and distribution costs may improve but expected mortality will be extremely high. If overly restrictive and long-winded underwriting processes are used, while expected mortality costs will be low, the number of sales and the cost of sales will be too high. In either case, the resultant product pricing precludes the ability to offer this market a reasonably priced product they can afford with meaningful benefits

Lead-generator independent marketing organizations (IMOs) aim to develop controlled distribution in terms of productivity and lower agent commission costs by taking on the job of acquiring and/or developing qualified leads for their agents and then carefully monitoring how the agents follow through on these leads. Since the IMO's agents are freed from prospecting, they can focus their efforts and their financial resources on closing. Since this positions these agents to materially increase the number of sales calls and sales closed, they are willing to accept lower commission rates from their IMO lead providers than agents who must prospect, sell and close all on their own. One might think this means these agents are spending 100 percent of their time closing sales. However, since the agents must travel to each prospect to meet with them in person, their effective time in front of prospects working on closing might be 80 percent or less.

The travel time and cost is much more significant in this middle market for life insurance than other markets because the agent can only visit so many prospects in a day, and even if his/her close rate is high, the sales commission on small face amounts of life insurance severely limits their income potential. For example, if they are able to visit four prospects per day closing 15 percent of them where the commission rate is 100 percent of first-year premium and the average premium is $250 per policy, their expected weekly income is only $750 or $37,500 per year less the cost of transportation to make these 20 sales calls per week.

Worksite marketing effectively executed has demonstrated meaningful success. Through its "enroll many people in short period of time at one location," it offers sales productivity for the sales force but does not particularly lower the insurer's distribution costs if the same retail commission structure is paid as for other business. In the absence of a straight-through/instant-issue underwriting process, getting back to the applicant is more streamlined than one-off sales at people's homes.

Direct response has produced less than stellar results overall in penetrating the middle market for life insurance. The exceptions would be very specialized programs such as guaranteed issue life sold to seniors to provide burial insurance and coverage endorsed by life insurer company marketing partners where customer affinity (i.e., response and conversion to paid policies) is very strong. Product offers focused on younger age groups offering higher amounts have encountered (a) high anti-selection due to low response; (b) low sales volumes; and/or (c) high sales costs when insurers rent access to higher responding prospects from entities such as banks and other groups where there is strong affinity with the group.

Internet-driven sales had been assumed to be the solution to reducing the cost of getting in front of many prospects quickly inherent in the above methods. However, to date, these favorable distribution economics have failed to materialize. The first problem is that life insurers have found they must spend considerable marketing dollars driving traffic to their sites. The second problem is getting those who do visit to follow through and apply for the insurance. The result has been too few sales whose cost per sale is as high as or higher than the equivalent traditional agent commissions. The experience to date tells us Internet sales to the middle market fail to provide either of the two required attributes named above.

The overall results from these approaches to the middle market for life insurance have been less than encouraging, resulting in a market that looks very attractive but seems unobtainable on an economic basis.

NEW HELP ON THE UNDERWRITING SIDE

Common to all of these approaches (and the market for larger policies) is the negative impact of not being able to instantly issue the policy. At a minimum it loses sales opportunities at the front end of the sales process. At a maximum, it raises the paid business acquisition

"... RATHER THAN CONTINUE TO WAIT FOR THE DIRECT WRITERS TO DEVELOP THIS MARKET, PERHAPS THE REINSURERS SHOULD DO IT."

costs through lower paid rates as applicants decide to not complete the underwriting process and/or get tired waiting for it. The recent and evolving developments in the field of automated underwriting seem to provide a remedy for this.

The technology now exists to support a process where, either in person or on the Internet, interested applicants can apply for life insurance by answering a reasonably short list of questions and know within a short period of time (as quick as within 15 minutes or so) if they will be able to complete their purchase. Of course, the old simplified issue process did this, but based upon total reliance on the applicants' responses to a small number of questions, exposing life insurers to higher-than-expected mortality and/or higher-than-expected legal disputes as to applicant misrepresentation or both. The new technology replaces the old written application with e-application and then dramatically reduces this problem by instantly linking to external databases such as the Medical Information Bureau (MIB), the state motor vehicle department, prescription medication databases and others in order to validate the applicant's responses to the point-of-sale questions.

