Article from:

Reinsurance News

February 2009 – Issue 65

ABOUT THE AUTHOR

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After nearly 40 years at Munich American Reassurance Company (MARC), David Holland retired as vice chairman, president and CEO on Jan. 31, 2008. Although well known for his involvement in the reinsurance community serving on the first SOA Reinsurance Section Council and the first ACLI Reinsurance Subcommittee, he is also known for his service to the actuarial profession and the life insurance industry. He has served as president of the Society of Actuaries and chairman of LOMA as well as serving on the SOA and LOMA Boards for numerous years. He has also served on the Boards of the American Academy of Actuaries, the ACLI, the Medical Information Bureau (MIB), the Georgia Association of Life Companies, and the Educational Foundation at Georgia State University. He is currently on the Boards of MARC, IA American Life Insurance Company, the Actuarial Foundation, and he serves as an elder at the Northlake Church of Christ. ***Reinsurance News*** asked Dave to update an earlier presentation on the history of reinsurance as one of his retirement projects. ***Reinsurance News*** also took advantage of this opportunity to talk to Dave about his time in the reinsurance industry.

Reinsurance News (RN): Have you always worked for MARC?

Dave Holland (DH): I was with MARC for over 38 years, which is certainly the majority of my life. In addition to MARC, I worked for two consulting actuarial firms. I sometimes say I've never worked for a real insurance company. Actually, I found reinsurance to be a natural blend between consulting and direct company work. Whenever someone comes out with a new product, they have to figure out how to reinsure it; this involves the reinsurer on the cutting edge of product development. Similarly, as a reinsurer you have to understand what drives a direct company financially in order to be able to create effective reinsurance solutions.

RN: How long were you president of MARC?

DH: I was president for over 20 years, which is a long time by today's business standards. It's easy for me to find the date my presidency was announced in the local press; it was Oct. 19, 1987, the day the stock market crashed.

RN: How did you get to MARC?

DH: While I was an undergraduate in the actuarial science program at Georgia State University, I worked part time with the consulting actuarial division of Alexander & Alexander. When I finished my job interview, they asked if I knew anything about computer programming, and I said no, but if you'll send me a book, I'll learn. They sent me a technical manual on programming in assembler language, and I dug my way through it. My work involved everything from preparing a data request to working on valuations of defined benefit plans, but a good portion of projects involved the computer. The first computer I worked on had 8k of memory, and was so primitive that we had to write our own multiply/divide subroutines. If a program crashed, we had to use lights on the console to enter changes in binary directly into the computer's memory.

When I completed my undergraduate degree, I wanted to see what life insurance work was like, and I got a job with Bowles, Andrews and Towne (BAT). However, they soon learned that I knew how to program a computer, and I was up to my neck in computer work. I completed my Masters Degree and got my associateship in the Society of Actuaries while I was at BAT.

Bob Braund, the actuary who had hired me at BAT, left BAT and joined MARC on a fast track to become president. MARC needed someone to do actuarial work but most of all they needed someone to redesign their computer system. Bob remembered me and hired me as associate actuary at MARC. By day, I did actuarial work, and by night, I designed and programmed computer systems. In my spare time, I finished my fellowship exams. Designing the general administrative computer system for a reinsurance company was a great challenge but also a great learning experience because I had to know in detail how everything worked within the company. Some 18 years later when Bob retired and I became president of MARC, Bob finally told me that they almost didn't hire me at MARC because they weren't sure what they would do with me when the computer system was finished. I'm glad that they found something else for me to do.

RN: What was the reinsurance world like when you started at MARC? Do you have any practical lessons you'd like to pass along?

DH: Part of the reinsurance history article talked about events that took place during my time, and there are certainly things that are clearer now than when they were happening.

For instance, the Mullendore murder case was a big deal for the reinsurance industry. The total line on Mullendore was $15 million, making it the largest claim to date in the life insurance industry and one where there were more than 100 reinsurers involved. There were three policies involved, two of which were in the grace period at the end of the first year and the third policy was still in the first year. There was alleged mafia involvement, and my recollection is that the policy was settled for a reduced amount due to questions relating to underwriting. The writing company was a small Atlanta company that had been founded some years earlier as a burial insurance company; the writing company kept $40,000 and reinsured $14,960,000. With perfect hindsight, you have to ask why someone would take out such a large policy with a company that had such a small retention? How experienced was this company in the large case market? How well did the company know its producers, especially given the alleged gangland connections with this case? Undoubtedly, the case was thoroughly underwritten by the reinsurers involved, but the reinsurer is still removed from the insured and the actual producer and has to rely on the skills of the ceding company. We would say it's as important for us to underwrite the ceding company as it is to underwrite the risk. Over time, there has also been pressure from direct companies for extremely high automatic binding limits; however, it's a good idea for the direct company to maintain a healthy insurable interest in the underlying business. That principle could probably apply to the sub-prime mortgage business too.

