



SOCIETY OF ACTUARIES

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Letter From The Chair By Ronald Klein

As incoming chairman of the Reinsurance Section Council there are some personal things I feel compelled to share with you. I don't drink alcohol of any kind and I never have. I don't take drugs of any kind and I never have. I don't drink coffee, tea or any other caffeinated drinks. I exercise daily and try to eat right. I even floss at least once per day.

Before you make any quick judgments, I do have one vice. I like to gamble. Oh, not often and not for large amounts of money, but I do like some action. While I do get involved in all of the company pools and fantasy football, my main gambling passion is the game of Craps. This is not the only reason why we hold the ReFocus meeting in Vegas, but it is a good one! (For a preview of ReFocus 2010, please see my article later in this edition of the Reinsurance Newsletter).

For those of you who do not know the game of Craps, it is a dice game and the rules are quite simple. However, there are many side bets that appear to complicate the game for those not well-versed in the rules. I always equate these side bets to derivative investments. The basic game of Craps: if the shooter rolls a seven or 11 on the first roll, even money is paid to all players who bet on the Pass Line. If the shooter rolls a two, three or 12 on the first roll, Pass Line bets are lost. If the shooter rolls a four, five, six, eight, nine or 10, the shooter must repeat that number before rolling a seven. If the number comes up first, it is an even money payoff and if the seven comes up first, Pass Line bets are lost.

Why the Craps lesson? There is an element to the game that I truly dislike. It is the people who bet on the Don't Pass Line. The payoff for this bet is pretty much the exact opposite of the Pass Line bet (a 12 on the opening roll is a push, not a win for Don't Pass). I especially dislike the Don't Pass bettors when I am the shooter.

Betting Don't Pass reminds me of Life Settlements. I really like the alignment of risk for life insurance. The insured wants to live (usually), the beneficiary wants the insured to live (usually), the company wants the insured to live and the reinsurer wants the insured to live. This all changes when an unrelated investment firm purchases a life insurance policy from a policy owner. The firm is hoping for a quick return on its investment—a death.

When I think about selling my life insurance policies, at some point in my life I always come up with the same answer: I have enough people who would like to see me dead, why give someone a financial incentive to kill me? Let's for a moment disregard other arguments against Life Settlements, not the least of which is that the industry might lose its unique tax-free build-up of cash value if the Life Settlement market gets much larger. I just don't want someone who I don't know and someone who does not know me to wish me an untimely and violent death. Sure, you can tell me that the firm that purchases my policy does not know my name—I don't believe it! They will know my name and they will be stalking me.



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The counter-argument, just like in Craps, is: if there is a market for a product and someone can make money on it, the market will develop. Some people like to bet against the shooter and the House can make money on these bets. People with life insurance policies may want to sell them for more money than the cash value of the policy and firms *believe* that they can make money purchasing these policies. I put the word believe in italics because the early results of these Life Settlement investments show that investors are not making the promised returns.

To learn more about Life Settlements, please read an excellent article by Mike Shumrak in this edition of the Reinsurance Newsletter. I hope that you will also take the opportunity to congratulate Mike on being elected to the Reinsurance Section Council along with Kelly Levy and Ed Martin. The Reinsurance Section Council is here to serve you and we hope that you will become involved in the various committees and projects that we will work on in the coming year.

I also hope to see you in Las Vegas for ReFocus. Please feel free to pull me aside at the meeting to tell you what I really feel about Life Settlements, or, you can simply ask me for a full lesson in Craps! ■

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