The challenges are (1) the time and cost to develop these capabilities and (2) the lack of credible industry mortality data upon which to base product pricing mortality expectations. To date, while a few life insurers have developed their own systems, most of the progress in developing these capabilities has been achieved by the reinsurers. The reinsurers, like their direct writer customers, have also had their eye on this middle-market segment. Rather than continue to wait for the direct writers to develop the necessary breakthroughs in reducing the poor economics of traditional simplified underwriting processes, they have decided to lead the process. Their reasoning is that if they could offer these automated underwriting capabilities to their clients interested in penetrating this market and overcome their clients' fears about the uncertainty of the mortality inherent in this new approach through reinsurance, perhaps more of their clients might focus their efforts to find productive ways to sell in this market.

These automated application and underwriting capabilities, often referred to as straight-through processing (STP), offer a solution of the "relatively high issue costs" and higher mortality costs barrier to success in the middle market for life insurance.

STP is the solution to the reasonable balance between underwriting process and resultant mortality expectations but leaves us with the other two challenges and a new one: (1) scalable sales volumes; (2) reasonable distribution costs; and (3) uncertainty as to the mortality levels resulting from STP.

CAN/WILL THE REINSURERS STEP IN?

Recently the CEO of one of the large, global life reinsurers speculated in his investor day presentation that rather than continue to wait for the direct writers to develop this market, perhaps the reinsurers should do it. This reinsurer (and others) already has the STP capabilities and a conviction as to the mortality levels associated with STP. They could establish direct writers and go after the market. This executive reasoned his direct writing customers would not be taken aback if the reinsurers were penetrating a market they had largely given up on.

The challenge for the reinsurers is that they have no distribution so they would have to develop it. This either leads them back to their life insurance clients or other sources of customers such as banks and other entities controlling customers. While bancassurance in Europe might have demonstrated one way this may work, the success of this approach and/or others discussed above has not fared well in the U.S. market. The distribution challenges remain. ■

An Actuary, an Underwriter and a **Marketer in a Boat**

By Ross A. Morton

Ross A. Morton is reassurer, advisor and mentor to a variety of people and companies. Ross can be reached at ross@rossmorton.com.

OK—they were not in a boat but rather on a stage in Toronto in front of a couple of hundred underwriters, and those that love to hang around underwriters. It was the one part of a two-day meeting that I really wanted to see and hear, even though the meeting overall conflicted with other travel and client commitments. I thought that it, and lunch, would be worth the day's admission price. I was able to slide into the back of the room just as the session started and tried to stay as conspicuous as possible by remaining standing.

Regardless of the title they put on their presentation, it seemed to me a chance for the three key disciplines in our business to explain why we are in the position we are today. You could say that we are not in great shape, or you could boast that we are in great shape. It is the old "glass is half full or half empty" comparison. I was very curious to see if the three would meekly state their case and slyly point the finger of blame at the other two, or if there would be challenging and perhaps even derogatory innuendo thrown freely. I knew the actuary and the underwriter, so I did expect a feisty session. Surely someone would address the appalling state of customer service in the industry today as advisors, and even customers, scratch their heads in confusion over the new business service experience. Sorry, let me correct that, since the service for the "vanilla" case clear of even a facial blemish does slide through unencumbered by restrictive and confusing underwriting as recounted to me for the past two years by numerous advisors and managing general agents (MGAs).

What one hears or thinks they hear at a meeting and its presentations is as unique as one's bodily appearance. We listen with predetermined biases and in some cases with a conclusion already in mind even though the presenters have yet to utter a word. I am no different and as someone truly unique (interpret that as you wish), I do have strong biases and opinions honed at the table of underwriter, advisor, actuary and customer. Thus what I recount here is filtered through my psyche and then put onto paper. I stand to be corrected or challenged by anyone else who may have filtered the remarks differently.

