

Reinsurance news

- 1 **LEARN Initiative**
By Jeffrey S. Katz
- 3 **Chairperson's Corner**
By Larry Stern
- 8 **ReFocus ReCap**
By Ronnie Klein
- 10 **Capital Management
Reinsurance for A&H**
By Mark Troutman
- 16 **Brazil Reinsurance Update**
By Ronald Poon Affat
& Helio Hiroshi Noguti
- 20 **Social Media Guidelines**
By Mairi Mallon
- 24 **How Do You Communicate?
Insurers Jumping On Social
Media**
By Natalie Ho
- 26 **Canadian Reinsurance
Conference Recap**
By Alan Ryder



LEARN Initiative

By Jeffrey S. Katz

As with any practitioner in an esoteric field, those of us who work in the far corner of the universe known as Reinsurance rarely pause to consider the knowledge base that allows us to function smoothly in our daily work. Unfortunately, certain groups with the need for such knowledge may have no convenient way to obtain it. The purpose of the SOA Reinsurance Section's LEARN initiative is to address that need.

LEARN, which stands for Life Education and Reinsurance Navigation, is currently focused on providing reinsurance knowledge to state regulators. The LEARN team also sees the potential need among other groups, once we have addressed the need among regulators. The LEARN team understands that different groups will have different educational needs, depending on the breadth and depth of their experience. Even within a group, there are different areas and levels of expertise. The audience among state regulators has included actuaries, examiners and an occasional visit from the commissioner or

Reinsurance news

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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 (richardjennings@gmail.com) by August 1, 2011. 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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Reinsurers: The Impact of Systemic Risk and Natural/Manmade Catastrophic Disasters

Before the financial crisis, I don't recall the term "systemic risk" having been bantered around much. Not so since the financial crisis. We are two-plus years into the financial recovery and we seem to hear this term quite frequently on the news and in print—and not just from financial reporters or financial media. Just to be clear, here is a definition I Googled from the Internet:

"Systemic risk is the risk imposed by inter-linkages and interdependencies in a system or market, which could potentially bankrupt or bring down the entire system or market if one player is eliminated, or a cluster of failures occurs at once. Systemic financial risk occurs when contingency plans that are developed individually to address selected risks are collectively incompatible. It is the quintessential 'kneebone is connected to the thighbone ...' where every element that once appeared independent is connected with every other element."

We hear this term used in conjunction most often with banks and other financial institutions. Much activity since the crisis has been centered on the structure of massive and unprecedented federal bailouts—not just in the United States, but also around the globe—of financial firms and financial systems. We have witnessed the passage of legislation in attempts to try and avoid such an occurrence in the future, or at least to make the impact not as severe.

There are two key assessments to measuring systemic risk: the too big to fail (TBTF) and the too interconnected to fail (TICTF). TBTF can be measured in terms of an institution's size relative to the national and global marketplace, market share concentration, and competitive barriers to entry. TICTF is a measure of the likelihood and amount of medium-term net negative impact to the larger economy of an institution's failure to be able to conduct its ongoing business.

Couldn't the essence behind the kneebone connected to the thighbone be a reference to the reinsurance community as well? Doesn't the reinsurance community rely on "inter-linkages and interdependencies ... which could bring down the entire system if one player is eliminated or a cluster of failures occurs at once?" Are there reinsurers TBTF? Is the reinsurance community TICTF?

The issue of TBTF is not necessarily a problem for insurance and reinsurance companies where bigger is considered better in terms of



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CONTINUED ON **PAGE 4**

being able to diversify risk. Although one might ask, "Didn't the U.S. government classify AIG as TBTF?" I contend the insurance units within AIG were operating efficiently and profitably. It was not their failure which brought the company to be so classified. However, the issue of TICTF may be more applicable to insurers and reinsurers.

Studies looking at the interaction of the reinsurance market with other parts of the financial system in recent years have concluded the comparatively small size of the reinsurance sector makes it difficult to conclude it is systemic in the broader sense of the definition. It appears the reinsurance sector perhaps has limited influence to cause significant damage to the entire financial system. On the other hand, the reinsurance sector does have an effect on the real economy in terms of goods and services. Reinsurers provide risk diversification and increase capacity to direct insurers by:

- widening the capital base available to support undiversifiable risks;
- pooling risks across different direct insurers, sectors, and geographical markets; and
- supplying information, expertise and similar services to their insurance company clients, making it possible to insure risks which otherwise could not have been.

Reinsurers have been remarkably resilient in the face of extreme stress events—the Northridge earthquake, Hurricanes Andrew and Katrina, the destruction of the World Trade Center, the earthquake/tsunami in Indonesia, and, to a lesser extent the earthquake in Haiti, to name a few of the more recently publicized. It is anticipated the damage from the earthquakes in Chile and New Zealand, and the earthquake/tsunami in Japan will also demonstrate the resiliency of the reinsurance sector. Extreme stress events provide the opportunity for the sector to increase rates which in turn encourages new capital to the sector creating new capacity.

Don't conclude this gets the reinsurance sector completely off the hook. There are dangers to thinking so auspiciously.

- First, is there a limit to capacity? Increases in frequency and severity of claims; and, the market attempting to provide capacity to the rapidly expanding economies of India and China.
- Second, the emergence of a small number of very large, well capitalized expert reinsurers. This increases capacity. However, would the reinsurance sector be in a position to absorb the failure of one of these reinsurers, especially if the occurrence is a consequence of an event significantly impacting other reinsurers? This failure would lead to a mismatch in supply/demand for reinsurance coverage leading to a mismatch in supply/demand in the insurance market—regardless of price.

Ultimately, increases in prices would attract new capital increasing capacity and competition would resettle prices to economically affordable levels. But how long will this recovery take?

- Third, disruption could also be triggered by an event causing significant impairment to reinsurance liabilities at the same time as assets are depressed due to a financial crisis (sound familiar?). This could arise from any extreme event or combination of events. The impact of such a failure could be significant—leading to a lack of capacity in existing markets and a lack of available capital to create new capacity. Such an event would ultimately impair insurers, as the lack of reserve credit from reinsurers would make them technically insolvent. This sort of event could pose major structural implications across the global economy, more so than just the failure of one reinsurer, even if it were considered TBTF. Does this make the reinsurance community TICTF?

Food for thought ...

Sorry to disappoint those of you expecting a detailed update on Reinsurance Section activities normally appearing in the Chairman's Corner. We have been busy planning some upcoming thought provoking webcasts and sessions sponsored by the Section for the spring and fall. In this issue you will find:

- A summary from ReFocus written by this year's Co-Chair, Ronnie Klein. This year's conference was the best yet, and attendance has increased each year. You won't want to miss it next year.
- A summary of the LEARN team's activities visiting with state regulators to disseminate reinsurance knowledge written by Jeff Katz.
- The report of the Mortality Improvement research project written by Marianne Purushotham.

The Section is also commissioning the fourth edition of the Life, Health & Annuity Reinsurance textbook authored by John Tiller, Jr. and Denise Fagerberg Tiller. This edition is anticipated to be available in June 2012.

As always we welcome your suggestions and participation in Section activities. Get involved!

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

Resources used for this article include:

Systemic Risk – Wikipedia
Containing Systemic Risk – Report of CRMPGIII, 2008
Systemic Risk – The Big Picture: David Kotok, 3/16/09
Globalization and Systemic Risk: Douglas Darrell Evanoff, David S. Hoelscher, and George G. Kaufman, 2009



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a deputy. We take this variety into account to the extent possible in developing LEARN content. We also make clear our willingness to answer questions or provide information beyond the LEARN session. Ultimately, the LEARN team wants to be viewed as the go-to resource for questions about life reinsurance.

