



SOCIETY OF ACTUARIES

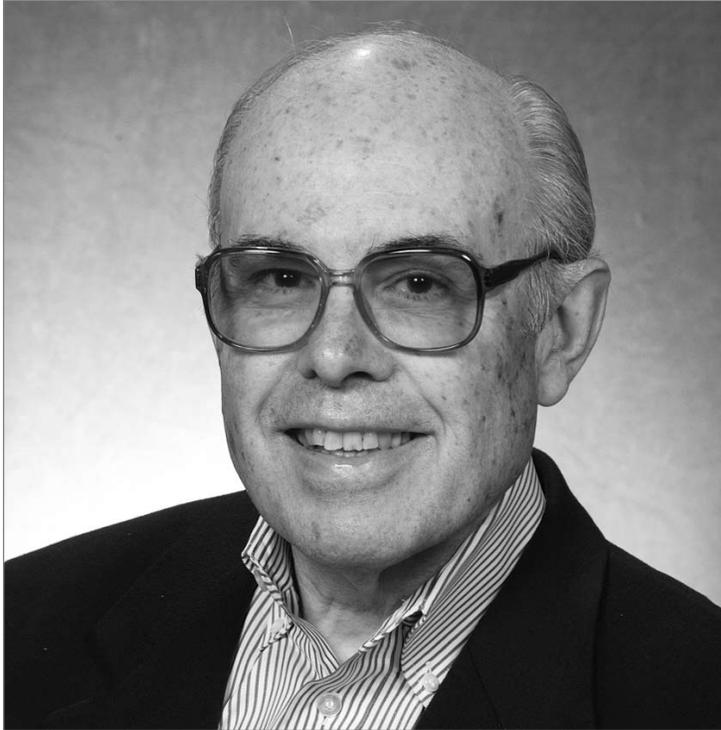
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TITANS OF REINSURANCE: JOE KOLODNEY

by Richard Jennings



Tell us a little bit about your background.

I'm a native of Connecticut. Born in New Britain, I've lived in Connecticut all my life except for the four years that I was in the U.S. Air Force. I attended a private school, Avon Old Farms, and from there went on to George Washington University, the first of six colleges and universities I attended, finally graduating from Central Connecticut State University, where I majored in Modern European History and minored in Political Science. Twenty-five years later when I was asked by Avon whether I had achieved the goals and objectives I had set for myself while at Avon, I responded that "for those of my classmates who were able to articulate and achieve their goals and objectives, I had nothing but admiration because my life has been strictly fortuitous."

How did you get into the insurance/reinsurance business?

Until his retirement at the end of 2006, Joe Kolodney was Managing Director of the Life Reinsurance Practice Group of Aon Re. He also served as global life reinsurance product group leader of Aon Re Global. Joe has 37 years of extensive national and international experience in reinsurance and insurance. He has held senior management positions at the General Reassurance Corporation, the life reinsurance subsidiary of Gen Re Corporation, and served on both the executive and the operations committee at Gen Re. His last assignment with Gen Re Corporation was as president and chief operating officer of Fairfield Life Insurance Company, a wholly-owned subsidiary. Subsequently Joe joined the Presidential Life Insurance Company of New York as president and chief operating officer. Prior to his retirement, Joe traveled extensively both domestically and internationally to support the life and annuity reinsurance activities of Aon Re Global. Joe is a charter member of the International Insurance Society and has been a speaker and panelist on international insurance issues and other topical subjects at SOA meetings, the English Institute of Actuaries, and the Scottish Faculty of Actuaries.

When my wife was expecting our first child, I needed to get a job, and was interviewed by the Hartford National Bank for a position as a securities analyst in their trust department. At the same time I interviewed with the Phoenix Mutual Life Insurance Company. The tipping point was that the person at Hartford National was a banker, not a human resources type (after all this was 1965/66), and he was telling me all about the positives of working there, and that, "When you retire at age 65, you would have a great pension." I was 25-years-old and what it sounded like to me was that he was handing me a 40-year sentence at the Hartford National Bank. At Phoenix Mutual they were setting up a small group life and health operation and were putting together a group of young guys like me, and they asked if I would like to join them in underwriting. This launched me in my insurance career.

