SOCIETY OF ACTUARIES Reinsurance Section

# Reinsurance news

Issue 69 | January 2011

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## The Value of An "Expert" Life Reinsurance Intermediary

*By H. Michael Shumrak and Todd Spooner*

This article describes how a life reinsurance intermediary, possessing a combination of creativity, accounting, actuarial, reinsurance market and capital markets knowledge and experience, can bring unique mission-critical value to clients seeking reinsurance focused on special risks and/or focused on financial and tax planning objectives.

We use the term "expert" in the context of this article to represent a contingent fee-based life reinsurance intermediary with the foregoing skills to distinguish such an intermediary from others whose success is primarily based upon successfully matching buyers and sellers. In many of these situations, the expert can also play an important and valuable role for the reinsurance markets where these transactions are placed. We will overview the historical trajectory of the role experts have played in the placement of life reinsurance. Next we will discuss needs in today's market as they relate to the

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# Reinsurance news

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**Issue 69 | January 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 (*richard_jennings@manulife.com*) by September 5th, 2010. 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*.

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# Departing Chairman's Remarks

By Ronald Klein

The one thing I dislike most about Society of Actuary's Section Newsletters is the Chairperson's Corner. It is usually a boring summary of what the section has accomplished or what it will accomplish. I hope that my previous Chairperson's Corner articles for the Reinsurance Newsletter were a little more readable than the typical Chairperson's Corner—at least, that was my attempt.

Well, now I have been asked to summarize my past year as Chairperson, and I am having a bit of trouble. Do I simply list our major accomplishments during the past year? For example, do I discuss how the LEARN initiative (educating regulators in their place of business about the basics of reinsurance so that they can become better policy makers) kicked into gear with visits to five State Insurance Departments in 2010? Should I mention that the 2010 Refocus Conference was the most successful to date with more than 330 attendees during a time when companies were cutting back on industry meeting travel? Would I dare to mention that the Reinsurance Section Council launched a new group on LinkedIn as a forum to discuss current reinsurance issues in a more informal arena? Is it so dull to chat about our educational programs at the spring and annual SOA meetings? And, do I note future projects such as the attempt to get the Reinsurance Section Membership more in tune with our non-life counterparts?

I think not. That would be too boring. Besides, I always say, if the readers do not know about our accomplishments during the past year, then were they really accomplishments? If our readers did not attend ReFocus, the SOA spring or annual meetings or hear about how successful they were from colleagues, does it really matter how great they were? This reminds me of one of my favorite sayings of very unimportant people. Did you ever run into a situation where a person is asking for something that is a little over the top? When this person is denied, the retort is: "Do you know who I am?" This has happened to me on many occasions in my various professional positions and even when I was working summer jobs during High School and College. I have many replies including, "No, do you?" and "If you have to ask, I guess I don't have to answer."

While these replies are somewhat funny, I always dream of delivering the perfect comeback that you only see in movies. Unfortunately, I am relegated to repeating great movie lines, albeit in the perfect situations. For example, when a date for my older daughter came knocking at the door and was a bit cocky, I had to deliver my absolute favorite line from *Clueless* – "I have a 45 and shovel. I don't think anyone will miss you!" And believe it or not, a fellow employee looked at me and actually said, "What would you do if you were me?" I had to deliver my favorite line from *Passenger 57*—"Kill myself!"

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Those of you who know me realize that I can go on and on with movie lines. I love movies and I always look for and remember good lines. I also am not shy in delivering a good movie line when appropriate. And, if you are a lover of movie lines too, I invite you to catch me at the ReFocus Conference 2011 beginning on February 27 in Las Vegas and try to stump me. I welcome the challenge. While you are at the conference, you may want to stop talking about movies long enough to attend the sessions with more direct company and reinsurer CEOs than ever before. You also may want to attend the keynote session where Michael Lewis, author of *Moneyball* and *The Big Short* gives us his view of the financial crisis. (Please look for more information about ReFocus 2011 on the website www.refocusconference.com).

Most people who leave the Chair of an SOA section have mixed emotions. While it is somewhat of a relief, it also brings a loss of knowing what is going on. I will not miss what is going on as I will become a "Friend of Council." It is easy to become a Friend of Council and I encourage you to contact Christy Cook at the SOA office or Larry Stern to find out what you can do to assist the Reinsurance Section Council in its future endeavors. What I will miss are the people—especially the new Chair, Larry Stern. Larry and I have known each other for a long time in a business capacity. After working with him during the past two years I can now call him a personal friend.

When it comes down to why I ran for the Reinsurance Section Council (again) and why I agreed to take on the position of Chair, it is the interaction with great people. Recently, the SOA sent out a survey for outgoing chairpersons and asked what the best part of serving on the council was. It is simple—getting to know dedicated, hardworking and genuinely nice people better. I encourage all of you to try it.

Now, will I run for council again? The only thing that comes to mind is, "I'll be back!" ■

expert. To conclude, we will describe the current and likely future role of the expert based upon the current and likely future environment.

## THE HISTORIC LAY OF THE LAND

Unlike property-casualty reinsurance, where direct writing insurers place a significant portion of their reinsurance through intermediaries ("brokers"), most life insurance companies place reinsurance directly with reinsurers. This is particularly true for the placement of yearly renewable term death protection and coinsurance of new business. For many years, the primary scenario that involved life reinsurance intermediaries was the placement of specialized risk protection reinsurance such as catastrophe, stop-loss and specialized accident and health reinsurance. These brokers included very large multi-line brokers and smaller specialist brokers with strong relationships with markets such as Lloyds. This segment of the business continues today in much the same manner, and while it is a very important segment of the life reinsurance brokerage business, it is not the focus of this article.

About 35 to 40 years ago, experts began to develop traction in the increased use of reinsurance for financial and tax planning purposes. Using their innovation, actuarial knowledge, and accounting expertise, these experts helped lead the development of what is now commonly referred to as financial reinsurance. In addition to these distinctive competencies, until the mid-1980s, they also enjoyed great flexibility in leveraging both the U.S. federal income tax and state regulatory frameworks to their advantage. They helped develop structures that would efficiently meet their ceding company clients' financial objectives, develop and maintain credibility with their reinsurance markets, negotiate and place these transactions and monitor them over time helping affect updates if and as needed. Their compensation was usually paid by the reinsurers based upon a percentage of the reinsurance premiums and/or risk fees. The particular financial planning objectives they were meeting included generating or using capital and surplus to acquire or divest blocks on in-force business, improving balance sheet strength to maintain or increase ratings or satisfy regulatory concerns and otherwise improving financial performance. In addition to adding value through innovative structuring, these experts also introduced clients to new reinsurance markets other than the usual suspects (the ever shortening list of professional U.S. life reinsurers). An example of a non-traditional reinsurance market would be opportunistic direct writers with reinsurance expertise holding excess capital.

Obviously, the reinsurers build the cost of the intermediary fees into their pricing as an additional expense, but the reinsurers generally benefit from "some" amount of savings in the time and effort it would have taken for their internal experts to design similar transactions for their clients. The reason for the use of the qualifier "some" rather than "total" is due to the fact that all professional U.S. life reinsurers maintain their own direct

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sales forces so they incur these costs regardless of the source of their business. At a minimum, however, the experts assisted the reinsurers in risk analysis and problem solving, roles beyond the technical knowledge and experience level of most professional life reinsurers' salespersons.

Once it became known how lucrative this line of work could be, a number of new entrants appeared on the scene. Many of them, like the typical reinsurance salesperson, did not possess the distinctive competencies of the experts, but were bold, aggressive and persistent in their work to match buyers and sellers of financial reinsurance in exchange for a commission. This worked to devalue the role of the life reinsurance intermediary in a market where direct writers had never viewed intermediaries as a necessity except for the placement of special-risk reinsurance as previously described. Direct writers began to not distinguish between the "pure matchmakers" and the experts. As reinsurance financing became more widely used by insurance companies, many developed internal resources and expertise to evaluate these transactions. Coupled with already established reinsurance relationships, pure matchmakers—and more broadly all intermediaries by association—were seen as providing little value. In a business where the intermediary seeks to secure the direct writer's commitment to work with them on an exclusive basis, the market devolved into one where the experts were faced with resistance to working exclusively with an external expert that could optimally structure the transaction, credibly approach a number of markets and successfully place the reinsurance transaction.

