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Reinsurance Section Survey Results

by Bill Wellnitz

Last year the Reinsurance Section conducted a survey of Section members and a sampling of nonmembers to obtain feedback on the level of satisfaction with the information and services provided by the Section and to identify issues that the Section should consider addressing in the future. In all, about 4,000 survey forms were sent out; the response rates were 12% and 19% from Section members and nonmembers, respectively. The response rate from members is consistent with that obtained on surveys conducted by other Sections, while the nonmember response rate is better than expected. Some of the more interesting findings from the survey include:

- A higher percentage of nonmembers responding to the survey are employed in businesses that traditionally have not made much use of reinsurance—pensions, employee benefits, investments, and health insurance.

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Life Reinsurance Data from the Munich American Survey

by James L. Sweeney
and David M. Bruggeman

Editor's Note: *These survey data are prepared by Munich American Reassurance Company at the request of the Society of Actuaries Reinsurance Section as a service to Section members. The numbers are provided by the contributing companies in response to the survey. These numbers are not audited and Munich American, the Society of Actuaries, and the Reinsurance Section take no responsibility for the accuracy of the figures.*



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

- Conventional reinsurance (recurring) [1]
- Reinsurance with an issue date in a year prior to the year in which it was reinsured, or financial reinsurance (portfolio)
- Reinsurance not directly written by the ceding company (retrocession).

Complete survey results are available from the authors upon request. These results can also be obtained at Munich American's web site, www.marclife.com.

Life Reinsurance Production

The largest production increase ever in the history of the survey occurred in 1997 as new business rose 54.9%. This marks the fourth straight year new business production in the reinsurance market experienced a sizable increase. In 1996, new business increased 24.0%, while 1995 and 1994 had increases of 34.8% and 16.2%, respectively. Prior

to 1994, life reinsurance production remained relatively flat. The U.S. market experienced a 56.8% increase with impressive increases in ordinary recurring, ordinary portfolio, and group business, while the Canadian market increased by 21.8% with ordinary recurring and retrocession business exhibiting strong increases.

U.S. ordinary life production increased 51.5%, and Canadian ordinary business rose 26.9% over the prior year. This resulted in a total U.S. and Canadian ordinary business increase of 50.3%. On the group side, U.S. group new business increased 225.6% from 1996, while Canadian group business experienced a decrease of 25.4%. This resulted in an overall increase in group business for 1997 of 186.4%.

Life reinsurance production results for 1996 and 1997 are summarized in Table 1 on page 2.

Recurring business can often prove to be a more revealing indicator of production trends. We have attempted to remove most of the double-counting on retrocession and block reinsurance from the recurring figures.

Large increases in recurring new business appears to have been the norm rather than the exception in 1997. Three companies reported incremental increases in total Canadian and U.S. recurring new business in excess of \$20 billion and another five companies reported recurring increase in excess of \$10 billion. Security Life and Swiss Re/M&G each reported new business increases of \$21.9 billion. Life Re reported an increase of \$21.8 billion, although the company was unable to provide a breakdown of its business into the various categories, thus all business has been categorized as recurring. Companies with increases over

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Considerations

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pool claim may be reinsured, a reinsurer's share could be small, thus making it inefficient for a reinsurer's staff to spend much time processing a claim at their end. For example, if a reinsurer's share of a claim is 10% and the claim is for \$50,000, the share is only \$5,000.

As a result of our meeting, we were able to streamline our procedures for notification, consultation, and payment. This streamlining included factors such as size of claim, contestable versus incontestable, the role of consultation, claims in litigation, and information provided with request for payment. Because the administrative audit each year will include claims review, this will serve as a control to ensure that these streamlined procedures are working properly.

Underwriting

Conditions for acceptance of automatic reinsurance are set out in treaties. These conditions may require adherence to specific underwriting requirements or refer to the normal underwriting rules of the ceding company. These rules may be reviewed by reinsurers as part of the quote process. As a result, the ceding company may not be able to change or deviate from what has been

agreed to without the agreement of its reinsurers.

For our company this had never been a major concern because so much of its business was within its retention limit and not subject to reinsurance. But first-dollar reinsurance is another story. For example, how would first-dollar affect our ability to deviate from our underwriting guidelines, make exceptions in competitive situations, allow less than full underwriting for special marketing programs, and so on? Many of these were issues that could not be put into proposals prior to the meeting, therefore it was important to have underwriter representatives of our pool members at the meeting. As a result of our discussion, we reached agreement on the degree of flexibility our underwriters would have in various situations and established rules for situations requiring reinsurer agreement using a rotating-lead-reinsurer approach.

Similar to the approach used in the claims situation, it was believed that the annual team underwriting audit would serve as a control and check on our underwriting and the flexibility agreed to.

Meeting Summary and Future Plans

After the meeting we prepared a summary of the agreements, which was

signed and sent to the participants for their signatures. This summary served to document the understandings and the signatures confirmed the accuracy.

A future meeting is planned to touch base with our reinsurers, to review agreements reached at this meeting, to determine how successful they are and whether modifications are in order, as well as to discuss any new issues that have arisen. This meeting will be scheduled when we have had both an underwriting and administration audit.

A Final Thought

Reinsurance has been called a partnership, and this is especially exemplified in first-dollar reinsurance where every policy sold and every decision made has reinsurance implications. The goal of ceding companies should be to address workflow and communication issues and ensure the success of the relationship.

Johanna B. Becker, FSA, is Second Vice President and Actuary at New England Life Insurance Company in Boston, Massachusetts.

Reinsurance Section Survey Results

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- Correlated with this, more than half of the responding nonmembers said that they chose not to be members of the Section because reinsurance issues are not relevant to their roles. Another quarter said that they delegated reinsurance issues to someone else.
- Only 13% of responding members had participated at a SOA meeting as a speaker, moderator, or workshop leader for a session sponsored by the Reinsurance Section.
- Both members and nonmembers gave strong support to the traditional panel and workshop meeting formats; however, both groups also indicated a strong interest in longer, in-depth teaching sessions.
- While more than 85% of responding members said that the Section was meeting their expectations, 15% said it was not. The primary areas of concern are that the Section focuses too much on life reinsurance and too much on reinsurance from the assuming company perspective.
- There was also broad support among both members and nonmembers for expanding the use of surveys to gather and disseminate data on reinsurance practices. The most interest was indicated in the areas of pricing assumptions/approaches and treaty provisions/interpretation.
- Finally, 33 individuals, including three nonmembers, took advantage of the survey to express their interest in volunteering to work with the Section in a variety of capacities from speaker to author to candidate for the Section Council.

The Reinsurance Section Council would like to express its sincere appreciation to all those who took the time to participate in this survey, with special thanks to those who indicated an interest in volunteering. The results of the survey are already being used to help shape Council decisions and doubtless will continue to prove valuable for the foreseeable future.

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