A couple of years later I was approached by a recruiter who asked if I would be interested in talking to a small reinsurer down in southern Connecticut, which turned out to be General Reassurance Corporation, the original Gen Re. I went down for an interview (1969) and met with the players there. They

had a small operation, and told me that they liked me and were impressed; so they asked me to join them and see what happens. This was the start of my reinsurance career.

Who were some of the mentors or special people you worked with?

“Well most of them are dead, unfortunately. The then president of Gen Re Life, Bob Shepler, who came over from North American Re, Bob Mooney, executive vice president of Marketing and Dr. Don Haskins, executive vice president and chief medical director were the most influential people on my career. I was with Gen Re for 16 1/2 years from April 1st, 1969. When I started there I said it was no ‘April Fool’s’ joke.

“They didn’t know what they wanted to do with me so they rotated me around through underwriting and administration and finally put me into ‘marketing.’ I got to know life reinsurance pretty well. It was a sophisticated product, using sophisticated concepts, dealing with a knowledgeable consumer (the ceding companies) and I guess I was able to deliver the results.”

Modestly, Joe admits, “in the day,” that he probably sold more life reinsurance than any other person in the business. One of the largest transactions he put together was a quota-share deal for three direct carriers and one of the largest brokerage general agencies in the United States. This was the inception of agent-owned life reinsurance (1972) and was a substantial transaction that lasted a number of years.

Joe speaks Spanish fairly fluently and “second gear” French, and says he used to visit Quebec and Paris fairly often. When Gen Re opened up an office in Mexico City, they gave him the authority to oversight that office, and then Gen Re had an acquisition where they retained a Spanish presence in the life reinsurance market in Europe. So he went to Spain, and would travel around to various parts of Europe, expanding the GenRe Life’s presence on the continent and building a European retrocessional network—and ultimately, was put in charge of all of General Re Life’s retrocession arrangements.

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“I’ve had kind of an eclectic career. Dr. Haskins used to refer to me as the vacuum filler. If I saw something that needed doing and nobody was doing it, then I would end up doing it. I figured, ‘why not?’ If they didn’t want me to do it, they would tell me, ‘don’t do it!’”

Joe had a big impact on the retrocession business. Here’s how he got two large retrocession companies into the business.

I negotiated the first transaction between General Re and Manulife Re, who entered the retro business in 1978 working with Zane Stait-Gardner. Concurrently, I also did a transaction with Irwin T. Vanderhoof who put the Equitable Life Assurance Society into the retro business with General Re being their first retrocessional client. When Equity Funding Life happened, the board of the parent company, General Reinsurance Corporation, wanted to know who our retrocessionaires were. We were able to tell them that they were ‘AAA’ and they were pretty happy with that. I worked with my good friend Monica Hainer at Manulife Re when she was just a 25-year-old actuary. Now she is president and chief executive officer of London Reinsurance Group, including London Life Re and Canada Life Reinsurance. She and I developed a good relationship, and, with no denigration to the role that Equitable Life played, I felt that Monica was really very sharp, and so when we negotiated our retrocession arrangements, and issues came up, I would talk with her and often I accepted her advices. That was quite fun and I enjoyed that a lot.

I was basically in charge of General Re’s international life reinsurance business, such that it was; in charge of placing the retrocessions; managed what



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they called the “special accounts” to which I referred earlier. In the early 1970s, where we placed a lot of reinsurance of direct companies, there was a product called Section 79 retired life reserves that generated tens of millions of dollars of reinsurance premium through the “Special Accounts” production source. Ultimately I got pushed up to my level of incompetence. I was on the Executive Committee and the company’s Operations Committee.

I was asked to reactivate a dormant subsidiary, Fairfield Life, as its president and COO. General Re wanted me to put that back in the market and use the infrastructure we’d built, to be the data processor/administrator for small- to medium-sized companies who were intimidated by EDP entry costs. I spent about 2 1/2 years getting the company into the direct business in interest sensitive products; for example, universal life.