In response, some experts have given up on their intermediary practices by joining reinsurers or consulting firms. The professional reinsurers and consulting firms were delighted to acquire this special expertise. They were able to pay their new hires reasonably well as employees while capturing the upper end of the compensation that would have otherwise accrued to their hires in their former role as entrepreneurial experts.

The adoption of U.S. statutory reserve regulation XXX would have seemed like a boon for the expert, but instead turned out to be mainly a short-lived boost. XXX (and later AXXX) so greatly expanded the need for life insurance company financing that it attracted sources of capital outside the reinsurance industry in a big way. Banks entered the business through securitizations and the establishment of their own reinsurance divisions devoted to this business. Product offerings became highly commoditized and highly competitive, and while experts and matchmakers alike were able to share in some of the wealth by aiding in the development of these new markets, it was short-lived once direct relationships with the banks were established. More importantly, it further blurred the distinction between the expert intermediaries and the pure matchmakers. The commodity products were so inexpensive that there was hardly a need for further innovation and, therefore, little way for the expert to add value.

## THE CURRENT & FUTURE NEED FOR EXPERT LIFE REINSURANCE INTERMEDIARIES

The 2008 financial crisis completely changed the landscape for insurance company financing and directly affected the role of the expert. Since the primary initial drivers in the evolving financial crisis were the problems in the sub-prime mortgage market and its associated securitization processes, this took the banks back out of the life securitization business. This also adversely affected reinsurers supporting XXX and AXXX reinsurance as letters of credit became hard to come by, and extremely expensive relative to their cost over the past years. At the same time, life insurers were all negatively affected by the crisis with varying intensity depending upon the amount and vintage of their sub-prime mortgage assets. Over time these problems spread to their general corporate bond holdings. This dramatically increased the demand for financial reinsurance solutions at a time when the supply had contracted materially. Since the asset rather than the liability side had been the primary source of direct writer pain from the financial crisis, many of the most effective financial reinsurance planning solutions require the experts to leverage their capital markets skills and expertise more so than in the past.

Many direct writers looking for financial reinsurance were concerned about their risk-based capital ratio for

ratings purposes and some were in such dire straits they were close to takeover by the regulators. All of these situations presented reinsurers with much more serious credit risk underwriting considerations than had ever been the case on a broad basis. Again, the capital market dimension of the experts' skills and experience have emerged as key today more so than in the past. Financial reinsurance transaction activity slowed down substantially, but did not dry up completely, particularly those that did not require long term, high volume levels of LOC support. More recently, some LOC capacity has returned; there is a limited amount of securitization and more reasonable prices and terms have started to return. However, the days of ultra-competitive commodity transactions are over, although nothing lasts forever in this business.

Market conditions have forced companies to improve capital ratios through any means available. In many cases the quality of capital is lower than has historically been the case. Rating agency oversight, already kicked up a notch in response to the financial crisis, is looking at a level of detail beyond that previously used. Issues such as whether internally financed LOCs should count as leverage, the duration matching of LOCs versus the underlying business, and the value of internal reinsurance are all areas being given greater attention.

The need for innovative, customized and credible solutions to the capital finance needs of the life insurance industry is greater right now than it has been in some time. While many companies may be content to wait for the market to recover to recapitalize or willing to pay higher costs for commodity solutions, neither of these approaches is likely to produce a competitive advantage. It would seem that there has rarely been such an important time for the services of the expert.

As previously discussed, the direct writers' perception of the value-added of life insurance intermediaries used to solve capital management planning issues continues to be myopic, focusing on the price of commodities in a vacuum rather than in relation to the important competitive benefits experts can offer. There have been some situations where the direct writer who was negotiating intently on the pricing of a commodity, eschewed a better solution that, even without hard negotiations and after payment of the expert's fees, would have cut their net capital cost by two-thirds or more. In this scenario, everyone loses: the direct writer—by paying more for capital; the reinsurer—whose margin was eroded through intense price negotiations; and the expert intermediary—who was deprived of the opportunity to earn his/her compensation.

"MANY DIRECT WRITERS FAIL TO UNDERSTAND THAT THEY OFTEN CANNOT GET THE SAME EFFECTIVENESS OF STRUCTURE AND COSTS BY GOING DIRECT TO THE REINSURERS."

Many direct writers fail to understand that they often cannot get the same effectiveness of structure and costs by going direct to the reinsurers. In the absence of an oversupply of financial reinsurance providers or direct writers working with "experts in their corner," reinsurers are rarely pressed to introduce customized solutions. To do so would mean a large incremental investment of time, possibly losing the deal when the customer just wants something simple, and if successful, often times doing so for a smaller profit.

The depth and breadth of knowledge and experience necessary to properly execute a more complex, customized solution is a competency that exists within only a few reinsurance companies worldwide. Indeed, that competency exists with only a small subset of professionals. Routinely exposing such advanced concepts to the market risks educating one's competition. As there is usually no reference pricing for these customized transactions, the reinsurer is aware that their idea may be shopped to other reinsurers in the hopes of finding a better price, or at least validating the one they have. For all of these reasons, reinsurers will generally withhold their more advanced solutions unless specifically requested by the client, or in the case of a very special client, or in the case of a very large or "status" account where they are needing to pull out all the stops to get the deal done.

Experts can overcome these limitations by helping direct writers develop their own best solution to their financial planning requirements and get a fair hearing from a wider range of reinsurance markets. The expert intermediary should be able to provide all, or nearly all, of the following benefits in any given situation:

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1. Design/structuring expertise—the aim is to provide a solution which is more suitable, more flexible and/or more cost-efficient;

2. Fine-tuning existing structures—sometimes small changes to existing designs can produce measurable cost efficiencies and/or greater financing capacity;

3. Troubleshooting deal obstacles—creative problem-solving with reinsurers over a myriad of potential deal-killers helps the expert intermediary bring the greatest possible number of reinsurers to the table, thereby providing the greatest chance of success and best possible terms for his client;

4. Pitfall avoidance—the expert can identify trouble spots in the deal; the worst thing that can happen is that the mechanics of the deal don't work as anticipated or the deal fails to meet regulatory muster and in the meantime the market hardens forcing the company to renegotiate or recapitalize at the worst possible time; and

5. Access to new markets and negotiating expertise—often these are considered the only items of value in the intermediary's tool chest; in fact, they are the least important of those listed.

In today's market the livelihood of the expert intermediary depends upon differentiating oneself through the quality of one's solution. An expert intermediary realizes that companies often do, and often prefer, to deal directly with capital providers. Unless the expert intermediary can produce the goods—more suitable, flexible and/or cost-efficient solutions—he/she is unlikely to attract many clients. ■

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# Chairman's Corner

*By Larry Stern*

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

The description on the SOA website for our Section goes like this:

*The Reinsurance Section (RS) promotes research and education involving reinsurance issues, while creating opportunities to broaden exposure within the reinsurance community.*

Most of you are aware there are nine individuals serving on the Reinsurance Section Council—all elected by the membership to serve the membership. Within the Council there are three officers—Chair, Vice Chair, and Secretary/Treasurer. And the other six individuals take responsibility for leadership positions.

I thought it would be useful in my first column as Chair of the RS to describe these leadership positions and illustrate ways in which your Council has the interests of the membership in mind.

- Continuing Education—most readily understood as the person responsible for recruiting others to participate in planning sessions for *industry* meetings. Notice the emphasis on *industry*. Reinsurance is a topic of importance not only at SOA spring/fall regular meetings, but has relevance in the areas of valuation, investments, financial reporting, enterprise risk management, taxation, etc. We will promote sessions at *industry* conferences and let's not forget ReFocus—the premier conference for insurance and reinsurance executives. *[See separate write-up on ReFocus 2011 in this newsletter.]*

- LEARN—an acronym for life insurance education and reinsurance navigation. This is an initiative of the RS to provide education on reinsurance topics to regulators and rating agencies. It is strictly educational—a resource for understanding the potential implications of issues that impact the insurance and reinsurance industry. We have a team of individuals traveling to state regulators tailoring presentations to topics they select, but with a major emphasis on reinsurance.

- Webcasts—as travel expense budgets have been reduced, the SOA has encouraged all sections to plan/produce webcasts. These electronic sessions have been highly successful as a means of reaching audiences unable to attend SOA and industry meetings. In particular the RS plans to provide a webcast for members to obtain "professionalism" credits under continuing education requirements. It is often difficult to meet this particular credit requirement unless one reads, re-reads, and re-reads again the professional code of conduct. This year the Council plans to promote a webcast illustrating how the principles of the ethical code apply to reinsurance issues.