The content emphasizes life reinsurance topics. The core curriculum includes such all-time favorites as kinds of reinsurance, reinsurance treaties, credit for reinsurance, and risk transfer. More advanced topics include statutory versus economic reserves, structured financing of redundant reserves, and principle-based accounting. Clearly, some topics go beyond purely reinsurance into more general actuarial topics. The team intended from the start to make such topics available as part of LEARN, as they are at times so closely intertwined with reinsurance concepts as to be an essential part of the knowledge we want to impart. Still, there are limits to what we can comfortably deliver, which we work through for each session with the group involved.

The various topics lend themselves to differing levels of detail, subject to further tailoring based on the needs of the audience. For example, the material covering the Credit for Reinsurance model law and regulation tends to be more of a summary. On the other hand, our presentation on risk transfer covers each point of the Life & Health Reinsurance Agreements model regulation.

While the LEARN syllabus includes topics of substance that can add up to a full-day session, we have tailored the material for each state insurance department presentation to suit that department's specific needs. We would prefer to spend our time on topics most important to each audience, so long as we can deliver the appropriate level of quality and expertise. Other topics of interest the team has covered include cash flow testing, underwriting audits, reserve credit for reinsured policies with premiums paid in modes other than annual, and the Patient Protection and Affordable Care Act (a.k.a., Health Care Reform).

The map on pg. 7 shows the five states where LEARN presentations have taken place (as this is being written), along with upcoming sessions that have been

scheduled. The LEARN team has received positive feedback each time we've presented. The team has a full calendar for 2011, with presentations now being scheduled for 2012. One key to the success of the program is accessibility. Particularly in light of the budget constraints state governments face, the Reinsurance Section Council is assuring accessibility to LEARN by funding the travel expenses for the LEARN team when we travel to state departments of insurance. LEARN provides the presenters and the information, conveniently delivered to the regulators' location; all they have to supply is a room and an audience. Depending on the professional backgrounds of those who attend a LEARN session, continuing education credits may be available. This has been a secondary benefit for some attendees. However, the program is not designed specifically for that purpose, and the team does not intend to pursue certification for such credits. Having said that, we believe that the content meets the requirements for credit under both the Society's and Academy's approaches.

CREDIT WHERE IT'S DUE

Speaking of credit, LEARN is the brainchild of Ronnie Klein, during his recent term as chairman of the Council. Council member Gaetano Geretto played a key role in recruiting the LEARN team, including his recruiting of Kelly Levy to serve as LEARN Coordinator. Sean Burt, Jeff Burt and I were the original presentation team, with Michael Frank replacing Sean late in 2010. When Kelly stepped up to the role of Council vice-chair, Scott Meise took over as LEARN Coordinator.

The team prepared its own presentation materials, but we could not have done so without advice and input from several Council members and other actuaries active in the Section and the ACLI.

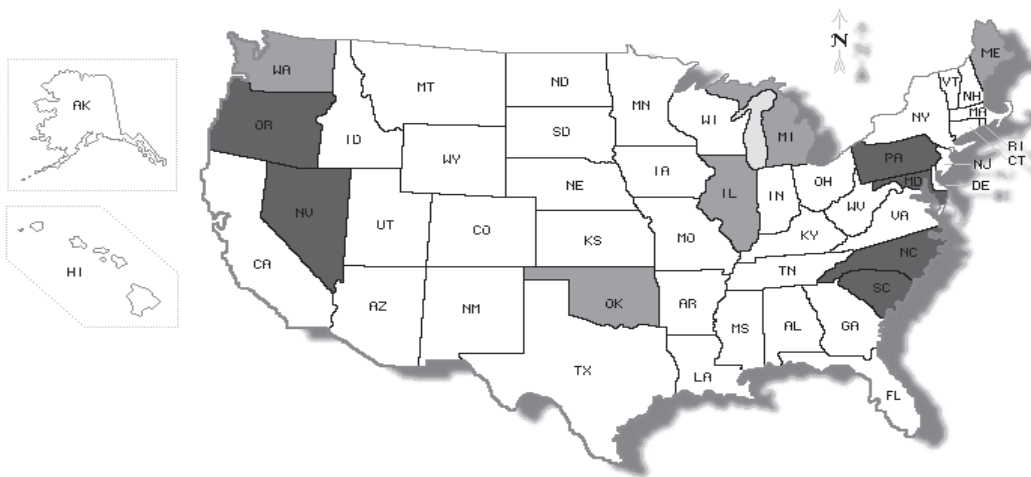
JUST THE FACTS

LEARN is focused on education. The team is not engaged in advocating positions on any issue. We recognize that at times we will discuss issues where there are open questions or even disagreements. In those situations, we attempt to explain differing views on an issue without taking sides.

“THE MAP SHOWS THE FIVE STATES WHERE LEARN PRESENTATIONS HAVE TAKEN PLACE ... ALONG WITH UPCOMING SESSIONS THAT HAVE BEEN SCHEDULED.”

LEARN

- - Complete
- - Scheduled



TIME TO GROW

The LEARN team has considered additional ways to expand to audiences beyond the initial set. One essential element in doing so is assuring that the quality of the program is maintained. Depending on the direction taken, we might need to cover additional areas of expertise requiring new team members. It is even possible there would need to be a second team. In any case, with the lineup of presentations already scheduled into next year, the team would welcome additional members who feel they have something to contribute to the effort

and who would value the opportunity. If you resemble that description, please get in touch with Scott Meise or myself. Those of us on the team have benefitted from developing the more thorough understanding of key reinsurance issues needed to serve as an expert presenter. We have also benefitted from gaining a first-hand view of issues our regulators consider important.

As a second pitch, the team would also welcome inquiries regarding 2012 LEARN sessions. If you know of a group that would benefit from a session, please let Scott or me know, or provide our names as contacts. ■

ReFocus 2011

By Ronnie Klein



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We are just emerging from the worst financial crisis of our lifetimes. Our companies are cutting expenses by reducing staff, consolidating or selling entities and restricting travel. Most Society of Actuaries (SOA) industry meetings have decreasing attendance figures—yet the ReFocus 2011 conference had a record attendance of 360 people!

You may ask why ReFocus has been so successful? To me it is quite clear. First, this is a joint effort by the American Council of Life Insurers (ACLI) and the SOA, bringing different views and resources to the table. Next, the Programming Committee is dedicated to improving the conference with new ideas, many of which come from attendees through the post-meeting survey or at the meeting itself. Finally, the architect of ReFocus and new “Legend of the Industry,” Mel Young, brings his vision, vast experience and extensive contact list to the conference. Without Mel, ReFocus would just be another meeting.

For those of you who did not attend ReFocus 2011, you missed more than a great opportunity to network with leading industry executives and take part in informative sessions. You missed one of the best keynote speakers in the industry today: Michael Lewis, author of the *Blind Side* and the *Big Short* (amongst other top sellers) awed a full house with details of the financial crisis from his perspective. He was honest, genuine, engaging and quite humorous. The story about Brad Pitt’s meeting with his young daughter was charming. This session was clearly the highlight of the meeting.

ReFocus has matured into much more than a domestic reinsurance conference. With this year’s theme of Distribution, the meeting has become a haven for executives from direct insurers, reinsurers, consulting firms, law firms, banks, rating agencies and regulators. In fact, about one-third of the attendees were from reinsurance companies and more than one-quarter of the attendees were from direct insurers. Twenty-seven of the attendees work outside of the United States in countries such as Germany, Switzerland, Ireland, United Kingdom, Canada and Bermuda. We even had an attendee from

Hawaii. Please note that I did not consider West Des Moines, Iowa or Lenexa, Kan. on my list of foreign countries as some of my colleagues recommended.