During that time, I was approached by Herb Kurz who was the founder, chairman and CEO of a company in Nyack, New York, called Presidential Life Insurance Company. He recruited me to come on board as president and chief operating officer. I was there for about 4 1/4 years.

I then started this life reinsurance broking operation in 1989 with the old Alexander & Alexander wholly-owned non-life treaty operation called Thomas A. Green & Company. Tom Green, who I had known at General Re non-life when he was there as senior vice president of treaty marketing, and I talked about Green getting into the life reinsurance broking business. He said, “sounds like a good idea, why don’t you do it for me,” and so that’s when I started this phase of my professional career, from 1989 to the end of 2006 when I retired. My first actuary was Kin K.Gee who left after one year and was succeeded by Jerry Kopel (who hasn’t retired yet!) who made an important contribution with his actuarial ability to help get deals done by using his expertise with his ceding company and life reinsurance peers. In 1997, A&A (and Thomas A. Green [then known as Alexander Re]) was acquired by Aon Corporation.

What are you doing now?

At my retirement, Aon decided that they would like to continue using me and we came to an agreement that I would be available to them as an exclusive consultant (on a reduced work load). So that’s what I’m doing right now as a “senior advisor.” I have no managerial responsibilities. I monitor the activity of both the domestic and the U.K. offices, contributing opinion and guiding decision making. I don’t make final decisions, all I can do is make recommendations and brainstorm some ideas. At the request of A&A’s reinsurance broking arm in London, Alexander Howden Group, I got us into the U.K. market back in 1993 and that has turned out very well. Life reinsurance is a funny old game because you don’t see very many entities out there that can represent themselves as brokers in a knowledgeable way, but as a result of our investment in people and services, Aon has done business with companies both in the United States and the United Kingdom and in Holland and Italy as well.

How does it feel to have gone through this career and not been an actuary?

I was frustrated. I think that actuarial blood must run through my veins, because I had a cousin, George Kolodney, who started a company in New York called Postal Life Insurance Company, which was subsequently acquired by Bankers Security Life. I always got on well with the actuaries. When I started in the life reinsurance marketing area for General Reassurance, the entry route for reinsurers was through the underwriting department. There wasn’t much of a dynamism of product development. This was before computers could change rates and values in the twink of an eye. This was before the development of all the reinsurance structures that responded well to tax code advantages, e.g. modco 820. When the term wars started back in the middle/late 1970s, there was a tremendous amount of quota share reinsurance to help ceding companies withstand the capital strain brought on by both acquisition expenses and reserve requirements. Financing the whole complexity of the life

reinsurance business changed dramatically. We played in the term wars, not as aggressively as some, maybe more aggressively than others.

Then we got into surplus relief financial reinsurance, and I can't help but think that for years the non-life people both at General Re and at Thomas A. Green, now Aon, were talking about their ability to do these finite reinsurance deals.

Having grown up under the NAIC regulatory environment and looking at what they were doing, I said that this would never fly in a life reinsurance context. Life deals were all constructed as legitimate risk transfer because the whole thing was that once the reinsurer was on the hook, it couldn't get off of it. If the block that they reinsured for surplus relief was ever to turn sour, you just had to eat it because, there was no way, without violating NAIC guidelines, to send it back to the ceding carrier. So these deals were a very good underwriting exercise because you wanted to be very sure that you weren't committing the reinsurer to an unprofitable business. People say, "Well, that's no risk." On the contrary. There is no reason why a reinsurer should have to take any more risk than the companies who wrote the business originally. As long as the liabilities are fixed and can't be tampered with, there is bona fide reinsurance.

What are some of the challenges you overcame, anything that stood out?

General Re Life, which in the late 1960's was a small company but had a great name. We would sell the name and the provenance even though we were initially a small company, and we did that pretty successfully.