RN: Were you involved in Equity Funding?

DH: At the time of Equity Funding, Dr. Hans Dienst, Munich Re's Chief Actuary, was stationed in Atlanta. Even though Equity Funding was the biggest deal in the reinsurance industry at the time, we had trouble convincing Dr. Dienst to quote because of the excessive first year allowances. Eventually, we got him to agree to make a quote with 185 percent first year commission, and he went to Equity Funding with a blank check. Being a natural negotiator, Dr. Dienst said we'd had trouble meeting their target and we were only willing to offer 175 percent. Surprisingly, their response was, "OK." They said they needed more capacity and they were willing to go along with our offer. Dr. Dienst then said that because of the size and financial strain of this deal, it was really important that we know just how much business they were going to write. Their response was that they could guarantee $100 million of production, which was a big deal at the time. However, Dr. Dienst asked how could they "guarantee" production? They seemed somewhat surprised by the question, and they said they'd already written the business and one of the other reinsurers had more than they wanted; there would be no problem ceding this business to us. Dr. Dienst then said that since the business had already been written, we'd send our chief underwriter out to do an audit to make sure we were in agreement on underwriting standards. Their reaction was there was no way they would let our underwriter come out to review cases; their underwriters were already working 12 to 15 hours per day on new business and they weren't going to waste their time with an underwriting audit. Dr. Dienst came back home with the blank check and received a lot of grief over not doing the deal just because of an underwriting audit. We had no idea that they were fraudulently creating phony policies to make money off the excess first year allowances, but we were kept out of the deal because of Dr. Dienst's persistence and principles.

RN: There were a lot of new reinsurers entering the market in the 1960s and `70s. How did you compete as a start-up reinsurer?

DH: It was tough for new reinsurers. Companies weren't eager to change where they had long-standing relationships. The typical approach for a new reinsurer was through facultative underwriting. European experience was more liberal on risks such as diabetes and build and blood pressure. Agents were pushing for the best underwriting quotes possible, and companies were willing to bring on fac-

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ultative reinsurers to provide competitive quotes for substandard risks. I thought Dr. Gottfried Berger of Cologne Re had a great strategy. My perception was that he had higher premium rates on average but more aggressive underwriting. The underwriter decided who got the case based on underwriting quote (rather than reinsurance cost) and Cologne usually had the best underwriting offer.

Ultimately, the facultative shopping programs became an unhealthy game for the reinsurers. Some companies went to what I'd call underwriting by Xerox machine. They would copy all cases and send them to 12 or so reinsurers. If all the reinsurers agreed, the ceding company would keep its normal retention and cede the rest (probably to their automatic). If a reinsurer had a quote that was two tables or more better than the others, that reinsurer would get 100 percent of the risk ceded facultatively. For example, if there were 11 declines and one reinsurer offered table two, the reinsurer making the quote would get 100 percent of the risk. In essence, the reinsurer would wind up winning its mistakes.

RN: Were there other such "games" where the reinsurer was at a significant disadvantage?

DH: Select and ultimate term policies often led to opportunities for such antiselection. On term policies, reinsurers typically paid a first year commission of 100 percent. Select and ultimate term policies had premiums which increased each year due to increase in age and time from original underwriting. That meant, for example, a policy issued to a 45-year-old in the second policy duration would have a premium in the second policy year that was higher than a new policy issued to a 46-year-old. This led to a motivation for the agent to shop the policy every year. As long as the applicant remained insurable, the agent would get a first year commission every year, the insured would get the lowest rate in the market, and the writing company would get the new business volume that went along with being the hottest company in the market. Unfortunately, the reinsurer would get a year's risk where the 100 percent first-year commission meant that the reinsurer would not get anything for the risk. I recall that Mel Young found a $10,000,000 case which had been moved every year for 10 years. This probably meant that the reinsurance market had $10 million at risk for 10 years without getting any net premium for taking the risk.

Of course, ceding companies were appalled by the lapse rate on this business, but their solution seemed to be to let their agents replace their own business. At first, this was subject to full underwriting and the applicant had to pay the cost of the medical exam. That didn't fly for long, and the company took over paying for the medical exam. That quickly morphed into a nonmedical application, and then to a statement of good health. Ultimately, they concluded if the premium check cleared the bank the applicant must be in good health; anyway, the business was reinsured. Although there is some hyperbole here, times were tough for reinsurers.