Starting with the easiest person's remarks to muse over, one has to stretch desperately to find any recordable moments of insight from the marketer. There was one underlying theme to everything he said, I think. It was something along the lines of "lower the price." No, there was no pronouncement or regaling stories of new products or broadening the target market; after all, who wants to bother to sell to young people who only want term for amounts that produce premiums that do not afford enough commission to pay for gas and time?

I sensed no marketer shame in not being able to enunciate a way to sell or, better put, replace existing insurance than with a lower price. He failed to say that without a 35-year history of drastically lowering prices, many marketers could not have survived. Heaven forbid they might have to look for new applicants! We saw the great opportunities produced by lower prices when nonsmoker came along, even though we know 15 percent were smokers who lied; aggressive segmentation called preferred even though we know some 15 to 20 percent were underpriced until underwriters were audited; and then we had the aggressive reinsurance pricing and overlapping lapse-supported pricing. Lapse, oh please, lapse. Price is the bottom line, and for 35 years marketers have made their quota of sales and thus the great bonuses that follow. It's not surprising that I came away feeling the "marketeers" (not to be confused with "Mouseketeers," who generally have a very exceptionally good reputation) in general remain singularly focused and wonder why they reap such rewards.

The wise and overly self-confident actuary had the chance to step forward and cast out any doubt as to why we are in the position we are today. Instead he adumbrated again what the future holds as he has in the past. We have to lower prices to attract sales since everybody does it. Is there not a story about buffalo over a cliff? No, that is wrong since the buffalo were herded over the cliff together. Now lemmings, on the other hand, do migrate blindly following one another; and yes, they may go over the cliff into the sea. Actuaries in the product-pricing world spend countless hours trying to make it look like their pricing is original when really it is merely either their old price less enough pennies to make it be in the top five competitively, or better yet take the number-three price and subtract two pennies to assure a place in the top three. The bulk of the time is spent trying to bulk up their report to make it look like it was all original science!

> **"HEAVEN FORBID BEING THE ONLY COMPANY ASKING FOR A TREADMILL. ..."**

For decades it seems I have read (smuggled copies) or been told the contents, surreptitiously, of a noted reinsurance company's survey of Canadian actuaries. It always amazed me when I heard numbers like 90 percent in reference to the number of respondents who think everyone else's price is far too low, yet who believe that theirs is right. I always viewed the respondents as anonymously telling me that their price is set not on true projections and historical merit, but rather on what the competitor is doing. Once they set a price they send it to the reinsurer who says they can even do better so why not reinsure more? Thus, in Canada, we have some 75 percent of all life risk reinsured at prices I deduce are far from adequate. Lapse, oh let it lapse!

There was also actuarial jargon around large cases where the hint was that the price was inadequate to take into account anti-selection and compensate for the ever-diminishing requirements. Much of our data from past large cases was based on a requirement list that included medicals by guess who? Doctors! Also, we had treadmill ECGs and chest X-rays, and second medicals, and far more comprehensive third-party reports. Do our prices reflect stripped-down paramedicals and simply resting ECGs as sufficient to define the risk?

Lastly—and this was confirmed afterwards by an actuary I respect (yes there are some of those out there and I hold them in high esteem)—there is talk that the larger or megacase is showing a suicide rate unprecedented in the past and worrisome. Is anti-selection amongst the applicants for large policies growing? Many underwriters would think this a fair statement, yet they can do little as "marketeers" have more clout. The time pressure thing takes precedence over going the extra mile to investigate.

The smiling actuary took no blame for lower prices, lower margins and emerging results, but he had a good time at the meeting. I am sure he must have been thinking this was the easiest gig he has ever had. He priced it and any failure to meet long-term mortality and morbidity objectives is the fault of the underwriter who has meekly accepted a price that affords them little time or money to underwrite. But maybe these are the good old days; and time will say the business that lapsed, and the bad that did not, were covered by our lapse-supported product pricing.

