



SOCIETY OF ACTUARIES

Article from:

Reinsurance Section News

March 1999 – Issue 45



The Coming Movement in Life Insurance Securitization

by Ed Betteto

This article has focused on motivation and trends rather than mechanics. Those interested in details are welcomed to contact the author.

The role of capital markets in the life insurance industry has been much discussed over the past few years. Insurance securitization efforts have to-date been primarily directed at catastrophe risk attracted by the margins of this low frequency/high severity business, particularly in the upper layers. An additional motivation for this attention was a perceived lack of capital to deal with a large catastrophe, with the attendant price increase that historically followed such an event.

Attention has now turned to insurance business characterized by large pools of small relatively homogenous

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Enterprise Risk And Capital Management

by Joan Lamm-Tennant, Ph.D.

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Efficient employment of capital throughout the insurance enterprise is a dilemma that most managers consider complex, yet critical to success. Capital efficiency suggests that operational and financial opportunities collectively result in maximum expected return, subject to the enterprise's risk tolerance. ERCM is an analytical framework for determining the efficient employment of capital across the enterprise while maintaining an appropriate balance between the insurer's risk appetite and its desire to earn attractive returns for its policyholders, shareholders or club members. ERCM is built upon a foundational premise that each component of capital is related and must be considered in the context of an overall portfolio of the insurer's capital management initiatives. That is, operational and financial opportunities in essence become a "portfolio" of choices whereby the effectiveness of any one choice is dependent upon the alternative choices. For example, appropriate asset allocation is dependent upon the business mix, leverage position, dividend policy and reinsurance strategy. Likewise, the appropriate reinsurance strategy is related not only to the business mix but also to the asset allocation choice, leverage position, and dividend policy.

When allocating capital to achieve optimal financial/operational results, managers must identify the metric for evaluating success: accounting or economic. For example, some companies monitor success in terms of GAAP return on equity or growth in GAAP surplus, while other insurers consider economic measures such as shareholder-

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LOMA Collaborates on New Reinsurance Designation

by Edward T. Burns & Jennifer W. Herrod

As reinsurance has become critical in managing the bottom line, insurance companies need educational tools to help them better understand reinsurance processes and procedures. LOMA, in conjunction with LOMA's Reinsurance Administration Professionals Committee (RAPC), has developed a unique program to fill that need.

Not only do many hands make light work, many industry specialists also enhance LOMA's ability to create high-quality materials for professional education and development. Recent collaboration between LOMA and a newly formed industry committee has functioned well to guide the development of two unique products designed to offer the whole industry a better understanding of the inner workings of reinsurance-insurance that transfers risk from one insurer to another.

The first of these products is a new StepOne text entitled *Intro to Reinsurance*, which is designed to introduce the basic concepts of reinsurance. The second product, *Reinsurance Administration*, is a full-length textbook to be used as the basis for the cornerstone course in a new associate-level program leading to the professional designation, Associate, Reinsurance Administration (ARA). Students can earn the ARA by completing six LOMA courses (see page 15). e concerns, problems, and solutions.

The Growth of an Industry Initiative

The new reinsurance education products became possible through a concerted industry effort begun years ago by the ives representing many prominent rein-

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LOMA Collaborates on New Reinsurance Designation

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Reinsurance Administrator's Roundtable, a determined group of industry executives representing many prominent reinsurers and direct writers. Each year for many years, this group met informally in Toronto (in conjunction with the Canadian Reinsurance Conference) to discuss common administrative concerns, problems, and solutions. The group eventually became the LOMA Reinsurance Administration Professionals Committee (RAPC), which is working with staff in LOMA's Insurance & Financial Services Programs (in the Education Division) to develop the ARA program.

The task of convincing the Roundtable that such a partnership was in the best interests of both entities was assigned to Ed Burns, Second Vice President, Operations Management Division, LOMA. Through Burns' and Dudgeon's efforts, the partnership was formed. LOMA agreed to sponsor the group as a committee, and the Re-insurance Administration Professionals Committee (RAPC) was born.

The RAPC met for the first time in Atlanta in October 1997. The focus of the initial meetings was collaboration with managers from LOMA's Education

- Regulation and marketing of reinsurance
- Reinsurance administration procedures

Intro to Reinsurance was a long-needed tool in reinsurance education, according to current RAPC Chair Maureen T. Shippy, FLMI, ACS, who is Assistant Vice President and Director, Individual Life Administration at Lincoln Re. "In the past," she said, "when new people were brought into any area of reinsurance, there was no Reinsurance 101, so to speak, to help them understand processes and procedures. This text covers the basics for people who need a solid introduction to reinsurance."

According to Jane Tiu, FLMI, ACS, Life Reinsurance Administration Director at Manulife Financial, Reinsurance Division, both the growing prominence of reinsurance within companies and the lack of educational reinsurance materials spurred the RAPC toward collaboration on an introductory text. "Reinsurance used to be a really small department, but now companies are beginning to realize how important reinsurance is as a tool to manage the bottom line," she said.

"...the ultimate goal of improving their companies' operations through information sharing and creative problem solving, the Roundtable members began looking for a sponsor organization to partner with them and actively manage their meetings."