- Communication/newsletter—this is more than just editing the highly read newsletter three times a year. Communications also involves reaching the RS membership through other mediums. We now have a LinkedIn group. Communication is key to providing information to members, encouraging volunteerism

and participation in RS activities. Look for posting of discussions, announcements, activities/events, and surveys to the RS LinkedIn group website. Please join—it is a great networking tool.

- Marketing/Membership—last year there was an effort to encourage non-SOA members to join the RS. Ronnie Klein proposed a "challenge" to continue to reach out to non-life reinsurance individuals dealing with reinsurance matters to join our section. The Council plans to promote sessions at industry meetings to combine life and non-life reinsurance topics.

- Research—this is a continuing effort from previous years to promote and fund research of reinsurance topics/issues. Three such continuing projects involve development of new medical markers used in underwriting, access to reinsurance for smaller insurance companies, and mortality improvements at older ages.

There will be Council members dedicated to coordinating each of these areas. Let it be known, the Council cannot do all of the work alone. We have been fortunate to have a strong contingent of Friends of Council (FoC)—RS members volunteering and participating on RS planning activities.

Last but not least, I want to express my gratitude to three members of RS Council who are leaving, but will not be forgotten: Ronnie Klein outgoing Chair, David Addison outgoing Secretary/Treasurer, and Michael Frank Council member extraordinaire. Their service the past three years is greatly appreciated. We look forward to having them continue in some fashion as an FoC.

Let the Council know how we can best serve you in the coming year. We welcome your input. I would encourage all of you to get involved with us this year to make it one of the best ever!

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


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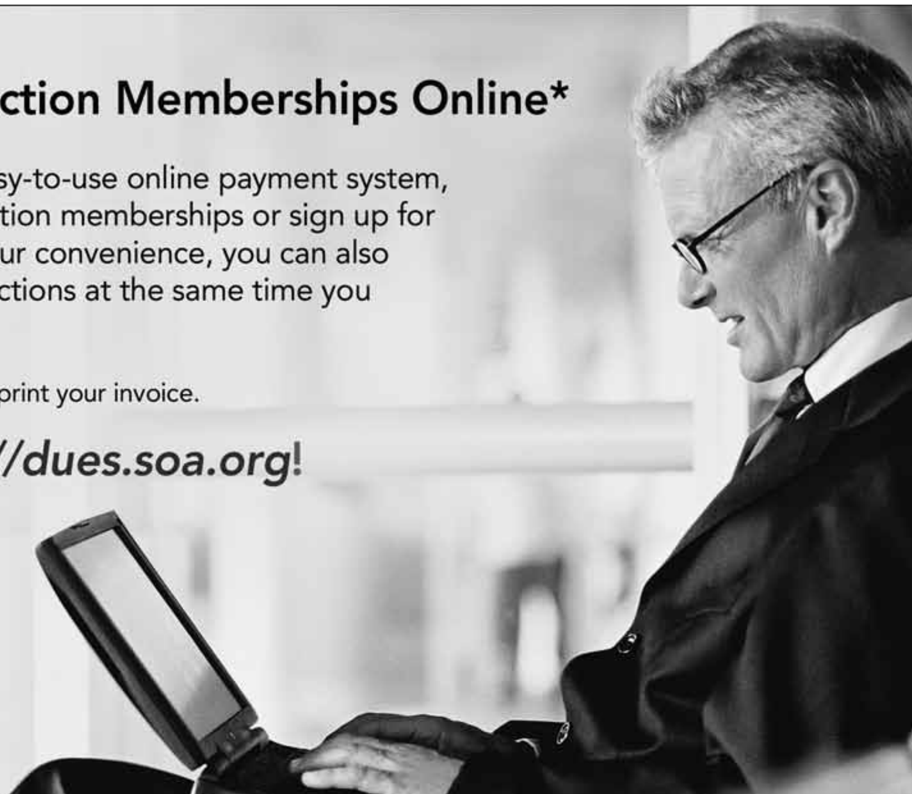

# State of the Variable Annuity Reinsurance Market in 2010

*By Rich Tucker and Tim Paris*

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Reinsurance for variable annuity guarantees (VA GMxBs) has often been characterized as unavailable over the last few years. In fact, this is not the case. Reinsurance is available, but the terms required by reinsurers are often inconsistent with the pricing of direct writers. Success with VA reinsurance in 2010 requires an understanding of the critical reinsurance design points discussed below.

VA reinsurance design has historically been strongly influenced by the background of each specific reinsurer. Traditional life reinsurers were comfortable with policyholder behavior and mortality risk, but not capital markets risk. Reinsurers affiliated with investment banks had the opposite view—comfort with capital markets risk, but not insurance risk. Time and experience have allowed these views to merge at some reinsurers. Programs with these reinsurers can now address both insurance and capital markets risks.

All reinsurers are currently employing some form of capital markets hedging strategy and evaluating assets and liabilities on a market consistent basis. This means that reinsurers will not speculate on how capital market conditions may change, funds must be highly correlated with "hedge-able" indices, and reinsurance pricing will be based on current market-implied conditions. Wide new business windows with uncertain volumes are incompatible with this risk management strategy. Instead, reinsurance can more readily be provided for in-force blocks or on a serial (e.g., monthly or quarterly) basis for new business.

Reinsurance pricing that varies with current market-implied conditions is fundamentally the same situation experienced by direct writers with their own capital markets hedging program. With this as a common baseline, reinsurance can provide direct writers with significant advantages over capital markets hedging programs.

Under adverse policyholder behavior experience, the cost for variable annuity guarantees can increase dramatically relative to best estimate assumptions. It is important for direct writers to understand and quantify this difference in order to appreciate the value of potentially shifting this risk to reinsurers.

A hedging program inherently creates an operational burden for the direct writer, and slippage is commonly reported in the industry. Reinsurance provides relief for both problems.

The accounting treatment of risk management strategies is typically an important aspect for the direct writer. Under US GAAP, liabilities with a significant mortality element, like GMDB, are not typically fair valued. However, assets employed in capital markets hedging are fair valued, resulting in balance sheet asymmetry with the potential for significant volatility in capital position. Reinsurance accounting can rectify this situation, and provide superior reserve and capital relief.

Finally, it is very important to recognize that several types of reinsurance structures exist. Perhaps the most common structure provides coverage for guarantee claims in exchange for annual asset-based reinsurance premiums. Yet alternate structures can provide coverage for selected tranches of risk, or with an emphasis on insurance risk or capital markets risk.

To summarize the current environment, healthy reinsurance programs will typically be predicated on the following key points:

- Funds must be highly correlated with "hedge-able" indices, for which current capital markets conditions will form the basis for reinsurance pricing.

"A HEDGING PROGRAM INHERENTLY CREATES AN OPERATIONAL BURDEN FOR THE DIRECT WRITER, AND SLIPPAGE IS COMMONLY REPORTED IN THE INDUSTRY. REINSURANCE PROVIDES RELIEF FOR BOTH PROBLEMS."

- Reinsurance is more readily provided for in-force blocks or on a serial basis for new business.
- Policyholder behavior needs to be recognized as a significant risk—reinsurance can potentially address this risk, hedging programs cannot.
- Reinsurance relieves the direct writer of the operational burden and potential slippage associated with a hedging program.
- Reinsurance can provide superior capital relief and stabilization.
- Different reinsurance structures are available, keyed to the needs and desires of the direct writer.

Acknowledgement of these points is likely to result in a successful variable annuity reinsurance program for direct writers and reinsurers, in 2011 and beyond. ■

## Preparing for Change under PBA: Life Company Reserves and Capital Seminar

May 18, 2011
Sheraton New Orleans
New Orleans, LA

Save the date for this event jointly sponsored by the Society of Actuaries and the American Academy of Actuaries, this seminar will feature an in-depth discussion of several "hot topics" and specific implementation challenges related to the principle-based approach (PBA) for statutory reserves and capital. Registration opens soon. Topics will include:

* Preliminary results/conclusions from the NAIC VM-20 Impact Study.
* Potential refinements to AG 43 and C3P2 based on Oliver Wyman Study.
* NAIC "Feedback Loop" structure and process.
* Implementation of C3 Phase III for life products.

The seminar will discuss implementation challenges of PBA, with an emphasis on how PBA will affect the pricing process for a company.

The seminar is designed for those who would like to gain a deeper understanding of key practical issues related to implementing PBA. Active participation by the attendees in the discussion of these topics will be encouraged.