Where else can you rub elbows with reinsurance icons such as Ajit Jain, Greig Woodring and Diane Wallace, and insurance executives such as Butch Britton, David O’Malley or Jim Hohmann? In short, ReFocus is becoming *the* insurance conference of the year. Who knows, next year the Programming Committee may try to attract non-life insurance and reinsurance executives to the party. Watch out Monte Carlo!

Overall, of the 25 percent of attendees who responded to the post-conference survey, an overwhelming majority (74 percent) rated the conference as ‘Very Good’ or ‘Excellent.’ What are the survey respondents suggesting for improvements? It seems that some attendees would like to move the conference to the middle of the Las Vegas Strip, while others would like it moved to the East Coast of the United States to better entice more international attendees. These suggestions are common and have been and will continue to be seriously considered. Some comments focused on the lack of a pure reinsurance theme. This has been the topic of a debate within the Programming Committee. The general consensus is that reinsurers need to have a better understanding and develop solutions for the issues and concerns of their clients. Distribution, for example, is a major issue for insurers and reinsurers need to better understand this issue and provide practical and helpful solutions. One of the well-rated general sessions focused on programs developed by reinsurers abroad to assist insurers with new and innovative methods to approach new and existing policyholders.

Of all the positive aspects of the ReFocus Conference, the most positive is that approximately one-half of the responding attendees heard about the conference by word of mouth. This medium of communication far exceeded any other choice. Therefore, it is time to spread the word that ReFocus 2012 will begin on Sunday, March 4 and end on Tuesday, March 7. Mark your calendars now!

In addition, please contact Jay Semla at the SOA (jsem-la@soa.org) or Victoria Smith at the ACLI (victoria-smith@acli.com) with any other suggestions or comments including potential topics and speakers. It would also be great to hear from attendees if they think that having a high-profile speaker, such as Michael Lewis, and a professional moderator, such as Bill Press, substantially enhances the conference.

Finally, the Programming Committee would like to once again thank the sponsors who make the conference

possible. If you would like your company to become a sponsor for ReFocus 2012, please contact the SOA or ACLI for details of what opportunities are available. And, remember to get your budget requests in early to your companies to make it happen.

See you at ReFocus 2012! ■

Don't Be Left Behind!

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Have you attested compliance with the SOA CPD Requirement? As of March 1, if you have not attested your status is now listed as "Pending" in the SOA directory.

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2. Indicate whether you have met the SOA CPD Requirement.
3. Identify which method of compliance was used.

You must attest or be considered non-compliant. Go to SOA.org/attestation for more information.



Quota Share Reinsurance Solutions for Risk-Based Capital Relief

By Mark Troutman



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Health care insurance programs require capital. Those who require capital include policyholders, rating agencies and regulators. The focus of this article is on the regulators who determine risk-based capital (or RBC) standards applicable to health plans.

Health reform will bring many health plans opportunities for growth. Medicaid enrollment, for example, is expected to grow by an estimated 14 to 16-million lives due to the expanded Medicaid eligibility provisions of the Patient Protection and Affordable Care Act. As a result, many Medicaid health plans have legitimate concerns about meeting risk-based capital requirements. This article explores the opportunity for quota share reinsurance to meet risk-based capital requirements for all health plans with growth opportunities.

SOURCES OF CAPITAL

There are many potential sources of capital. The most common is capital contributions from investors, i.e., equity. Another source of capital is borrowed money, or debt. A third source of capital is retained earnings. If you price your program for profit in addition to expected claims and expenses in the operating results, those earnings become capital and surplus via retained earnings. Lastly, reinsurance is a form of capital because it provides capital relief when the risks that require that

capital be employed are removed from the company's balance sheet and income statement via a reinsurance treaty.

Each of these sources of capital has advantages and disadvantages. For example, equity is the most permanent form of capital, but is dilutive. It has no required repayment or interest provisions. However, investors do expect a return on capital. Debt is non-dilutive leverage but must be paid back with interest in a pre-arranged timeframe. Retained earnings don't materialize unless you price for them and succeed in your operating results. Hence, they are uncertain and one cannot count on them definitively for capital required to grow.

Reinsurance assumes claim risk in addition to providing capital relief and often comes with other value-added services from the reinsurer. Reinsurance is typically easier to put in place and modify or terminate than debt or equity.

TYPES OF REINSURANCE

There are two main types of reinsurance, excess of loss and quota share. Excess of loss is often called a non-proportional coverage and quota share is a proportional coverage. The following examples describe how quota share and excess of loss claims are allocated between the parties. With quota share, is it the same regardless of the size of the claim? With excess of loss coverage, one determines the proportions to be paid by the cedant and reinsurer based on the size of the claim and the deductible chosen.

A quota share arrangement covers the same amount of the claims between the parties, regardless of whether the claim is very large or very small. One can see from the above examples that in a quota share arrangement, the proportion was always the 80/20-percent split assumed for the risk between the reinsurer and the cedant. However, in the excess of loss example, the proportional sharing in one situation was one-eighth to seven-eighths, and the other was one-twentieth to nineteen-twentieths. Hence, it is non-proportional coverage because the amount shared between the parties is based on the size of the claim and the deductible chosen.

EXAMPLE 1: \$400,000 CLAIM

80% Quota Share		100% Excess of Loss (assume \$50,000 deductible)	
Plan pays	Reinsurer pays	Plan pays	Reinsurer pays
\$80,000	\$320,000	\$50,000	\$350,000

EXAMPLE 2: \$1,000,000 CLAIM

80% Quota Share		100% Excess of Loss (assume \$50,000 deductible)	
Plan pays	Reinsurer pays	Plan pays	Reinsurer pays
\$200,000	\$800,000	\$50,000	\$950,000

WHAT'S THE BENEFIT?

Benefits to a health plan of quota share reinsurance are numerous. They reduce the plan's required capital and provide a temporary source of capital, particularly for growth. In simplistic terms, if a company desires to grow by 50 percent, its risk-based capital will have to grow by roughly 50 percent (with some adjustments for premium economies of scale in the RBC formulas).

Quota share reinsurance reduces financial exposure to adverse claim fluctuation for the company. The cedant can continue to participate in the underwriting gains in some negotiated percentage even though it has reinsured the business. It has access to outside expertise from a professional reinsurer in the areas of claims, underwriting, administration and managed care services.

A reinsurer typically provides a fixed expense allowance to cover the plan's cost for general administration, sales and marketing, provider relations and medical management. A plan's deviations from the expected expense levels provided in the expense allowance are absorbed by the plan.

Excess of loss protection is still important to cover catastrophic claims even when a quota share reinsurance treaty also exists. An excess of loss reinsurance treaty provides protection to the variability of the quota share reinsurance treaty results. Unfortunately, typical excess of loss premium is only 0 to 5 percent of total premium, so it's an ineffective tool for lowering risk-based capital requirements since it only involves a small percentage of the premium. That's why a quota share arrangement for a significant percentage of premium is the best approach when risk-based capital is the primary issue rather than the risk of catastrophic claims.

Improving financial ratios often improves or maintains claim paying ratings and debt ratings from rating agencies such as A.M. Best, Standard & Poors, Moody's or Duff & Phelps. Acquiring a block of business and ceding a portion of the risk to the reinsurer allows the company to control the business but minimize risk-based capital requirements.