RN: Has this situation improved? What brought about the changes?

DH: The situation has improved considerably. Part of the coming of age of reinsurance had to do with a recognition by ceding companies of the value reinsurers provide. Facultative programs helped companies provide lower quotes and allowed them to obtain experience based on the business ceded facultatively. One area where I was involved was evaluating the potential impact of the AIDS pandemic on the insurance industry; one thing we learned was that there was significant protective value in risk selection and underwriting aside from any AIDS questions. The replacement problems associated with select and ultimate term were not just a reinsurance problem; the excess lapse rates were a problem for ceding companies too. Identification of the problem by the reinsurers helped everyone. The role of reinsurance in financial planning, especially with Section 820 modified coinsurance, and the provision of capital as well as expertise in the preferred risk term market helped to increase the importance of the reinsurer as a full business partner.

RN: Earlier you mentioned that reinsurers are sometimes on the cutting edge of product development. Could you give us an example?

DH: I remember getting a call from Sam Turner, who at the time was president of Life of Virginia.

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Sam said, I want to you to come up to Richmond, but bring an empty briefcase and an open mind. When we got there, Sam described the concept of Universal Life Insurance, and said they were ready to start issuing it as soon as they could figure out how to reinsure it. Fortunately, we were able to work out an agreement with Sam, and thus played a role in the introduction of this product.

RN: One thing MARC is known for is the annual reinsurance survey. How did that get started?

DH: One thing that I got when I first joined MARC in 1969 was a reinsurance production survey done by Swiss Re (then North American Re). Shortly thereafter, Swiss Re stopped doing the survey because they felt it put too much emphasis on top line growth. Although I now agree they were right about that, it seemed that imperfect information was better than no information, and I took over the survey. It was just a friendly informal survey of what was going on in the reinsurance market because there was no other reliable public information.

When the SOA Reinsurance Section was formed, Irwin Vanderhoof was the first chair and I was the first vice chair. Van asked me to concentrate on organizing activities to make the Section a vital part of the reinsurance community. I hope I made some contributions, and one thing I tried to do was to set up a statistical committee for the Section. I volunteered MARC to continue doing the survey, but to have it done on behalf of the Section and to have it published in a Section Newsletter. Subsequently, I passed the administration of the survey on to Jim Sweeney and ultimately to David Bruggeman.

Partnering with the Reinsurance Section has been overwhelmingly good, but not without some bumps. I wanted to expand the survey. For example, when last survivor products became popular, I wanted to split production into single life and last survivor. Similarly, I wanted to add health insurance and other areas. However, the Reinsurance Section was firm that they didn't want changes in what we had done historically. As I look back on what is now almost 40 years of experience, I think the general consistency of the survey is one of its strong points.

As time went on, we learned what started as an informal survey was being used for incentive comp purposes, and ultimately, it was quoted in IPOs, 10-ks, industry analysis by investment banks, etc. There were times when some survey participants wanted to use their own interpretation of how the data should be reported and the Section Council was generally able to keep things on a consistent footing. Similarly, as the users became more widespread and the data became more important in industry analysis, we required certification of the data submitted and I feel the Section has been helpful in supporting this. I'm pleased that MARC and the Reinsurance Section have been able to cooperate on this over the years.

RN: What led to you writing the reinsurance history article?

DH: About 10 years ago I had done a brief presentation on the history of reinsurance for the SOA Reinsurance Section. Last year, the ACLI Reinsurance Committee was working on the program for the ACLI Reinsurance Executive Roundtable, and given that they knew that I was retiring in January 2008, they were kind enough to invite me to speak at the meeting. I felt honored, but also pressed to come up with a topic. Given that my crystal ball was cloudy, I thought maybe the traditional actuarial view out the rear window would be appropriate. Even before the topic of my presentation was announced, several people suggested that one of my retirement projects should be to write a reinsurance history. Some of the co-conspirators in suggesting this include Gaetano Geretto, Monica Hainer, Donna Kinnaird, Chris Stroup and Mel Young, and some of the friends who helped make this article a reality include Richard Jennings, Ozzie Scofield, Harold Skipper, Mike Slater, and John Tiller. When you called and suggested that the Reinsurance Section would like for me to prepare a history of reinsurance for the Reinsurance News, I thought this would be a great gift I could give my friends and colleagues who have made this a truly wonderful industry and profession for me. ✹