# Jumbo Limits: Compensating For Terrible Administration

*This article is solely the opinion of its author. It does not express the official policy of the Society of Actuaries; nor does it necessarily reflect the opinions of the Society's individual officers, members or staff.*

*By Ross A. Morton*

*With 40 years of insurance industry experience, Ross Morton has evolved into a recognized mentor, advisor and reassurer. From 1994 to 2009 Ross has been used on various assignments around the world by RGA, and recently joined the Advisory Board for Logiq3. Ross can be found online at www.rossmorton.com*

A long time ago, likely before most of this article's readers were born, and for those that were they were still thinking mathematics was a lucrative career choice, reinsurance played a trivial role in the life insurance industry. In Canada 0.04 percent (rounded up, of course) of all life risk was reinsured in 1969. There was a slightly higher percentage in the United States, but my notes and memory failed to enlighten me as I wrote this article. Believe it or not, for you youngsters reinsurance was a follower and minor player in the realm of life insurance risk taking. The icons of the era were insurance company leaders not reinsurance personnel. Reinsurance personnel deferred to the wise counsel of insurance leaders who were at the leading edge of pricing and risk selection. Content to beg or cajole a mere pittance of the premium pot the reinsurers fought each other for the privilege of table scraps.

Administration of risk was lax and tardy but with most cedants keeping their full retention and reluctant to write policies larger than their retention, the penalty for such lackadaisical administration was trivial and easily manageable by both insurer and reinsurer. It helped that the largest of reinsurers was such that they routinely forgave blunders in insurance company administration as a sign of friendship and hoped for rewards of even more poorly administered business. The smaller companies, fearing the wrath of their reinsurers where their role was integral to their success, tended to administer risk expediently and pay promptly. The fear of not having notified the reinsurer of a big risk (i.e., more than twice their own retention) before the early and unfortunate claim arrived was paramount to their psyche. When a treaty, as casual as it was written in the "good old days," called for notification and payment within 30, 60 or ("Do you really need this long?") 90 days, the practice was to do as the treaty was written (sort of like the Ten Commandments).

Tardiness was so rare that I once had an accountant who would call companies five days past the premium and administration due date and inquire as to where the money was and the administrative paper work for both new and renewal business. It was an extremely rare company that Lou had to call more than once in a year! Reinsurance was indeed trivial in the scheme of things within an insurer and often the staffs so employed were both part-time reinsurance administrators and, in some instances, far from the sharpest pencils in the company. Both insurer and reinsurer took the notification, administration and premium due dates seriously, but again that was before easy credit that is so fashionable amongst the young (or was until the meltdown of late).

As smaller insurers grew into large producers of risk through the advent of "brokers," and as large companies became addicted to low reinsurance pricing, the amount of reinsurance ceded escalated probably 2,000 fold in Canada and 1,450 fold in the United States by the end of the century. There remained a serious lack of attention being spent on reinsurance administration by either insurer or reinsurer. The insurer was faced with a myriad of complex issues from government reporting standards and how to manipulate numbers to the bottleneck that was the new business area. Reinsurance administration was rarely one of the top five priorities and had little chance of being considered as important to overall success within an insurer's executive's mind. The reinsurer was faced with the need for ever and often insatiable thirst for new business (risk yes, premiums maybe) and was woefully neglect on enforcing administrative time lines with customers and potential customers. Reinsurers were by their collective mindsets a group encouraging indirectly poor administration—if one does not ask for payment or "supportive paper work," after a while one does not get it.

In my personal opinion, based on recollection and too-often frustration, the world of reinsurance administration deteriorated yearly from 1970 onwards and it took sheer catastrophe before a cacophony of voices raised up in horror at the absolutely poor risk management in both the cedant and the reinsurer. Everyone expected the proverbial s___ to hit the fan, but everyone crossed their fingers and leaned on their optimism that carried

over from their much praised pricing success. When the eventual eruption of issues came, there was more of the bad stuff below the surface that caused great embarrassment. The lucky ones were those new to reinsurance as they could point the finger at a generation that "blew it."

Whether one says it was the large claims that showed one's risk was greater than known as multiple polices from various cedants were in force but not "administered yet," or lapsed policies that were lazily reinstated, or underwriters who disregarded the follow-up necessary to make sure policies that were "intended" (I hate that word) to be lapsed were indeed lapsed, or it was true that only one of the five policies applied for in five different companies was to be accepted, and the list goes on, it does not matter as in reality it was the perfect storm (an overused phrase) of eruptions within the casual risk management that was practiced throughout the insurer-reinsurer realm. There are legends and urban legends of up to three years between a risk being assumed and contract issued by an insurer and the reinsurer knowing it was on risk. In an age where everything seems to have happened yesterday, waiting three years for risk information and premiums seems like a hallucinogenic dream. Although we ask, "how could it be true," we know it was true.

"IN AN AGE WHERE EVERYTHING SEEMS TO HAVE HAPPENED YESTERDAY, WAITING THREE YEARS FOR RISK INFORMATION AND PREMIUMS SEEMS LIKE A HALLUCINOGENIC DREAM. ALTHOUGH WE ASK, 'HOW COULD IT BE TRUE,' WE KNOW IT WAS TRUE."

Solutions were many and they ranged from better administration systems to real risk management practices. But one of the quickest solutions was to try to insulate oneself if you were a reinsurer from the administrative bottlenecks and poor risk management in the insurer who was always tardy in appreciating the importance of reinsurance administration even when 75 percent of the risk was passed off to one or more reinsurers! The hallowed jumbo limit was a quick and clean protective barrier to poor administration in the cedants.

Our industry defines the jumbo limit as, "A limit placed on the amount of coverage that may be in force and applied for on an individual life for automatic reinsurance purposes. If such insurance exceeds the limit, the risk must be submitted for facultative review." (Taken from the Glossary of Reinsurance Terms compiled by the American Council of Life Insurers Reinsurance Committee).

CONTINUED ON **PAGE 16**

If an insurer wrote the jumbo treaty clause with feeling, it would probably read as follows: An overly restrictive limitation on the ceding company's previously agreed-to authority to cede specific cases on an automatic basis because the reinsurer does not trust the cedant or the insurers in general to administer reinsurance in a timely and detailed way. If the amount of insurance currently being applied for with the ceding company, which may be well within the cedant's binding authority, and all other companies, together with the amount of insurance in force with all companies, which is rarely accurate or even known, exceeds the jumbo limit specified in the automatic treaty, the case may not be ceded automatically. Generally, as my reinsurer you insist that whether explicitly stated in the treaty or not, amounts of in force insurance to be replaced are included in the jumbo limit determination.

If a reinsurer wrote the jumbo treaty clause with feeling, it would probably read as follows: A much needed limitation on the ceding company's authority to cede specific cases on an automatic basis because we can neither trust the cedant to pass on material risk information in a timely fashion or perform proper due diligence on the ultimate amount of insurance to be in force at any point in time. If the amount of insurance currently being applied for with the ceding company, which may be some very large sum that clouds the judgement of the cedant's underwriters and marketers, and all other companies, together with the amount of insurance in force regardless of "intentions" which are often fleeting, with all companies, exceeds the jumbo limit specified in the automatic treaty, the case must be ceded facultatively where our underwriters can properly underwrite the risk both financially and medically ensuring proper diligence is applied. Generally, whether explicitly stated in the treaty or not, and we know from experience blunders are made often, amounts of in-force insurance to be replaced are included in the jumbo limit determination specifically because you insurers can never guarantee the replacement and are loath to follow up after issue.

Reinsurers give two reasons for forcing jumbo limits on the industry: first they recognize that their own finite automatic capacity on a particular life may already be totally absorbed by other clients on a life with a lot of in-force insurance; second, they have learned from experience that the fine art of large case underwriting is best left to those underwriters employed by reinsurers since they know best (just like in the sitcom Father Knows Best). Having self-professed prowess in the large case market, reinsurers want to control the underwriting evaluation of these cases. In several publications it is boldly stated, or subtly implied, that the ceding company's underwriters overlook jumbo limits enough to scare the bejesus out of true risk managers.