// A REINSURANCE TREATY, LIKE AN INSURANCE POLICY, IS A PROMISE TO PAY AND IS ONLY AS GOOD AS THE REINSURER MAKING THE PROMISE. //

REINSURER OVERSIGHT AND REINSURANCE STRUCTURE

As the reinsurer has a significant financial stake in the business, its oversight may include a review of the current plan operations and any proposed changes in products, reinsurance limits, vendors, utilization review activities, provider network and contracts, underwriting guidelines, administrative expense loads, claims system and coverage terms.

A reinsurer becomes the plan's partner when it is sharing in the profits and losses on the business. Therefore, it desires some involvement in how the business is run, particularly if the quota share percentage it assumes is large (i.e., 50 to 100 percent). The greater the percentage of risk ceded to the reinsurer, the greater the desired involvement by the reinsurer.

The structure of a sound risk-based capital reinsurance deal is designed to meet all risk transfer regulations of state and federal regulators, minimize asset transfer through the use of modified coinsurance (or modco) rather than cash coinsurance and provide the plan with the ongoing ability to participate in favorable operating results via an experience refund if the business results are favorable. A cash coinsurance transaction would actually cede the portion of the premiums to the reinsurer. A modco transaction cedes the risk to the reinsurer, but actually retains the cash on their balance sheet (essentially ceding the premium to the reinsurer as an account receivable). Given that most accident and health business is short-tail and investment income is not a critical factor in profitability, there is no financial incentive to cede the business to the reinsurer to let them make their own investment decision.

CONTINUED ON PAGE 12

A common requirement for a reinsurer engaging in financial reinsurance transactions is that the plan can't voluntarily terminate with experience in a deficit position without repaying that deficit to the reinsurer. However, if the reinsurer elects to terminate the treaty and the plan's financial result is in a deficit position, the reinsurer must suffer the losses for proper reinsurance credit to be obtained. A typical treaty involves a three to four year expected treaty duration with 90 to 180 day termination provision that can be executed by either party. In the event that the quota share reinsurer decides to terminate the relationship, the plan must find a new reinsurance partner, be in a position to provide the required capital to support the business or exit the line of business at the next opportunity.

A typical quota share percentage (to the reinsurer) is 50 to 80 percent. This allows a significant amount of premium and risk to be shifted to the reinsurer while maintaining the cedant's economic interest in the business results. Although most treaties allow for the reinsurer to participate in investment risk as well as insurance risk,

the investment income on cash flow in health business, which is short-tail, is immaterial.

FACTORS IMPACTING PRICE

The main factors impacting the price of a potential risk-based capital reinsurance deal include the level of risk, which is embodied in the type of business, historical and projected profit margins, guarantee types and duration, the amount of risk-based capital relief actually made available (the benefit), as well as other terms and provisions which may cap the loss exposure of the reinsurer at some higher level. Lastly, if assets are transferred in cash to the reinsurer, there might be some frictional costs associated with a bank trust or letters of credit for security and reserve credit purposes.

One can see through the two illustrative examples on the left the similarities and differences between a conventional quota share and a financial quota share reinsurance transaction.

Medical Quota Share Example #1							
50% Quota Share Conventional Coinsurance Transaction 25% Expense Allowance							
Month	Jan	Feb	Mar	Apr	May	Jun	YTD
Before Reinsurance							
Earned Premium							
Claims Incurred	1,000	1,000	1,000	1,000	1,000	1,000	6,000
Expense Allowance	650	800	950	600	550	700	4,250
Total Combined Ratio	250	250	250	250	250	250	1,500
	0.90	1.05	1.20	0.85	0.80	0.95	0.96
Reinsured Portion							
Reinsured Premium	500	500	500	500	500	500	3,000
Claims Incurred	325	400	475	300	275	350	2,125
Expense Allowance	125	125	125	125	125	125	750
Stop Loss Premium	0	0	0	0	0	0	0
Loss Net of S.L.	0	0	0	0	0	0	0
Reinsurance Fee	0	0	0	0	0	0	0
Experience Refund	0	0	0	0	0	0	0
Loss Carry Forward	0	0	0	0	0	0	0
Settlement	0	0	0	0	0	0	0

Medical Quota Share Example #2

50% Quota Share Financial Reinsurance Transaction, 110% Stop Loss @ 0.5% fee.
0.6% Reinsurance Fee. 22% Expense Allowance for 25% Actual Expenses.

Month	Jan	Feb	Mar	Apr	May	Jun	YTD
Before Reinsurance							
Earned Premium	1,000	1,000	1,000	1,000	1,000	1,000	6,000
Claims Incurred	650	800	950	600	550	700	4,250
Expense Allowance	250	250	250	250	250	250	1,500
Total Combined Ratio	0.90	1.05	1.20	0.85	0.80	0.95	0.96
Reinsured Portion							
Reinsured Premium	500	500	500	500	500	500	3,000
Claims Incurred	325	400	475	300	275	350	2,125
Expense Allowance	110	110	110	110	110	110	660
Stop Loss Premium	2.5	2.5	2.5	2.5	2.5	2.5	15
Loss Net of S.L.	0	12.5	50	0	0	0	0
Reinsurance Fee	3	3	3	3	3	3	18
Experience Refund	59.5	0	0	16	109.5	34.5	219.5
Loss Carry Forward	0	15.5	68.5	0	0	0	0
Settlement	3	-12.5	-50	71.5	3	3	18

Example #1 is more straightforward. The reinsurer participates in the agreed-upon percentage of financial results, both positive and negative, with a given expense allowance. There are no additional experience refund calculations or loss carry forward provisions. It is as if the quota share portion of the block has been sold to the reinsurer.

In Example #2, the reinsurer is providing reinsurance protection to the plan but also providing an experience refund for favorable experience. Therefore, the reinsurer will usually attempt to be more conservative with respect to the risk it assumes and to also cap its risk exposure in certain regards. This may include an expense allowance that only covers marginal expenses rather than all expenses, a stop-loss limit that caps the reinsurer's exposure (e.g., claims and expenses in excess of 110 percent of premium are returned as a risk to the cedant, and termination and duration provisions that allow for smoothing the results of several years of experience. Hence, the financial reinsurer's implic-

it margins are the original target underwriting gain, the marginal or full expense allowance adjustment (if any), and the stop loss cap on the risk assumed by the reinsurer.

Note from Example #2 that the financial reinsurer's "settlement" entries sum to 18, which is the same as its reinsurance fee (6 x 3=18). The cash payments required between the parties to cover losses ultimately are covered via net favorable experience and the only amount of profit the financial reinsurer retains is its fees.

BUSINESS TARGETS AND DEAL UNDERWRITING

Medical blocks to target for the risk-based capital relief include any profitable group and individual health business, including major medical, Medicare/Medicaid, specific and aggregate stop-loss and HMO/PPO business.

CONTINUED ON PAGE 14

To evaluate the potential for an RBC reinsurance treaty, the reinsurer will typically accumulate certain company underwriting information in its initial due diligence with the potential cedant. Such information may include company financials (annual statutory, GAAP and audited financial statements), a good understanding of the need for reinsurance relative to sales projections and operating results, the policy forms being reinsured, expense levels, historical results, marketing strategy and underwriting philosophy. To assume significant risk, the reinsurer must understand the business and have a comfort level regarding future expected results.

How might one look at the cost of capital for an arrangement like this? One approach is to divide the reinsurer's fee by the amount of risk-based capital relief provided. For example, in a typical financial reinsurance transaction, the reinsurance fee may be 1 percent of premium, and the capital relief may be 14 percent of premium. Therefore, the cost of capital for this transaction is 1 percent divided by 14 percent = 7 percent. This can be compared to the availability of capital from other sources and constraints thereon as described previously.

Both the financial reinsurance and conventional reinsurance transactions have advantages and disadvantages. Neither one is superior to the other; it depends on the needs of the cedant. The following chart provides a very general comparison of the advantages and disadvantages of the two quota share alternatives.