Another was when I started the life reinsurance broking business for now Aon Re Global. There wasn't really any institutional broking entity committed to the life reinsurance business in 1989. There would be guys who were sole proprietors and would pick up a phone and talk to company A and reinsurer B, and say, "you guys get together and send me a brokerage check." We actually staffed to demonstrate

the significant "added value" we could bring to both cedant and reinsurer. Because of the experience and the extent of the more than 16 years with General Re Life, I knew what reinsurers were interested in, and what kinds of information they had to get, and found it interesting that the majority of the companies we did business with, once they made a decision to work with us, pretty much gave us what we felt we needed to get the reinsurer comfortable that they can proceed intelligently and do the best job they can. That was probably the single biggest challenge in the sense that we were starting from scratch. One of my deals, which pioneered surplus relief reinsurance in the UK in 1993 was with Cologne Re Germany, and we worked on it with my good friend Alex Cowley, then with Cologne, who was living in Germany at the time. Even today he said he was astounded at the fact that a reinsurance intermediary located 3,500 miles away in the United States could work with a U.K. ceding company and a German reinsurer to put together the kind of deal we did.

**IF YOU HAD A MOTTO, WHAT WOULD IT BE?
"DOING THE RIGHT THING, AND DOING
IT IN THE RIGHT WAY."**

What's your fondest memory?

Two things. First, the 16-plus years with the "original" General Re Life, not to denigrate what came after and what I'm doing now. That and "growing up" in the life reinsurance business with General Re colleagues like Mel Young, Herman Schmit, Ozzie Scofield, Craig Baldwin, Jerry Kopel, Charlie Frydenborg and Larry Roy all of whom worked together as probably the most dynamic life reinsurance production group in the industry. Second, making the Aon Re Global Accident, Health & Life operation the only real professional institutional life reinsurance broker that's out there. We have international exposure to all the major life reinsurers anywhere we need to go.

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Where do you see the life reinsurance business five years from now?

I am just going to “bluesky” this and say that there are emerging markets which the international life reinsurers are also pursuing. You have to differentiate between an emerging market and a mature market. The mature markets for life reinsurance in my opinion are North America and the United Kingdom. There is not a lot of reinsurance used in continental Europe. However, there may be some interesting changes—and challenges—with the advent of Solvency II. There is also a chance to develop the protection market which is not something currently emphasised on the continent. There is not the huge protection market that has developed over the years in the United States and the United Kingdom. They also have different products with different risk profiles. A lot of them are investment dependent.

The biggest potential emerging markets are in China and India. The middle class population of India is about 320 million people which is bigger than the size of the United States population. So I think if I were 20-25 years younger, I would seriously entertain moving out “East” to develop what is a burgeoning and emerging market. You have to be fairly conservative in your approach because the regulatory environment there is perhaps not as rigorous as it is in England or North America, but definitely that is where I think the future of the life reinsurance industry is going to migrate to.

What advice would you give people entering or coming up through the life reinsurance business?

First, they have to be happy at their work. Secondly, they need to like to confront a challenge. If they are being hired, that means that the employer feels there’s work for them to do. Beyond that, I think, you don’t want to spend your whole career resenting the fact that you are in that career. I was fortunate through a confluence of circumstances that fortuitously allowed me to get involved on the ground floor with General Re Life and the tremendous quality of its people. That gave me a platform to expand my knowledge base.

For those people coming up through the business and who are interested in knowing life reinsurance, they have to feel comfortable with the concept and have to be good “people persons” and make a commitment to work for satisfaction. I’ve always inculcated in the people with whom I work that you’ve got to be professional, maintain your integrity, and don’t succumb to pressure. If somebody needs an answer today the answer is “no.” The whole ethic on reinsurance that I developed was based on the 16-plus years I spent with the General Re Life company. We were very scrupulous about our great name and the kind of client with whom we did business.

How is your health and what are you looking forward to?

I still get a good night’s sleep. I still have an appetite for hard work. There seems to be a need for informed people who are available to do arbitrations. I have the latitude to get involved in that area of the business if called on.

One of the pros and cons of this business, is I used to do a lot of travelling. About 10 years ago American Airlines gave me a permanent gold card because I had flown over a million miles with them. Now I have three grandchildren with whom I have been spending a bit more time, a boy 11, and two girls 8 and 2. I am a part-time golfer, although some people might dispute that, with a 14 handicap—the number of clubs in the bag!

If you had a motto, what would it be?

“Doing the right thing, and doing it in the right way.” ✱