A rather large eastern-U.S. life insurer has the following table published online to encourage business:

| Automatic Binding–Best Class through Table 4 | | |
|---|---|---|
| Issue Ages | Automatic Binding Limits | Jumbo Limits |
| 0-65 | $50,000,000 | $60,000,000 |
| 66-75 | $40,000,000 | $48,000,000 |
| 76-85 | $15,625,000 | $18,750,000 |

It is great to see that a reinsurer (or reinsurers) trusts this rather large company with above average industry reputation for risk selection to the level of $50 million per life. The reinsurer(s) then takes it all away, and say your underwriting falls apart if there is already a policy in force for $20 million issued say 10 years ago. The reinsurer steps in and has its finest underwriters of a certain vintage start all over again and makes their own decision as to the financial and medical well being of the proposed insured. The reality is that in most cases the jumbo limit is there to compensate for poor administration and risk management.

If our industry had great, sorry make that average administration, the need for a jumbo limit of such a low amount as $50, $60 or $70 million would not be needed. If, at the time of application, all automatic reinsurers were given notice of the potential risk and had a window of say 48 hours to respond with retention conflicts, why would we need such low jumbo limits? If we had better risk management and work flow software we could almost eliminate the jumbo from a consequential level. Yes, there may be instances because of "not takens" and such that a reinsurer is left with no risk, but even that could be eliminated if we trained underwriters to both underwrite better and manage risk better.

Sloppy and much tolerated error-prone risk administration got our industry into this mess. Improved administration and risk management will truly get us out of the mess. Jumbo limits at the current levels are merely a Band-Aid on a gaping wound of a haemophiliac-like industry that lags in administrative excellence. ■

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# How To Lose A Million Bucks Without Really Trying: Oversights in Negotiating Reinsurance Treaties

*By Clark Himmelberger*

*Clark Himmelberger is a consulting actuary specializing in life reinsurance with Milliman in Tampa, FL. He can be reached at clark.himmelberger@milliman.com.*

Attorneys Spencer Alridge of Transamerica and Mark Sarlitto of Wilton Re graciously accepted invitations to participate with me in the 2010 SOA annual meeting session. Their astute perspectives built on their years of experience managing the reinsurance treaty function provided those in attendance with helpful insights into how to better manage the reinsurance treaty process.

The impetus for this session started with the premise that actuaries are very adept at modeling and negotiating the financial terms of a reinsurance quotation, but often an actuary's interest in the reinsurance treaty negotiation process wanes after the financial terms negotiation is over.

Where the actuary may have vigorously fought for an additional allowance point during the reinsurance negotiations, the actuary may also have been equally inversely complacent regarding treaty definitions that could (would) result in additional value. The best time for Tiger Woods to negotiate all the details of a prenuptial agreement was not while Elin was swinging a nine-iron. Similarly, the best time to negotiate the full terms of a reinsurance treaty is during the honeymoon phase while reinsurer and ceding company are constructively working together on a successful business relationship. Unclear or incomplete reinsurance treaty terms create additional business risk that can be mitigated with expanded efforts during the reinsurance treaty negotiating process. This was the consistent message (minus the golfing reference) from Spencer and Mark throughout the SOA session.

To help actuaries overcome their "competitive" disadvantage with attorneys with respect to drafting legal documents, the session also highlighted a number of valuable resources available to the actuary to guide them through the reinsurance treaty development process. These resources are identified and briefly described in the presentation slides which are available on the SOA website. (www.soa.org/professional-development/archive/2010-ny-annual-mtg.aspx)

It has been my experience in my reinsurance consulting practice that clients don't usually come in with reinsurance treaty financial modeling questions. The implementation of the reinsurance financial terms seems to universally meet with reinsurer and ceding company expectation. Where clients do seem to have their issues is when either the dynamics of the company or the dynamics of the business have evolved over time and the reinsurance treaty is unclear or unintuitive with respect to how the treaty relates to the block of business under the current circumstances. In short, reinsurance treaties work great when nothing ever changes, but poorly written reinsurance treaties lead to trouble when life doesn't turn out the way you planned. And life almost always doesn't turn out the way you planned.

An example of this, discussed during the session, is where a reinsurance treaty recapture clause states that the ceding company is entitled to recapture on a "to be determined" calculation of a recapture fee related to the profitability of the block of business. Clearly stating intentions (definition of profit, definition of assumption derivations) significantly reduces the cost of considering and/or implementing recapture. With an unambiguous recapture fee methodology included in the treaty, management can focus on the financial impact of recapture and quickly review the benefits of recapture and efficiently come to a decision. With no recapture fee methodology in place, management must first undertake drawn out negotiations for the recapture fee calculation methodology before ever being able to analyze whether recapture is a prudent decision. Most commonly an issue, the choice of a discount rate has a profound impact on the calculation of profits (or losses), and while agreeing to a discount rate might be a challenge during the treaty negotiation process, at the time of recapture it is near impossible. It is unfortunate that in some circumstances undefined treaty terms can lead to threatened arbitration (expensive) or in other circumstances it is effectively a cancellation (loss of value) of a potentially constructive treaty provision.

This example, and other examples highlighted during the session, recognizes that building a comprehensive, well thought out, reinsurance treaty defining the reinsurer and ceding company responsibilities under a range of conceivable future business environments is a time-consuming, tedious process. But it is the overwhelming consensus from the session panel that losing a million dollars in value due to an avoidable reinsurance treaty issue is not an uncommon industry occurrence. The frequent substantial loss of value emanating from poorly designed reinsurance treaties remain vivid examples that efforts spent improving the reinsurance treaty document are incredibly worth it. ■

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# Catastrophic Claim Trends and Medical Excess Costs

*By Mark Troutman*

Mark Troutman is president of Summit Reinsurance Services, Inc., in Fort Wayne, In. He can be reached at mtroutman@summit-re.com.

There are still considerable uncertainties about the impact of health care reform on the direct insurance market and the reinsurance market that supports it through quota share and excess of loss protection. Although passage of the Patient Protection and Affordable Care Act significantly expands coverage, it doesn't appear to reduce costs. Keeping in mind the pace of medical technology, here's a look at current catastrophic claim trends and their effect on medical excess insurance and reinsurance costs.

## NEONATAL INTENSIVE CARE

The incidence of premature births has dropped, a trend which it's hoped will continue. Until recently, it had increased steadily for the past 30 years. Approximately 20 percent of overall commercial reinsurance claim costs are from preterm infants and congenital anomalies. For Medicaid it is more than 50 percent. Preterm is defined as gestation of 36 weeks or less. According to the Feb. 16, 2010 issue of *Pediatric Magazine* and the March of Dimes, the average cost of a preterm birth is over 10 times that of a full-term birth ($49,000 vs. $4,500).

At the same time, the frequency of multiple births, which are always a significant cost, continues to rise. According to 2007 statistics from the Institute of Medicine, 3.4 percent of all births are multiple births. The increase can be attributed to several factors, including older mothers, usage of fertility drugs, and assisted reproductive technologies. Among the complications arising from multiple births are low birth weights, preeclampsia in the mother, (a life-threatening condition that can include convulsions and coma, also called toxemia of pregnancy), as well as gestational diabetes (diabetes that's only present during pregnancy).

**"CLAIM ACTIVITY IN EXCESS OF $1 MILLION DOLLARS SHOWS THAT CATASTROPHIC CLAIMS CONTINUE TO INCREASE IN FREQUENCY AND SEVERITY DUE TO OUR HEALTH CARE SYSTEM'S HIGH COSTS AND EVER-ADVANCING TECHNOLOGY."**

## CANCER CARE

There's also good news in cancer care, per the National Cancer Institute. Death rates for the most common forms of cancer (prostate, breast, lung, colon) and for cancer overall continue to decline. This is due, in part, to favorable trends such as the decline in smoking and an increase in screening capabilities for cancer.

Cancer treatment represents roughly five percent of national health care spending according to the Centers for Medicare & Medicaid Services (CMS). Despite the decrease in the frequency of some specific cancers as described above, other cancers, including liver, pancreatic, kidney, esophageal, thyroid, non-Hodgkin's lymphoma, leukemia and myeloma, have been on the rise.