	Financial Reinsurance	Conventional Reinsurance
Advantages	<ol style="list-style-type: none"> 1. Lower cost (i.e., expense, risk and profit charges to reinsurer). 2. Cedant retains more upside profit potential. 3. More flexibility (i.e., ability to recapture quickly or adjust quota share). 	<ol style="list-style-type: none"> 1. Less regulatory/rating agency scrutiny. 2. More services from reinsurer (e.g., facultative underwriting, claim management). Truer "partnership" with follow form features. 3. Simpler agreement form.
Disadvantages	<ol style="list-style-type: none"> 1. Cedant retains more downside risk. 2. Potential for oversight controls by reinsurer given risk-reward potential (e.g., warranties to do certain things). 3. Potential for more regulatory scrutiny given complexity. 	<ol style="list-style-type: none"> 1. Higher expense, risk and profit charges. 2. Cedant loses some upside profit potential.

CAVEAT EMPTOR

A reinsurance treaty, like an insurance policy, is a promise to pay and is only as good as the reinsurer making the promise. Any company considering engaging in a quota share reinsurance transaction should consider the ratings, capital and surplus of the reinsurer as well as the diversification of its business lines, its pricing discipline, and its expertise in structured reinsurance transactions. ■



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Brazilian Reinsurance Market Update

By Ronald Poon Affat and Helio Hiroshi Noguti



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In 1939, the Brazilian Reinsurance market was closed to direct access by international reinsurers. It was reopened in January 2010 and is now home to 84 multinational reinsurers and the State Reinsurer, Instituto Resseguradora do Brasil (IRB Re).

Even after two and a half years, the IRB still has the dominant market share. This article will discuss the major issues that the multinational reinsurers face in Brazil.

In 2009, the total reinsurance market was US\$2 billion. This can be compared with a total 'insurance' market of US\$23 billion for all lines of business (excluding health care). However the estimated reinsurance premiums for just three pipeline P&C projects are alone projected to be more than US\$2.5 billion. These include the World Cup 2014, US\$29 million; the 2016 Olympics US\$324 million; and the Growth Acceleration Programme or PAC2, R\$2 billion.

SO WHY IS EVERYONE FLOCKING TO BRAZIL?

- Brazil is a mature market and writes all lines of business, that being said ...
- There is a lot of growth potential: world's 7th largest economy, but only the 17th largest in terms of insurance with only 3.3 percent of premium as a percentage of GDP (USA is almost 9 percent);
- Fairly segmented lines of business: Independents, Bancassurers, monoliners and multiliners, regional players, mix of multinationals and locals;
- No natural catastrophes (yet?);
- Because the market was closed for 71 years, there is a lot of potential to innovate and introduce the concept of reinsurance as a financial engineering tool;
- The guy to beat is still the state reinsurer. Taking market share from an inefficient and bureaucratic organization should not be mission impossible;

- Potential to earn very high rates of investment return. Short-term risk-free rates are 12 percent with inflation projected to be 6.5 percent this year; and
- Out of the BRIC countries (Brazil, Russia, India, China), Brazil holds the best record for free and fair democratic elections, economic stability, a government that is respectful of company law/ shareholder rights and human rights.

Reasons why multinationals find the Brazilian market so challenging are as follows:

Firstly, Brazil is not really an open market. It is kind of like a three-ring circus. Reinsurers may apply for classification as local, admitted or occasional reinsurers. Currently there are eight locals, 23 admitted and 54 eventuals. The admitted and occasional reinsurers are at a distinct disadvantage since they do not have full access to reinsurance risks. However, the local reinsurers have the same rights and privileges as the IRB, but they need to deposit US\$35 million of capital locally, can only retrocede 20 percent of their portfolio with their head offices and they need to submit to being regulated by the Brazilian Insurance Regulator (SUSEP); this means that one has to have a fairly large back office which drives up administration expenses.

Secondly, the Brazilian government keeps changing its mind regarding the regulation of reinsurers. In 2010, a hefty new "fiscal" tax was applied to local reinsurers. In March 2011, the rules were changed to reduce from 50 percent down to 20 percent, the percentage of a reinsurer's portfolio that can be retroceded to the locally based reinsurers' head offices, and now at least 40 percent of every risk must be reinsured locally. In April 2011, the government's 35 percent share of the IRB has been transferred to the Banco do Brasil, the state's largest bank. This year's recent changes have been interpreted as being designed to make the IRB even more difficult to compete against.

Thirdly, Brazilian underwriting standards and scarcity of claims data; which are acceptable to the IRB but are



well below international standards, which makes risk assessment/pricing extremely difficult.

Last but not least, Brazil can be a very expensive place to do business. Sao Paulo and Rio de Janeiro office rentals are amongst the world's top 10 most expensive cities. Sao Paulo salaries for the best and brightest (attracted to the financial sector) are on average, higher than in either New York or London.

The following points set out some proposals that address these and other issues:

1) Investment market. Brazil is really the place to be seen at the moment, from the front cover of *The Economist* to the front page of JP Morgan's in-house magazine, it's all about Brazil. Reinsurance CFOs should embrace the possibility of diversifying their investment portfolio to include Brazilian exposure and ratcheting up their overall portfolio yield. An analysis of the P&Ls of the local reinsurance companies show that the return on investments are very low; much lower than short-term risk-free rates which are now around 12 percent. Pricing actuaries need to think opportunity and not cost of capital and competitive pricing means including investment returns. Of course, focusing

on maximizing asset returns will require local reinsurance companies to start to recruit local experienced investment professionals.

- 2) Government regulation. One can accuse the Brazilian government of many things, but these do not include acting fast or working secretly. So why have reinsurers been blind-sided with overnight changes that have fundamentally affected their business models? Currently there is a disconnect between the local reinsurers and the corridors of power in Brasilia, the nation's capital, that can be rectified by recruiting specialist lobbying firms. Whilst this may not be the modus operandi for foreign reinsurers, it is common for cedant companies to do so, and reinsurers should consider following their clients' lead. The objective here is to gain access to information and manage expectations of the reinsurers' head office regarding changes in the regulatory landscape on a timely basis.
- 3) Access to proper claims data. The majority of cedants will provide claims data that are below the minimum standards set by reinsurers' underwriting guidelines. Fact! The IRB will offer competitive quotes based on very poor data. Fact! Now the unappreciated actuary will come to the

CONTINUED ON **PAGE 18**

rescue. In Brazil there is only one FCAS and two FSAs, and only one is with an actuarial consultancy. The majority of actuarial consultants don't provide local support regarding detailed claim analysis and the few that do, charge a fortune and don't have actuarial models that are adapted to the Brazilian environment. Reinsurers' have a golden opportunity to offer actuarial services in exchange for detailed claims analysis, e.g., services such as pricing analysis (providing an objective view of what the costs of the portfolio are and some insight into frequency and severity trends); ALM; introducing ERM; developing economic capital models; and testing for dynamic solvency, etc. It is not realistic to expect a cedant's IT department to swing into action to prepare comprehensive claims data just for a reinsurance quotation. Quid pro quo is a better strategy for extracting the required data. For life and health clients (where the risk is more deterministic than stochastic), a simple approach would be to undertake market segmentation (e.g., who are your bancassurance clients) and then use mosaic theory to piece together an amalgam of claims information from several clients to form a complete picture of your target market.