Underwriters generally go out of their way to not rock the boat or upset those with more clout in our home offices. At this meeting the senior and well-respected (yes I do respect this leader) underwriting leader failed to tear apart the failings of our industry over the past decade. Instead it was pointed out that it was very much a case of follow the leader when it comes to things like requirements. Heaven forbid being the only company asking for a treadmill. I heard not one mention of true and extensive cost-benefit analysis. Risk and reward was where? I only sensed an accommodation to what reality laid in the palm of the underwriting leader. Minimal requirements budget, increasing underwriting salaries (often for people to read a file that is all "no" and could have been done by machine or a cohort of university students after classes), and pressure to concentrate on the "vanilla" cases letting the medically impaired fall by the wayside (is it true that we now decline 10 to 20 percent compared to 4 percent 20 years ago?).

No push back. No raising the ire of "marketeer" or actuary. Just a statement here and there that things are tough out there but we'll be all right, and I am meeting budget and time/service targets, and there is no reward for innovation or expanding the pool of insurable lives. The leader lives in the present and gets rewarded as she should. When was the last time she was rewarded for finding a way to lower the extra premiums on an impaired group of lives?

An interesting session, and I remain cognizant of the fact that it was worth the price of admission if for no other reason than to have our industry succinctly trivialized by three people in a boat. They were all happy to go where the current takes them. Let's just hope it is below the falls, not above. ■

Five Easy Steps To Get Started **On LinkedIn**

This "how-to guide" was the collaborative effort of J. Eddie Smith, IV, FSA, MAAA and other members of the Technology Section LinkedIn group and is reprinted with permission from the January 2011 issue of CompAct.

In a recent press release, LinkedIn reports that it now has more than 85 million members and adds a new member approximately every second. You can use this guide to set up a free LinkedIn account in five easy steps. Creating an account takes less than a minute of your time, and will give you access to discussion groups and other resources.

STEP 1 - SIGN UP

Go to http://www.linkedin.com. On the right side of the home page, you'll see a blue "Join LinkedIn Today" banner. Enter your name and e-mail address and click the green "Join Now" button.

Next, you'll be asked to enter just a few simple employment details (things like employer, job title, and industry). You can enter your complete employment history (which helps find and link to contacts), but that is not required.

STEP 2 - CONNECT

Once in, LinkedIn will suggest connections in three ways. All of these steps are optional and can be easily skipped:

Using your contacts in Gmail, Yahoo, etc. Be careful to follow the directions with this option, since it is easy to mistakenly send invites to all of your contacts.

Using your employer and job title, LinkedIn will suggest connecting with colleagues that are already on LinkedIn.

You can easily search LinkedIn for people by name using the ever-present search field at the top of all LinkedIn pages.

STEP 3 - JOIN A GROUP

You can browse groups using the "Groups" menu at the top of every LinkedIn page. If you know all or part of the name of a group you'd like to join, the fastest way to join is by searching for the group. The search field at the top of every LinkedIn page will search not only people but LinkedIn groups as well.

For example, start typing "Society of Actuaries ..." and you'll see a drop list populate with matches. A good choice for your first group is the "Society of Actuaries Technology Section" group.

Simply choose the group you're interested in, and click the "Join Group" on the group home page. The group owner will notify you when your access has been granted.

STEP 4 - ENHANCE YOUR PROFILE

You can see and edit your LinkedIn profile at any time by clicking on the Profile menu at the top of any LinkedIn page. Your profile is like a digital resume. You can put as much or as little on it as you like.

STEP 5 - PARTICIPATE (OPTIONAL)

There are several key ways you can interact with others on LinkedIn:

Posting "status updates" and questions on your profile.
Asking and responding to questions within your groups.
Messaging other LinkedIn members (like e-mail).