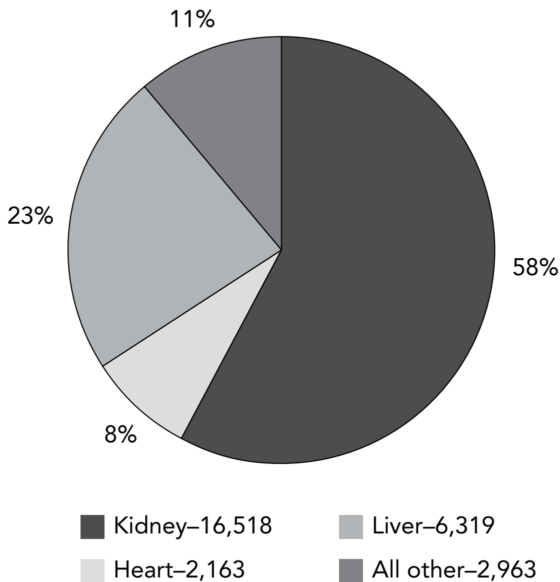
The challenge from a medical cost perspective is the increase in the use and cost of cancer-treating drugs. Avastin is a drug that improves the efficacy of chemotherapy, as it slows tumor growth and starves tumors of their blood supply. It has sales of $4.8 billion, yet it extends survival in colon and lung cancers by just a few months. In breast cancer treatment, it slows disease progression without significantly extending survival. Average costs are $100,000 a year and can be significantly more. It was approved for colon cancer treatment in 2004. A study in April 2009, found that Avastin wasn't effective in preventing recurrences of non-metastatic colon cancer following surgery.

Another new oncology drug, Afinitor, can delay disease progression in patients with kidney cancer by three months. However, some patients receive long-lasting benefits. A cancer drug that delays progression by a few months can be a big moneymaker, especially if it has fewer side effects than the classic cancer drugs that attack all cells, cancerous and normal. Afinitor costs approximately $5,500 per month.

## TRANSPLANT TRENDS

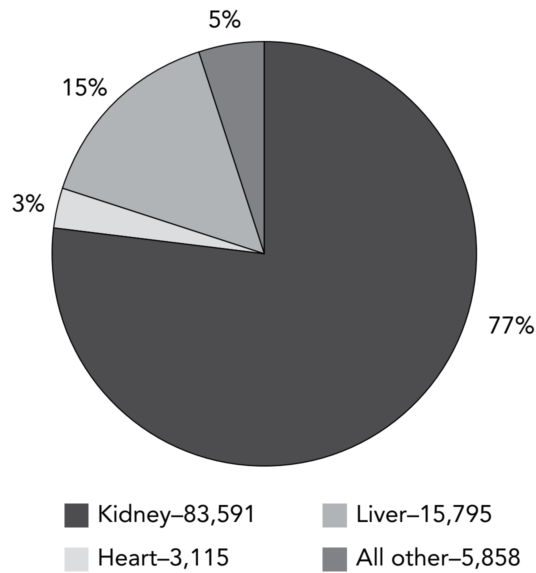
Solid organ and bone marrow transplants have increased due to broader indications for their use, new clinical technologies, and increasing demand. Approximately 47,000 transplants took place in the United States in 2008, according to the United Network for Organ Sharing (UNOS). Of that number there were 28,000 solid organ transplants, 11,000 autologous bone

**CHART 1**
**U.S. solid organ transplants in 2008**




**Source: Organ Procurement and Transplantation Network (OPTN)**

**CHART 2**
**Current U.S. wait list by solid organ**




**Source: OPTN data as of March 2, 2010.**

marrow transplants, and 8,000 allogenic bone marrow transplants, at an estimated $15 billion in charges for transplant-related services.

The frequency of various types of solid organ transplants for 2008 continues to be driven by kidneys. Kidneys now represent 58 percent of all solid organ transplants. (See Chart 1)

Since their first successful use in 1968, bone marrow transplants have been used to treat patients diagnosed with leukemia, aplastic anemia, lymphomas, multiple myeloma, immune deficiency disorders and some solid tumors, such as breast and ovarian cancer.

Although the total number of transplants is modestly increasing, the real issue is still the wait list, which hasn't changed significantly over the past few years. UNOS data shows that there were 106,027 unique patients registered on the transplant wait list as of March 2, 2010. Chart 2 shows the current U.S. solid organ transplant wait list by organ type. If there were an increase in the supply of organs, the number of transplants would rise dramatically.

Wait list priority criteria vary by organ but may include age, blood type, medical urgency, geographic distance between donor and recipient, and size of donor organ in relation to the recipient. Waiting time itself is only one primary factor for a kidney transplant. There's a very large and growing gap between the number of patients waiting for a kidney transplant and the number of patients receiving one. To try to close that gap, organs are now being utilized from extended-criteria donors (those who are older and those with kidney or other medical problems whose kidneys weren't used for transplantations in the past).

For liver transplants, there's a slightly decreased wait list for deceased donor liver transplants, a trend that began with the implementation of a scoring system for assessing the severity of chronic liver disease and prioritizing who receives a transplant.

Heart transplants have increased somewhat and the wait list has improved significantly. Ventricular Assist Devices (VADs) are improving heart transplant patient survival rates significantly, as discussed later in this article.

The number of lung transplants is increasing more steeply than other categories and the wait list has dropped dramatically. This reduction is largely attributable to the change in allocation policy, which is formula driven and now considers urgency and ben-

CONTINUED ON **PAGE 22**

efit, rather than time spent on the list. As a result, there has been a decrease in the number of individuals who die while waiting for a transplant.

The pancreas transplant list has changed significantly, as well. Simultaneous pancreas-kidney transplants are the most prevalent type of pancreas transplant, although survival rates continue to be moderate. Intestinal transplant volume varies, but the wait list has increased significantly. Intestinal transplants are very rare, with the vast majority occurring in children and adolescents. Bone marrow transplants are less subject to wait list constraints. Often a match can be found and a transplant completed within months.

In 2008, the weighted average billed charges per transplant episode was $427,000. Depending on circumstances, a complex transplant cost can rise to $1 million or more. Since 2005, billed charges for transplants have risen by 12.7 percent per year. Data indicates that there is an overall paid-to-billed discount of 45 percent (Source: OptumHealth and Milliman estimates).

Transplants continue to have successful outcomes. Table 1 indicates patient survival rates by transplant type (figures rounded to the nearest five percent.) The statistics are for deceased donor organs, the vast majority of all donors. Kidney donor data is for deceased donors who aren't extended criteria donors. Living donors can donate a kidney and parts of their liver, lungs, pancreas or intestines.

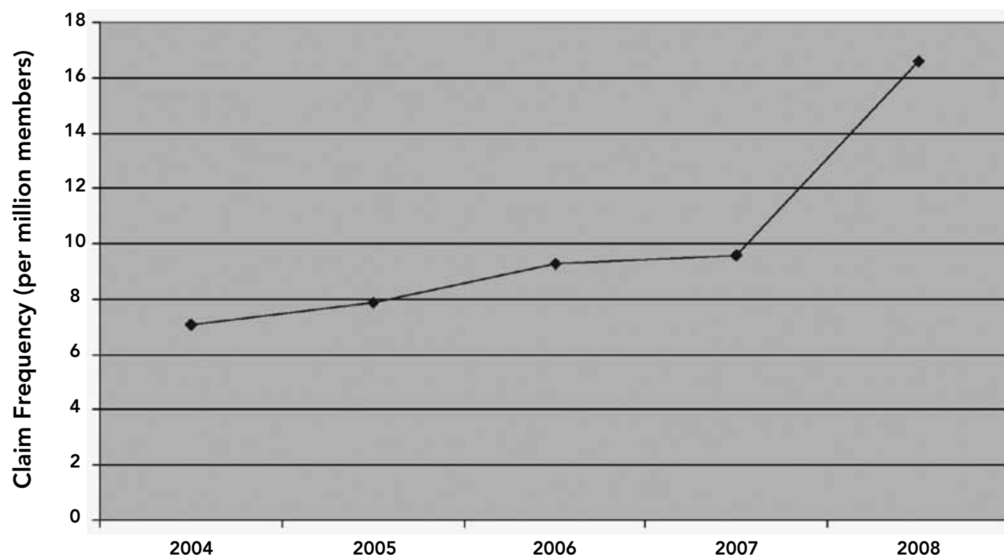
**Table 1 – Patient Survival Rates**

| Transplant Type | 1 Year | 5 Year |
|---|---|---|
| Kidney | 95% | 85% |
| Liver | 85% | 75% |
| Intestine | 80% | 55% |
| Pancreas | 95% | 85% |
| Lung | 85% | 55% |
| Heart | 90% | 75% |

**Source: 2007 OPTN/SRTR Annual Report 1997-2006 (http://www.ustransplant.org/annual_reports/) and Summit Re estimates.**

There are a number of trends in transplant care that bear watching, including the following:

- Organ acquisition costs continue to increase. The 2007–2008 cost growth ranges from less than 2 percent to more than 31 percent, depending on the organ (Source: Milliman estimates).
- There's been an increase in allogeneic bone marrow transplants, as well as an increase in cord blood and double cord blood transplants, especially for adults. Cord blood is a promising source of stem cells for a hematopoietic stem cell transplant (cells that form the various types of blood in immune systems). The use of bone marrow transplants for immunological diseases is now driving a portion of this increase.
- The "Organ Donation Breakthrough Collaborative," established in 2003, is a national initiative to increase the number of transplants in the United States by increasing donor awareness and increasing the number of viable organs from each donor.
- VADs are devices that are surgically implanted to mechanically assist the heart in pumping blood throughout the body. The use of VADs as bridges to transplant continues to increase, as patient survival rates increase continually with their use. Former Vice President Dick Cheney, who has suffered five heart attacks, had a VAD implanted in July. Studies have shown patients receiving VADs have three times the survival rate of patients receiving medical treatment prior to transplant (Source: United Resources Network LVAD Position Paper, August 2006, authored by K. Singh)
- There's a continued growing demand for liver/kidney transplants due to the positive outcomes. Clinical evidence has shown that liver/kidney transplants have better outcomes than liver transplants alone (Source: Eason, JD, et al. Proceedings of consensus conference on simultaneous liver/kidney transplantation (SLK). American Journal of Transplantation 2008; 8:2243-2251).
- A recent breakthrough in kidney transplantation, called kidney-paired donation, matches one incompatible donor/recipient pair to another pair with a complementary incompatibility, so that the donor of the first pair gives to the recipient of the second and vice versa. This procedure adds approximately




Source: Munich Re America HealthCare estimates

$25,000 to the average cost of a kidney transplant. In December 2009, doctors in Washington performed a 26-hour "kidney swap" involving 13 kidney transplants.

- Another technique to improve transplant efficiency is the desensitization of highly sensitized recipients. Panel-reactive antibodies are preformed antibodies against human leukocyte antigens. They develop in patients who have been exposed to human leukocyte antigens from blood products, pregnancy, and prior transplantation. Desensitization protocols and donor exchange programs are proving effective. The early transplantation of highly sensitized patients can save significantly in expenses over the lifetime of a patient. In most instances, the organ transplanted survival rate is 5 percent to 10 percent less than the patient survival rate (i.e., occasionally an organ fails and retransplantation is an option).

## CLAIMS BY DIAGNOSIS AND MEMBER TYPE

Commercial member catastrophic claims are generally related to premature infants, circulatory diseases, traumas, such as motor vehicle accidents, and cancer. Cancers, circulatory disorders, and infectious diseases typically represent a large share of the moderate-sized catastrophic claims but decline in frequency at higher deductibles. The prevalence of infant neonatal claims increases at higher retentions, given the potential for such claims to be complex, intensive, and of long duration (i.e., truly catastrophic). Transplant claims similarly become more prevalent at higher retentions. Certain rare conditions, such as hemophilia or pancreatitis, typically produce very large claims as well.

Medicare Advantage member catastrophic claims are dominated by circulatory, digestive and respiratory diseases. These constitute nearly 50 percent of all claims and there are no premature infants or congenital anomalies at this point in life. The good news is there are fewer injuries.

The population receiving medical benefits assistance under programs linked to Medicaid's Aid to Families with Dependent Children and Temporary Assistance for Need Families eligibility is dominated by women of childbearing age, with premature infants and congenital anomalies representing the majority of catastrophic claims. Those receiving Medicaid's Supplemental Security Income have the highest concentration of catastrophic claims for transplants, with cancer a close second.

## CLAIM ACTIVITY AND COVERAGE TRENDS

Claim activity in excess of $1 million dollars shows that catastrophic claims continue to increase in frequency and severity due to our health care system's high

CONTINUED ON **PAGE 24**

costs and ever-advancing technology. When both frequency and severity are increasing significantly, medical excess costs are likely to increase geometrically.

Given rapidly escalating costs, reinsurers are always interested in fixed-fee arrangements wherever and whenever possible (e.g., diagnosis-related-group or per diem payment features without outlier provisions). Cedants continue to emphasize predictive modeling, early detection, and intervention programs and care management initiatives to control costs.

The demand for health reinsurance is expected to rise as direct writers look to relieve pressure on their capital as a result of the current financial crisis. In addition, health care reform presents new uncertainties and risks, and catastrophic claims are rising, as documented above.

As claims continue to escalate, there is additional focus on claim mitigation techniques, such as aggregating excess coverage and lasering.

The aggregating excess coverage provides that claims exceeding the selected per member specific deductible (i.e., retention level), for one or more eligible claimants, are subject to an additional self-insured aggregate claim amount. Once that aggregate claim amount is exceeded, all further claims in excess of the per member specific deductible(s) are reimbursed.

A "laser" is most commonly an increased per member specific deductible (i.e., retention level). For example, if the typical retention level for the group is $50,000 per member, a high cost claimant with known, ongoing claims may have a lasered deductible of $250,000. Whereas, claims for most individuals in excess of $50,000 would be covered, this member must have claims exceeding $250,000 before reinsurance coverage begins.

On rare occasions, coverage for a member may be excluded entirely from the reinsurance arrangement. This may seem unfair on its surface. However, the purpose of insurance/reinsurance is still to focus on unknown, unpredictable risks rather than known, existing risks. In addition, why add a reinsurer's expense and profit margin to a known claim?

Candidates for lasers include large, ongoing, claims of high predictability, such as hemophilia and dialysis.

Coverage parameters associated with increasing claims are higher deductibles and annual and lifetime maximums, with some trend to no per diem limitations on claims costs—often called an average daily maximum. There are also desires for extra features to deal with continuity of coverage, such as deductible carryover, extended incurred definition for hospital confinement, multiyear rate guarantee, or experience refund features.

The results of health care reform to date demonstrate the difficulty of simultaneously addressing cost, access and quality in a politicized environment. In the meantime, health care costs, especially catastrophic claims, continue to rise because of increases in the frequency and costs of various new and existing medical treatments. More comparative effectiveness research is needed to help reduce the utilization of high cost treatments when there is no evidence of improved outcomes. ■

# Canadian Reinsurance Conference 2011

*By Alan Ryder*

The Canadian Reinsurance Conference, to be held on Thursday, April 7, 2011, is the largest annual life reinsurance gathering in the world, attracting a diverse group of over 500 attendees from insurance, reinsurance and retrocession companies and others who enable the business of reinsurance. Delegates attend from Canada, the United States and other countries, to experience a unique combination of education and networking opportunities in a concentrated one-day format.

The 2011 Canadian Reinsurance Conference theme is:
***Rethink Reinsurance***
*The Emergence of Convergence*
The focus will be on the radically changing landscape for the insurance and reinsurance businesses.

Across much of the world, GAAP accounting rules are converging with IFRS and regulatory changes are changing the game for the international transfer of risk by way of reinsurance. Long discussed reinsurance reform in the United States is now starting to take shape.

In Europe, Solvency II is scheduled for implementation in 2012, critical changes to the determination of liabilities under IFRS are targeted for 2014 and regulators are eager to reach agreement on the equivalency of other regimes so as to streamline group supervision.

Canada is being swept along with these changes. Canadian GAAP is scheduled to be replaced by IFRS in 2011. Many feel that this will result in a dramatic shift in product design, underwriting and administration. OSFI will need to overhaul its capital adequacy regime. It has also been reforming its reinsurance regulations with potentially significant impacts to domestic and cross border reinsurance transactions, treaties and administration.

Increasingly, risks must be seen in a global context and, as a result, there are increasing pressures for changes in pricing, underwriting, claims and reinsurance standards.

The lines between insurance, reinsurance and securities have also become increasingly blurred. Insurance-linked securities have become common, opening up huge opportunities for the insurance industry to reduce the cost of capital by tapping new sources of funding and transferring risk.

The conference will be opened by a presentation from **Dr. Wolf Becke, CEO of Hannover Life Re**. Becke has had a long and distinguished career in the life reinsurance business, serving as a member of the Executive Board of Hannover Re since 1992. Becke has seen the reinsurance business evolve and adapt, and he is exceptionally well qualified to provide a view on the global forces of convergence that are affecting us today.

In addition, **Dean Connor, COO of Sun Life Financial**, will provide attendees with a perspective on the impacts of convergence. Prior to joining Sun Life in 2006, Connor was President for the Americas of Mercer Human Resource Consulting. At Sun Life he has held a number of increasingly senior roles, including leadership of its Canadian and reinsurance operations. Connor is an experienced, thoughtful and articulate business leader who well understands the dynamics of change in our world.