4) Underwriting procedures that are below the level required by the reinsurer's corporate guidelines. This is probably the hardest sell to the head office—how to convince your CRO to do business with a client that's not aligned with documented (or non-documented) underwriting philosophy. The main issue is how do you classify the cedant? Are they looking for market share or are they profit-oriented? (they will all say that they are profit-oriented). For the targeted cedants, you need to get as close as possible to the technical director via training programs, working together on some of those actuarial projects mentioned above and presenting him/her to your chief actuary at the head office (the guy/gal who can make underwriting exceptions). In Brazil, I would argue that underwriting the underwriter is far more important than what is documented.

5) Understanding pricing models/product development. The life market has US\$3.5 billion of risk premium and R\$117 million of life reinsurance premium. This is split 60 percent with the IRB and 40 percent all others. The health market has US\$29 billion of premium and US\$700,000 of health reinsurance premium (yes really! there's only one health cat contract with a Lloyds syndicate). This disconnect between cedants and reinsurers exists since there is a world of difference of opinions regarding reinsurers/cedants pricing margins. Pricing margins for cedant companies' life and health portfolios are 10 percent and 5 percent respectively. Reinsurers should consider offering services such as pricing models/product development. Only by working with cedants on such projects will the reinsurers's technical staff start to feel more comfortable with following the fortunes of the local market. Another completely unexplored area is for the reinsurer to consider working with major corporate/retail insurance brokers to develop products that are exclusive to them—coinsuring the risk between the broker's client (the cedant) and the reinsurer.

6) Going native. No article in an SOA Reinsurance publication would be complete without a comment on the standard life reinsurance product that presently exists. One of the first things that visiting reinsurers notice about the standard life reinsurance contract is that it's odd. And yes it definitely is! Years and years of not working with the international market has led to the development of a local product that's more tailored to ease of operations rather than risk management. The standard product offers the reinsurer a lot of short-term volatility in return for very small margins. The contract is based on group life business; a one-year product (YRT), with retentions that are generally based on per life and not per coverage and vary depending on the size of the company between US\$60,000 and US\$600,000. Capacity is also generally limited per life and not by coverage. There's generous profit sharing; no annual aggregate claims limit for the

portfolio; no right to the run-off and pricing refers to attained age based on AT83 mortality rates, which is neither what cedants price on, or reflective of the shape of Brazilian life mortality. Both individual life facultative services (in Portuguese) and complementary catastrophic treaties must also be offered to win treaties. Historically the life reinsurance market has not been profitable for the international life reinsurers due to the four specific major plane tragedies (two with TAM, one with GOL and one with Air France). Nevertheless in order to gain a foothold in the Brazilian market one needs to undertake market segmentation; carefully select target clients and initially follow the standard life reinsurance contracts.

// BRAZIL IS REALLY THE PLACE TO BE SEEN AT THE MOMENT, FROM THE FRONT COVER OF THE ECONOMIST TO THE FRONT PAGE OF JP MORGAN'S INHOUSE MAGAZINE, IT'S ALL ABOUT BRAZIL. //

CONCLUSION

In summary, the main difficulty for multinational reinsurers is that there is a distinct lack of strategic alliance between the ceding companies and the foreign reinsurers. The reinsurers are cherry picking their risks and the cedants don't feel as if they have a risk partner that they can count on for good and bad times. It is all very opportunistic at the moment.

On balance the opportunities greatly outweigh the challenges. Brazilian business culture is not steeped in tradition; quite the opposite. It is vibrant and dynamic and it is always possible to reinvent your strategy and represent a new face to the market. With the right team in place and a strategy that's aligned to major cedants, market leadership is there for the taking!

The views expressed in this article are solely those of the authors and not those of their employers or organizations with which they are affiliated. ■

Social Media Guidelines

by Mairi Mallon



Mairi Mallon is founder and managing director of rein4ce, a PR/marketing company in Glasgow, UK. Tweeting and blogging as “reinsurance girl”, Mairi can be reached at @reinsurancegirl on twitter.com, or by email at mairi@rein4ce.co.uk.

At rein4ce, we feel that social media should be part of the public relations (PR) offering—and we help clients get to grips with it. Some say you don’t get something for nothing—well that is not true. Today we are feeling generous.

And the first thing we do is issue guidelines for staff—they need to know where they stand, and management needs to draw a line in the sand to legally protect their company.

Today, below, you will find sensible social media guidelines to use in your company. This will not only help your employees know what they are and are not allowed to do, but also help you with risk management by ring-fencing your company from inappropriate behaviour from rogue staff (and it happens, I tell you). Here below I’ve pasted a short set of rules, and a longer set of guidelines. They are based a lot on common sense, other guidelines we have come across and are the ones we use here at rein4ce and sister company Breen Media for our staff.

So ... (drum roll ...)

FREE GUIDELINES!

Social Media Guidelines

This is a guideline document for corporate use of Blogs, wikis, social networks, and social media

Responsible engagement

Whether or not a user chooses to create or participate in a blog, wiki, online social network or any other form of online publishing or discussion is his or her own decision.

However, online collaboration platforms are fundamentally changing the way we work and engage with each other, clients and partners and therefore the company has issued these guidelines for the use of such platforms.

Summary

1. Know and follow our (INSERT LINK TO OWN CORPORATE GUIDELINES) corporate guidelines. The same rules apply online.

2. Users are personally responsible for the content they publish on blogs, Facebook LinkedIn, Twitter or any other form of user-generated media.
3. Identify yourself—name and, when relevant, role within the organisation—when you discuss company or company-related matters. You must make it clear that you are speaking for yourself and not on behalf of the company.

Respect copyright, fair use and financial disclosure laws.

1. Don’t provide our or another’s confidential or other proprietary information. Ask permission to publish or report on conversations that may be deemed to be private or internal to the company.
2. Don’t cite or reference clients, partners or suppliers without their approval. When you do make a reference, where possible link back to the source.
3. Don’t use ethnic slurs, personal insults, obscenity, or engage in any conduct that would not be acceptable in our workplace.

General Social Media Good Practice

1. Respect your audience. You should also show proper consideration for others’ privacy and for topics that may be considered objectionable or inflammatory—such as politics and religion.
2. Be aware of your association with the company in online social networks. If you identify yourself as an employee, ensure your profile and related content is consistent with how you wish to present yourself with colleagues and clients.
 1. Don’t pick fights, be the first to correct your own mistakes, and don’t alter previous posts without indicating that you have done so.
 2. Try to add value. Provide worthwhile information and perspective. The company is best represented by its people and what you publish may reflect on the company.
 3. Be mindful that what you publish will be public for a long time, whether on pictures, video or written word. Protect your privacy.
 4. If you publish content to any company website outside of the company and it has something to do with work you do or subjects associated with

the company, use a disclaimer such as this: “The postings on this site are my own and don’t necessarily represent the company’s positions, strategies or opinions.”

SOCIAL MEDIA GUIDELINES:

Our Business Conduct Guidelines and laws provide the foundation for Our policies and guidelines for blogs and social computing.

The same principles and guidelines that apply to users’ activities in general, as found in our Business Conduct Guidelines, apply to users’ activities online. This includes forms of online publishing and discussion, including blogs, wikis, file-sharing, user-generated video and audio, virtual worlds and social networks.

As outlined in the Business Conduct Guidelines, we fully respect the legal rights of our employees in all countries in which we operate. In general, what you do on your own time is your affair. However, activities in or outside of work that affect your job performance, the performance of others, or our business interests are a proper focus for company policy.

We support open dialogue and the exchange of ideas.

We regard blogs and other forms of online discourse as primarily a form of communication and relationship among individuals. When the company wishes to communicate publicly as a company—whether to the marketplace or to the general public—it has well established means to do so. Only those officially designated by the company have the authorisation to speak on behalf of the company.