With the ultimate goal of improving their companies' operations through information sharing and creative problem solving, the Roundtable members began looking for a sponsor organization to partner with them and actively manage their meetings. The members were also particularly concerned about the lack of continuing/professional education programs available to the reinsurance industry. The members wanted to play a significant role in developing education materials with their partner organization.

As a result, the Roundtable members appointed a Steering Committee, chaired by Nancy Dudgeon, FLMI/M, ACS, ALHC, CLU, Vice President, Consulting Services, Information Services Division, Manulife Financial, to search for potential partners. At an industry conference in 1997, Dudgeon met with Jim Foley, Senior Vice President, Management Resources Division, LOMA (now retired). Both Foley and Dudgeon agreed to pursue the partnership between LOMA and the Roundtable.

Division to put together content outlines and delivery timetables for *Intro to Reinsurance and Reinsurance Administration*. The RAPC planned to provide guidance and industry-specific information and to review the texts for accuracy and completeness. Review panels for each text were appointed for this purpose (see page 15).

Intro to Reinsurance

Through cooperation and collaboration between the RAPC and LOMA's Education Division, *Intro to Reinsurance* became available in January 1999 as an introductory level text in LOMA's StepOne series. *Intro to Reinsurance* uses simple language and a reader-friendly manner to describe:

- Fundamental reinsurance concepts
- Industry terminology
- Reinsurance relationships
- Facultative and automatic reinsurance
- Proportional and nonproportional reinsurance

Reinsurance Administration

Reinsurance Administration, a more in-depth course, is currently under development and will be available in June 2000, with the first examination to be administered in Fall 2000. Authors, editors, and managers in LOMA's Education Division are working closely with a 20-member review panel formed by volunteers from the RAPC to develop detailed, accurate, and current information on:

- Reinsurance regulation
- Reinsurance staffing and information systems
- Reinsurance treaty provisions
- Retention and risk management
- Administration of new business
- Administration of in-force business
- Quality control of reinsurance administration

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LOMA Collaborates on New Reinsurance Designation

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A central purpose of the text is to provide uniformity and consistency in industry terms, definitions, and processes, according to Shippy and Tiu. The textbook highlights the key goal of increasing standardization within the industry, in their view.

As Tiu notes, *Reinsurance Administration* is a tool to help students truly understand how reinsurance administration affects an entire company. "Particularly in reinsurance, there is a close interconnection with other areas," she said. "For example, what we do in administration impacts underwriting, pricing, and valuation. This text helps

Administrators' Roundtable approached LOMA, they offered us a chance to learn exactly what the industry wanted and to respond by developing appropriate products."

Dennis W. Goodwin, FLMI, ACS, HIA, Assistant Vice President, Insurance & Financial Services Programs, agrees. "One of the strengths of LOMA's products is that each text we develop is a collaborative effort between our staff and industry experts," he said. "This joint effort between the RAPC and LOMA's Education Division helps us to ensure that these texts contain relevant, accurate information presented in a manner that

"This joint effort between the RAPC and LOMA's Education Division helps us to ensure that these texts contain relevant, accurate information presented in a manner that best helps students learn."

students understand those interrelationships. Also, helping everyone in reinsurance and in the insurance industry in general to understand what the administration staff does and how they do it will increase the importance of reinsurance administration and enhance its professional status, as well."

LOMA management and staff feel fortunate to be working with the RAPC on the reinsurance program projects, according to Joyce Abrams Fleming, J.D., FLMI, ACS, AIAA, ALHC, HIA, MHP, Director, Insurance & Financial Services Programs. "We are very excited about the opportunity to collaborate with such an enthusiastic industry group," said Abrams. "When the Reinsurance

best helps students learn."

William H. Rabel, Ph.D., FLMI, CLU, Senior Vice President, Education Division, also credits the RAPC with helping LOMA create texts that are valuable not only to reinsurance industry employees but to employees in the wider insurance industry as well. He said, "These texts will be useful in giving employees first a general overview of reinsurance administration and then a more detailed understanding of the procedures real companies use and the reasons for those procedures. *Reinsurance Administration* is especially strong in explaining how firmly reinsurers base their administrative procedures on their treaty arrangements."

Current and Future Plans

While *Reinsurance Administration* is under development, students interested in earning the ARA designation don't have to wait until 2000 to begin working toward the designation. All of the requirements (except *Reinsurance Administration*) are currently available through LOMA.

Meanwhile, the collaboration between LOMA and the RAPC is continuing. The RAPC and LOMA will offer a workshop at the 1999 Canadian Reinsurance Conference to describe the cooperative text development activities in more detail.

In addition, the RAPC is working with LOMA's Operations Management Division in developing a new *Life Reinsurance Service Turnaround Times Survey* to add to LOMA's family of benchmarking surveys by line of business. A subcommittee of the RAPC will be meeting with Burns this month to design the survey. Burns plans to begin collecting the data this summer and to publish survey results by year-end.

Guest authors are Edward T. Burns, Second Vice President, Operations Management Division, and Jennifer W. Herrod, Senior Associate, Insurance and Financial Services Programs at LOMA.

For more information about LOMA courses or other LOMA products/services, please call 800/ASK-LOMA or visit LOMA's web site at www.loma.org