In an interactive setting designed to promote networking, learning and an open exchange of views, presenters and breakout session leaders will help attendees to **Rethink Reinsurance** in light of the forces of convergence. The 2011 CRC will provide an opportunity to discuss how these issues impact the future of the life insurance and reinsurance businesses. As these forces are profound and impact us all, it is an event not to be missed.

On behalf of the organizing committee,

| | |
|---|---|
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| Event planner | Laura Gutsch, Managing Director CMG Marketing, |

I am looking forward to welcoming everyone to a very thought provoking and timely conference. ■

*Alan K. Ryder is President and CEO of Aurigen Reinsurance, based in Toronto, Ontario, Canada. He can be reached at Alan.Ryder@AurigenRe.com.*

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# ReFocus 2011, February 27 – March 2
# Four Seasons Hotel, Las Vegas, NV

*By Mel Young and Craig Baldwin*

ReFocus 2011 See the Future First is a distinctive, one-of-a-kind conference for senior-level life insurance and reinsurance executives, jointly sponsored by the American Council of Life Insurers and the Society of Actuaries.

ReFocus 2011 builds off the success of its previous conferences with more top-notch speakers, forward-looking sessions and superior networking opportunities, where you can interact with the who's who of the international life insurance and reinsurance industry. This meeting promises to be exceptional, with discussions on hot topics in reinsurance and life insurance that will prepare you to take on the greatest challenges in your career and at your company. This year's program revolves around "Solving Industry Issues" (e.g., distribution) and we are confident that you will find the conference enriching.

The featured keynote speaker will be **Michael Lewis**, author of *The Blind Side* and *The Big Short: Inside the Doomsday Machine*

Here is an outline of the sessions, topic, and speakers:

**General Sessions**

***Reinsurance CEO Panel***

Chris Stroup, Wilton Re (moderator)
Mike DeKoning, Munich Re
Donna Kinnaird, Swiss Re
Peter Schaefer, Hannover Life Re
Greig Woodring, RGA

***Managing Distribution in Today's Perilous World***

Doug French, Ernst &Young (moderator)
Butch Britton, ING
Fred Jonske, M Group
Dave O'Maley, Ohio National

***Overcoming the Challenges of a Multi-Line Distribution***

S. Michael McLaughlin, Deloitte (moderator)
Peter Golato, Nationwide
Jim Hohmann, FBL Financial Group, Inc.
Eric Smith, USAA
Matt Winter, Allstate

***International Reinsurers Assisting Clients with Distribution***

Paula Ferreira, Aon Benfield (moderator)
David Howell, Pacific Life Re
Ross Mayne, AllFinanz

***How to Succeed Distributing Life Products through Financial Institutions***

Jack Gibson, Towers Watson (moderator)
Chris Hilger, Securian
Tom Marra, Symetra
Jon Curley, Wells Fargo

***A Breakfast for Champions Only***

Monica Hainer, London Re (moderator)
Ken Frino, AM Best
Greg Gaskel, Standard & Poor's
Doug Meyer, Fitch
Robert Riegel, Moody's

**Concurrent Sessions**

***New Financial Reform – So What Else Is New?***

***Can Banks Solve The Ills of Insurers And Reinsurers?***

***How to Reach The Mid-Market***

***Do Guaranteed Benefits Sell Life Insurance Policies And Annuity Contracts?***

***Bank Solutions – How Do They Rate With Regulators And Rating Agencies?***

***Does Mortality Experience Support Life Insurance Preferred Risk Selection?***

***Do You See What I See? – Is there A Future For Reinsurance?***

Mark your calendar!

Plan to attend!

Register now at www.refocusconference.com/registration.asp ■

*Mel Young, executive vice president & vice chairman, RGA Re in Norwalk, CT.*
*Mel can be contacted at myoung@rgare.com.*

*Craig Baldwin, managing director – Group Cessions, Transamerica Re in Charlotte, NC. He can be contacted at Craig.Baldwin@aegon.com.*

# LEARN

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*LEARN is an education initiative of the Society of Actuaries' Reinsurance Section*

The LEARN team is comprised of volunteer actuaries who will spend as little as a couple of hours or as much as a full day at your location covering topics of interest to those of your staff who would like to participate.

## Objective:

**To provide resources to you and your staff to understand the potential implications of issues that impact the insurance and reinsurance industry**

- Educate in order to gain a full understanding of reinsurance and the role that it plays within the insurance industry
- Emphasis on Reinsurance Topics
- Tailor you own agenda to address related topics of interest

## Education

- Focusing on state insurance departments at this time
- Go-to resource for knowledge of life reinsurance
- Begin to establish in-house expertise on reinsurance topics

## Sample Topics

- Types of reinsurance
- Reinsurance treaties
- Risk transfer
- Credit for reinsurance

- Modal premiums
- Underwriting audits
- Cash flow testing
- Basic life insurance reserving
- XXX and AXXX

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Contact **Michael Boot** with an indication of interest or any further questions:
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# Living to 100 International Research Symposium—Something for Everyone

*By Jean-Marc Fix*

Reinsurance sometimes feels more like an art than a science, so when a chance to understand in depth a key segment of the market appears, it should be seized. The Living to 100 Symposium is such a chance and I hope you seized it. If not, do not despair: you will have another chance … in three years.

The January 2011 symposium, cosponsored by the Reinsurance Section, was the fourth in the series born of the vision of Bob Johansen. A unique characteristic of the symposium is that it seeks ideas from other disciplines on aging issues. Although it is not your typical actuarial symposium, there is much understanding to be gained from listening to papers outside our profession. Demographers, sociologists, gerontologists and biologists all approach differently one of the issues that is also central to actuaries: surviving and dying at the older ages.

The symposium is made of a mixture of panel discussions and papers. Generally the panels address implications of aging for our business (like the comparison of annuity mortality for different countries) and for society at large (like the future need for doctors and nurses). The papers, generally presented in groups of three, can vary from extremely technical to being very approachable. As a matter of fact, the symposium has been built to have two implicit tracks: one track being more technical while the second track is more focused on consequences and generally is less technical. There is always something for everyone.

The paper presentations are critically reviewed and tied together by the comments of a discussant. For those of you not used to more academic symposiums, the debate following the presentations is more heated than what we are used to seeing at a typical actuarial meeting—and may be worth the price of admission alone! We are talking about the edge of what is known, and life on this frontier is exciting even if it is only a frontier of knowledge. A life's worth of work often has been invested by the researchers presenting their papers.

The topics that were probably the most interesting to readers of *Reinsurance News* revolved around future shapes of the mortality curves and trends, mortality modeling, and finally aging and healthy aging predictors. Other sessions that may have been of interest focused on long-term care, and on a personal level for all of us, pension and retirement issues.

For the technically inclined, there was another look at the Lee-Carter model that evaluated measures of robustness and drift[1]. For the risk factor hunter among us, much can be gained in looking not only at the traditional factors (like obesity—less impact than you may think—on mortality,[2] but also at some non traditional factors (nature or nurture and an intriguing approach to evaluating that dilemma).[3]

Nothing is more dangerous than what we know except what we don't know we don't know. The question of the leveling of the "ultimate" mortality at very advanced age, which most practitioners believe is actually happening, could be a data construct artifact as some researchers suggest.[4]

Finally, if, when reading this you realized you missed a great opportunity—and you may well have—it is

*Jean-Marc Fix, FSA MAAA, is vice president, Research and Development, Optimum Re Insurance. He can be contacted at jean-marc.fix@optimumre.com*

CONTINUED ON **PAGE 30**

never too late to get the monographs from this and all of the other Living to 100 symposiums from the **Life Monographs** section of the **Monographs** page of the **News and Publications** tab on the SOA website. They can be found at *http://livingto100.soa.org/monographs.aspx*

*Jean-Marc Fix is a member both of the Research Council of the Reinsurance Section and the organizing committee of the Living to 100-2011 symposium. He also was the discussant of the Slowing the Aging Process session at the symposium.* ■

[1] X. Liu and H. Yu, Assessing and Extending the Lee-Carter Model for Long Term Prediction

[2] E. Stallard, The Impact of Obesity and Diabetes on LTC Disability and Mortality

[3] V. Jarry, R. Bourbeau, and A. Gagnon, Predisposition for longevity: Survival of Siblings and Spouses of Centenarians in Québec

[4] N. Gavrilova & L. Gavrilov, Mortality Measurement and Modeling Beyond Age 100

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