However, we believe in dialogue among employees and with our partners, clients, members of the many communities in which we participate. Such dialogue is inherent in our business model of innovation, and in our commitment to the development of open standards. We believe employees can both derive and provide important benefits from exchanges of perspective.

One of our employees’ core values is “trust and personal responsibility in all relationships.” As a company, we trust—and expect—employees to exercise personal responsibility whenever they participate in social media.



This includes not violating the trust of those with whom they are engaging. Users should not use these media for covert marketing or public relations. If and when members of our Communications, Marketing, Sales or other functions engaged in advocacy for the company have the authorisation to participate in social media, they should identify themselves as such.

What does an employee’s personal responsibility mean in online social media activities? Online social media enables individuals to share their insights, express their opinions and share information within the context of a globally distributed conversation. Each tool and medium has proper and improper uses. While we encourage all of our employees to join a global conversation, it is important for employees who choose to do so to understand what is recommended, expected and required when they discuss company-related topics, whether at work or on their own time.

Know Our Business Conduct Guidelines. If you have any confusion about whether you ought to publish something online, chances are the BCGs will resolve it. Pay particular attention to what the BCGs have to say about proprietary information, about avoiding misrepresentation and about competing in the field. If, after checking the BCG’s, you are still unclear as to the propriety of a post, it is best to refrain and seek the advice of management.

CONTINUED ON PAGE 22

Be who you are. Some bloggers work anonymously, using pseudonyms or false screen names. The company discourages that in blogs, wikis or other forms of online participation that relate to our company, our business or issues with which the company is engaged. We believe in transparency and honesty. If you are blogging about your work for our company, we encourage you to use your real name, be clear who you are, and identify that you work for our company. Nothing gains you more notice in the online social media environment than honesty—or dishonesty. If you have a vested interest in something you are discussing, be the first to point it out. But also be smart about protecting yourself and your privacy. What you publish will be around for a long time, so consider the content carefully and also be judicious in disclosing personal details.

Be thoughtful about how you present yourself in online social networks. The lines between public and private, personal and professional are blurred in online social networks. By virtue of identifying yourself as an employee within a social network, you are now connected to your colleagues, managers and even our clients. You should ensure that content associated with you is consistent with your work at our company. If you have joined the company recently, be sure to update your social profiles to reflect our guidelines.

Speak in the first person. Use your own voice; bring your own personality to the forefront; say what is on your mind.

Use a disclaimer. Whether you publish to a blog or some other form of social media, make it clear that what you say there is representative of your views and opinions and not necessarily the views and opinions of the company. At a minimum in your own blog, you should include the following standard disclaimer: “The postings on this site are my own and don’t necessarily represent the company’s positions, strategies or opinions.”

Managers and executives take note: This standard disclaimer does not by itself exempt managers and executives from a special responsibility when blogging. By virtue of their position, they must consider whether personal thoughts they publish may be misunderstood as expressing company positions. And a manager

should assume that his or her team will read what is written. A public blog is not the place to communicate our policies to company employees.

Respect copyright and fair use laws. For the company’s protection as well as your own, it is critical that you show proper respect for the laws governing copyright and fair use of copyrighted material owned by others, including our own copyright and brand. You should never quote more than short excerpts of someone else’s work. And it is good general blogging practice to link to others’ work. Keep in mind that laws will be different depending on where you live and work and that our company has offices in many jurisdictions.

Protecting confidential and proprietary information. Social computing blurs many of the traditional boundaries between internal and external communications. Be thoughtful about what you publish—particularly on external platforms. You must make sure you do not disclose or use confidential or proprietary information or that of any other person or company in any online social computing platform. For example, ask permission before posting someone’s picture in a social network or publishing in a blog a conversation that was meant to be private.

Our business performance. You must not comment on confidential financial information such as future business performance, business plans, or prospects anywhere in world. This includes statements about an upcoming quarter or future periods or information about alliances, and applies to anyone including conversations with Wall Street analysts, press or other third parties (including friends). Our policy is not to comment on rumours in any way. You should merely say, “no comment” to rumours. Do not deny or affirm them—or suggest either denial or affirmation in subtle ways.

Protect our clients, business partners and suppliers. Clients, partners or suppliers should not be cited or obviously referenced without their approval. Externally, never identify a client, partner or supplier by name without permission and never discuss confidential details of a client engagement. Internal social computing platforms permit suppliers and business

partners to participate so be sensitive to who will see your content. If a client hasn't given explicit permission for their name to be used, think carefully about the content you're going to publish on any internal social media and get the appropriate permission where necessary.

It is acceptable to discuss general details about kinds of projects and to use non-identifying pseudonyms for a client (e.g., Client 123) so long as the information provided does not make it easy for someone to identify the client or violate any non-disclosure or intellectual property agreements that may be in place with the client. Furthermore, your blog or online social network is not the place to conduct confidential business with a client. Respect your audience and your co-workers. Remember that we are a global organisation whose employees and clients reflect a diverse set of customs, values and points of view. Don't be afraid to be yourself, but do so respectfully. This includes not only the obvious (no ethnic slurs, personal insults, obscenity, etc.) but also proper consideration of privacy and of topics that may be considered objectionable or inflammatory—such as politics and religion. For example, if your blog is hosted on company-owned property, avoid these topics and focus on subjects that are business-related. If your blog is self-hosted, use your best judgment and be sure to make it clear that the views and opinions expressed are yours alone and do not represent the official views of the company. Further, blogs, wikis, virtual worlds, social networks, or other tools hosted outside of our protected Intranet environment should not be used for internal communications among fellow employees. It is fine for employees to disagree, but please don't use your external blog or other online social media to air your differences in an inappropriate manner.

Add value. The company is best represented by its people and everything you publish reflects upon it. Blogs and social networks that are hosted on company-owned domains should be used in a way that adds value to our business. If it helps you, your co-workers, our clients or our partners to do their jobs and solve problems; if it helps to improve knowledge or skills; if it contributes directly or indirectly to the improvement of our products, processes and policies; if it builds a sense of community; or if it helps to promote our values, then it

is adding value. Though not directly business-related, background information you choose to share about yourself, such as information about your family or personal interests, may be useful in helping establish a relationship between you and your readers, but it is entirely your choice whether to share this information.

Don't pick fights. When you see misrepresentations made about the company by media, analysts or by other bloggers, you may certainly use your blog—or join someone else's to point that out. Always do so with respect, stick to the facts and identify your appropriate affiliation to the company. Also, if you speak about a competitor, you must make sure that what you say is factual and that it does not disparage the competitor. Avoid unnecessary or unproductive arguments. Brawls may earn traffic, but nobody wins in the end. Don't try to settle scores or goad competitors or others into inflammatory debates. Here and in other areas of public discussion, make sure that what you are saying is factually correct.

Be the first to respond to your own mistakes. If you make an error, be up front about your mistake and correct it quickly. In a blog, if you choose to modify an earlier post, make it clear that you have done so.

Use your best judgment. Remember that there are always consequences to what you publish. If you're about to publish something that makes you even the slightest bit uncomfortable, review the suggestions above and think about why that is. If you're still unsure, and it is related to company business, feel free to discuss it with your manager. Ultimately, however, you have sole responsibility for what you post to your blog or publish in any form of online social media.

And finally... don't forget your day job. You should make sure that your online activities do not interfere with your job or commitments to customers.