A NOTE ABOUT PRIVACY

Linkedin is secure and respects privacy. Their privacy policy can be found at http://www.linkedin.com/static?key=privacy_policy. Your information is shared within the group and of course anything you post can be reproduced, therefore we recommend that you treat your posts as you would treat open e-mails. ■

Interview with Emma McWilliam, **Editor of Longevity Risk**

By Emma McWilliam and Richard Jennings

Editor's Note: *Emma McWilliam, FIA, FSA, MAAA, is a consulting actuary with Milliman in London, United Kingdom. McWilliam is the editor of* Longevity Risk *published by Risk Books* (www.riskbooks.com). *Longevity risk is fast emerging as a financial sector in its own right and this new book from Risk Books, provides cutting edge practitioner insight and research around longevity risk in a practical and accessible way. According to the book's publisher, Philip Jackson at Risk Books,* Longevity Risk *has proved to be a very popular title. It is currently in their top five best selling books of 2011. In addition, there has been a lot of interest from the industry around the time of publication with numerous requests for reviews from universities and insurance publications.* Longevity Risk *is available from Risk Books for GBP145.00. Risk Books will give SOA members a 20 percent discount on any orders for* Longevity Risk*—use the code SOA20 on the Risk Books website,* www.riskbooks.com.

REINSURANCE NEWS: HOW DID YOU GET INTO THE INSURANCE/REINSURANCE BUSINESS? TELL US A LITTLE BIT ABOUT YOURSELF.

For getting into the actuarial/insurance/reinsurance world, thanks have to go to my Dad when I was around 15 for taking me to the local greyhound racing stadium—well, to the careers fair being hosted there! From that point, it was not the odds on the dogs that interested me but the prospect of an exciting life filled with mathematics that secured my interest in becoming an actuary. Soon after, I was awarded a university actuarial sponsorship at Swiss Re (formerly Mercantile and General Reinsurance) and the rest is history.

I am now an actuary and consultant at Milliman in London. I always like something big going on in my life and consultancy is a great way to live by this mantra. Over time, I have had the lucky opportunity to travel and work with many interesting and inspiring individuals not only in the United Kingdom but also the United States, Australia, Singapore, Switzerland, Germany, the Netherlands, France, and Belgium. I have also acquired particular expertise in longevity and annuities working on the first bulk annuity transfers in the market, advising on the acquisition of blocks of annuities, setting longevity pricing bases, assisting on the risk management of annuities, and developing longevity bond and swap structures for the transfer of risk to the capital markets. I also enjoy sharing information with others through writing articles and presenting at conferences on a range of topics including longevity risk, Solvency II, and International Financial Reporting Standards.

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REINSURANCE NEWS: WHERE DID THE IDEA OR GENESIS COME FROM TO WRITE THIS BOOK? WHAT INSPIRED YOU?

Living a long life is something we all wish for and it is becoming increasingly likely that we will achieve this. However, this raises challenges on how individuals manage wealth and how society can provide a backstop for those living beyond their means. Managing longevity risk also requires an understanding of the full range of issues from pricing, reserving and capital requirements to risk management and capital market developments. But this information is rarely found in one place.

During my work, I have met a number of exceptional people who are also leading in their fields on longevity risk, from actuaries to investment bankers to lawyers, doctors and professors. Therefore, it struck me that we could help others in the market by bringing together a balanced view of the full gamut of issues in managing longevity risk—from reinsurance to capital markets to law and academia in one book, *Longevity Risk.* Furthermore, it would help to address the wider challenges facing insurance companies, pension schemes and governments of the extraordinary demographic shift occurring, which is due to an aging population.

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REINSURANCE NEWS: HOW LONG DID IT TAKE TO WRITE THE BOOK? GETTING SUBMISSIONS FROM ALL OF THESE AUTHORS MUST HAVE BEEN QUITE THE EXERCISE.

In total, we spent around 15 months on the book from its embryonic stage to completion. All of the authors

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worked exceptionally hard preparing their submissions and ensuring the highest quality of work.