How Do You Communicate? Insurers Jumping On Social Media

By Natalie Ho



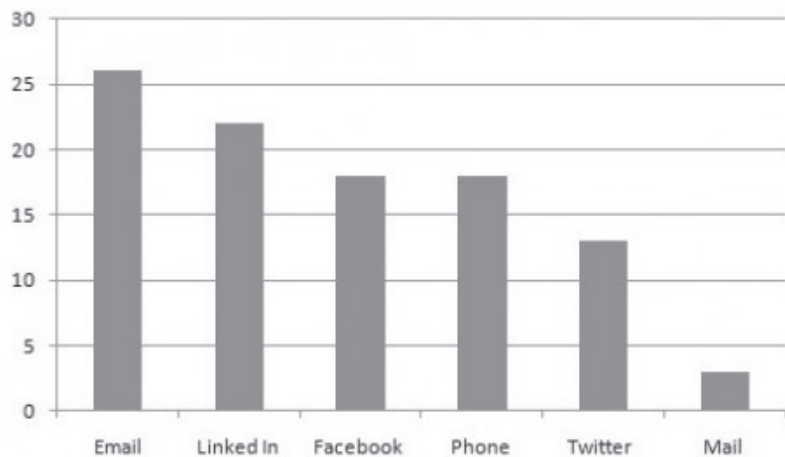
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During our annual Freedom to Think reception at LOGiQ³ this year, we had the opportunity to poll our community of clients, partners and staff on “How do you communicate?” We asked each of our attendees to select a name tag with a pre-printed icon that represented their preferred form of communication.

As a business, we want to ensure we are using the right form of communication channel to reach out to our community. With the rise of several social communication channels, such as LinkedIn, Facebook and Twitter, we wanted to see what the current preferred communication tool is.

I am sure many businesses share the same challenge as LOGiQ³—operating in the Web 2.0 world but servicing a traditional industry, such as ours—Life Insurance. However, to our surprise, the LOGiQ³ community is more progressive than we had thought! Here are the results to our poll, expressed as a percentage:

LOGiQ3 Survey Results: Preferred Communication Method



Twenty-six percent of our attendees preferred to use email communication (not a surprise), but followed tightly by LinkedIn at 22 percent, Facebook and phone calls, both at 18 percent, Twitter at 13 percent and lastly, traditional postage at 3 percent. This is certainly insightful information for us as a business, as it allows us to focus our communication to these preferred channels.

It also allows us to connect with our network on a real time basis, provide relevant content, and listen to what is being said on their preferred channel.

LOGiQ³ has presence on LinkedIn, Facebook, Twitter and most recently launched our THiNK Blog, but how do we compare to the rest of the industry?

I did a quick search on LinkedIn inputting the key words Life Insurance and Life Reinsurance under the company search option, and it returned 125 results. Of these 125, it included companies such as ACE (4,954 followers), Sun Life Financial (7,280 followers), Swiss Re (5,924 followers), AEGON (5,226 followers), RBC Insurance (1,302 followers), and Partner Re (677 followers). I performed the same exercise on Facebook and Twitter, results were definitely not as compelling as LinkedIn, only a handful of companies have a presence on Facebook and Twitter. However, there were a lot of mentions by consumers on these two sites, meaning that people are talking about life insurance and life reinsurance. Companies should be proactive in leveraging these tools to listen to consumers' feedback.

Though our industry is not yet as progressive as others, those companies who are innovative are leveraging social media to make their businesses better.

The Insurance Networking News webpage published a blog in February, 2011 by Craig Beattie. It speaks about an event hosted by Celent in London, “How Digital & Social Innovation Challenge the Insurer Business Model,” with the first presentation given by Chris Denison, managing partner at AXA Innovation Hub, and Manjit Rana, partner in Innovation Hub. The presentation explained how AXA UK plans on utilizing social media and other technologies to determine individual digital profiles, define target challenges and identify solution generators.

Life insurers are also using social media networks to detect fraud in submitted claims. Investigators are now using sites such as Facebook to investigate suspicious claims. They're looking for clues that don't add up to the claim submitted, such as someone bragging about running a marathon while having submitted a claim for

an injured back, etc. Though data gathered on these sites are useful, they can only be used as insight and never as final proof of fraud.

There have also been talks that social networking data could be used to help price policies. Insurers could use information posted on social networks posted by an applicant and compare it with lifestyle choices and medical histories actually filled out on their application.

Many businesses are treading lightly with the use of social media because there is a lack of concrete measurements on the value it brings to a business. It is difficult to measure the success of implementing a social media strategy.

I don't believe social media is a must, more so it is another communication channel (talking and, more importantly, listening) to reach out to our community of clients, partners and staff. ■

Call for Papers

The Reinsurance Section invites you to participate in a Call for Papers competition. Our goal is to generate thought and discussion on topics of interest to the reinsurance industry of today and tomorrow.

Capital may be more readily available again, but have we fully recovered from the financial crisis? What about risk mitigation and enterprise risk management? How does reinsurance play into the global economy?

The topic is yours to choose, but it must be related to the reinsurance industry. Stay focused, as the papers can be no more than 1,500 words. This competition is open to all SOA members and provides awards for worthy papers: \$5,000 for 1st place; \$3,500 for 2nd place; and \$1,000 for one or more (but no more than three total) Honorable Mention awards.

Complete contest rules are posted on the Reinsurance Section Web page. Good luck to all!

Larry N. Stern, FSA, MAAA

Chairperson
Reinsurance Section

Chat with your peers on this and other subjects: Join the Reinsurance Section *LinkedIn* group.

The Canadian Reinsurance Conference Revisited

By Alan Ryder



Alan Ryder, president, Aurigen Reinsurance Company, and Chairman, Organizing Committee, 2011 Canadian Reinsurance Conference.

The Canadian Reinsurance Conference, held on Thursday, April 7, 2011, attracted more than 550 diverse attendees from insurance, reinsurance and retrocession companies and others who enable the business of reinsurance. The theme of this year's conference was **Rethink Reinsurance**, reflecting on the radically changing landscape for the insurance and reinsurance businesses in light of global forces of convergence. The Conference provided attendees with a highly interactive setting that promoted networking, learning and an open exchange of views.

Dr. Wolf Becke, chief executive officer of Hannover Life Re, opened the conference with a presentation that was provocatively titled "Heaven or Hell?" His remarks were focused on the global trends in regulation and accounting, including up-to-the-minute commentary Solvency II, QIS 5.

Dean Connor, chief operating officer of Sun Life Financial, continued on the main stage to provide attendees with a perspective on the impacts of convergence from a Canadian perspective. In particular he provided the conference with a timely play-by-play of the Canadian role in the development of IFRS 4, Phase 2:

Canadian Life and Health Insurance Association: *"The proposed approach (to the discount rate) is in such radical disharmony with the underlying business model and with economic reality as to result in financial reports that will be neither relevant nor reliable, extremely difficult to explain and likely lack comparability."*

International Accounting Standards Board: *"We've recognized that this (discount) rate won't do on its own ... it won't stay the way it is."*

Breakout sessions covered a wide range of convergence issues. Tim Deacon and Caspar Young led follow-up sessions on convergence in financial reporting and regulation. Saroj Vasant moderated a panel on OSFI's new reinsurance guideline (B3). Sessions led by Dianne Pierce and Maureen Davis explored the global issues

of obesity, aging and changing demographics. Helene Michaud led a panel on "LTC—the Good, the Bad and the Ugly." Bob Brown and his panel took attendees through a tour of the "Wealth/Health Relationship." Longevity risk was explored by an international panel led by Wayne Daniel. Data privacy and outsourcing were explored in sessions led by Simon Bell and Brian Wilkinson. Alison McKie led a presentation on "Sharing Risk in the Capital Markets." And Brian Louth hosted a roundtable titled "What's Next for Products" as a consequence of all this change.

For more information on the Canadian Reinsurance Conference, including copies of presentation materials, please visit the website at <http://www.crconline.ca/>.

And mark the date for the 56th annual CRC: April 18, 2012. ■



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