REINSURANCE NEWS: WHAT HAS BEEN THE REACTION TO THE BOOK SINCE ITS RELEASE?

The reaction has been overwhelmingly positive. We aimed for the book to appeal to a wide audience including (re)insurance professionals, finance managers and directors, actuaries, corporate sponsors, investment bankers, and graduate students and academics.

In one of our first reviews, Baroness Sally Greengross, Chief Executive of the International Longevity Centre, who is also an independent Cross Bench Member of the House of Lords in Westminster, concluded that "this valuable book goes a very long way towards fulfilling that important need" of gaining a comprehensive understanding of how to price and manage the longevity risk we all face.

The book has sold to a large number of companies and also libraries internationally. In addition, I am personally pleased that we have raised a significant sum for charity as all editor royalties go straight to the Anaphylaxis (severe allergies) Campaign.

DO YOU HAVE ANY PLANS FOR A FUTURE UPDATE?

In the longer term, the publishers are keen to work on a second edition when there have been more fundamental changes in the market—so watch this space. But for now, we worked very hard to ensure that the shelf life of the book and its content would be relevant for a number of years.

REINSURANCE NEWS: WHAT ARE YOUR PLANS GOING FORWARD?

In addition to being at the forefront of longevity, given the rapidly evolving regulatory landscape in Europe, I will continue to be actively involved in Solvency II implementations. This will no doubt keep me very busy for the foreseeable future working with my colleagues internationally at Milliman. I also hope to live a long and very happy life combining the three things of most importance to me—my work, friends and family! ■

Reinsurance Data Management – **the Good, the Bad, and the Ugly**

By Brian Wilkinson

Having had the opportunity to observe how reinsurers collect and manage seriatim policy and transaction data provided by ceding companies over the last decade, it is easy to see how things have changed. Thankfully this change has largely been for the better, but as in all things, sometimes the more they change, the more they stay the same.

THE GOOD

The good news is that clear and obvious progress has been made in the amount of data that ceding companies provide electronically, as well as in the amount of data actively collected and loaded by reinsurers to business systems. Reinsurers have invested tremendous amounts of resources in implementing robust systems which manage both transaction and in-force policy data.

For most reinsurers, less than 6 percent of their total in-force net amount at risk is now managed manually—a number far more likely to have been greater than 25 percent in the not too distant past. Loading ceding company data is not just a lonely figure sitting in a back room with a data mapping tool either; entire departments of data quality professionals are in place tasked with the work of translating, loading and interpreting data for all downstream business processes including claims, underwriting and valuation. In fact, data quality is becoming one of the fastest growing departments in reinsurance companies.

From a data security and privacy perspective, noticeable strides have been made as well. Reinsurers and ceding companies largely have implemented data security protocols for retention and transmission of client data as part of their compliance framework. Risks are far too great, both financial and reputational, to not adopt data policies which militantly protect policyholder data.

THE BAD

There is no doubt that one of the key drivers for the wide scale adoption of electronic seriatim reporting has been the willingness of the top insurance producers to invest in providing regular, high-quality reporting to reinsurers. While this has had a tremendous overall industry impact, generally speaking, this information is all highly structured data which readily fits into a reinsurer's pre-determined data model. There was a time where capturing this type of data drove efficiencies and helped to differentiate reinsurers, however these systems, processes and data elements are present in every large scale reinsurer today. This is the new normal for managing your reinsurance block.

The ongoing challenge for reinsurers is increasingly becoming how non-structured data, such as the reinsurance treaty, or claims and underwriting papers stored as PDFs, can be captured and more importantly, can be leveraged into their business processes.

It is the integration of both structured and non-structured data into its business process which gives a reinsurer the comprehensive view of the particular business situation to which it is trying to manage. Technologies currently on the market are now able to bring this more comprehensive view of the data to decision makers, potentially creating true differentiators for reinsurers.

THE UGLY

The life reinsurance industry still suffers from tremendous inefficiency. In its failure to adopt a single data standard, the industry still manages too numerous proprietary data standards which are inconsistent in layout and without uniformity in implementation. Significant investment in internal processes and systems has perhaps reduced reinsurers' desire to look outward to industry solutions to assist in solving these inefficiencies. Issues which have plagued reinsurance administration areas for decades have not been remediated—where challenges such as those with reporting joint lives, or policy conversions, or replacements, remain virtually unchanged today.

While large direct writers regularly provide their reinsurers the data necessary to manage their risk, small- to medium-sized producers are often under-managed. These clients are too easily labeled as low risk as reinsured volumes are much smaller than large market players, but they are often managed manually with little to no process rigor or oversight. Of course numerous historical examples exist where these small- to medi-

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um-sized insurance companies can create significant volatility on a reinsurer's income statement, not to mention leaving a reinsurer with unknown retention accumulations on a life.

Outside of North America, reinsurers still face many data management challenges. Ceding company data is significantly less available in some European, Latin American, and Asian markets, and the North American data management model just doesn't seem to fit non-North American business. As a result, many reinsurers fall into the trap of initiating very costly global systems and processes to try to fit the proverbial square peg into the round hole.

WHERE DOES THE INDUSTRY GO FROM HERE?

So how do reinsurers come to grips with making the strategic changes necessary to advance their ability to collect and analyze ceding company data? How does a reinsurance operations manager convince its senior management team that further investment is still required to differentiate themselves after the hundreds of millions of dollars they have invested in large global systems?

Perhaps the first step is to begin looking outward again towards industry solutions. As discussed above, having 95 percent of your in-force managed electronically is the new norm. Simply mapping and loading (and even analyzing!), client data offers little to no strategic advantage, however not so long ago reinsurers did not necessarily believe this to be the case. A common industry standard could most certainly address the chronic data problems which continue to be a nagging concern. Also, imagine an industry standard which small- and medium-sized direct writers could leverage to provide more frequent, predictable data to their reinsurers in a much more cost effective manner. A 100 percent view of a reinsurer's seriatim policy data is attainable.

Lastly, reinsurers should consider a strategic approach to managing non-structured reinsurance data. Countless reporting and compliance opportunities exist if companies can get creative with how data can be extracted and utilized from these sources. Anyone who has attempted to design a reinsurance treaty or administration system understands the often insurmountable challenges presented in designing systems and processes which can be adopted for your entire book of business. ■

CONCLUSION: THE PIE MAY NOT BE GETTING BIGGER

U.S. life reinsurers will have an uphill climb if they want to get back to the reinsurance levels seen just five or six years ago. Industry sources do not expect direct sales to take off in 2011. A recent LIMRA Executive Survey noted: "The majority of U.S. insurance executives are predicting flat 2011 sales for individual and group coverage." If the executives are correct, reinsurers would need to get a larger piece of the same-sized pie in order to increase reinsured amounts. On a positive note, results from the recent Flaspöhler survey show relationships between direct writers and reinsurers are improving. Satisfaction levels have increased recently and many direct writers stated relationships with their reinsurers continue to improve. But don't count on this to translate into more reinsurance in 2011 because, in the very same survey, the majority of direct writers indicated they were not contemplating any significant changes to corporate retention or reinsurance attachment point any time soon. Assuming this holds true, the U.S. cession rate should remain stable in 2011 (hovering around the low 30 percent range). The absolute level of reinsurance will be heavily dependent upon how direct sales go. Also, we'll be keeping an eye on how the SCOR/Transamerica acquisition goes as it could have a big impact on the U.S. market given Transamerica was the largest coinsurance writer in 2010.

DISCLAIMER:

Munich Re prepared the survey on behalf of the Society of Actuaries' Reinsurance Section as a service to section members. The contributing companies provide the numbers in response to the survey. These numbers are not audited, and Munich Re, the Society of Actuaries and the Reinsurance Section take no responsibility for the accuracy of the figures. ■

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