SOCIETY OF ACTUARIES Reinsurance Section

Reinsurance news

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Life Reinsurance Data From The Munich American Survey

By David M. Bruggeman

Munich American's annual survey, which is conducted on behalf of the Society of Actuaries Reinsurance Section, covers Canadian and U.S. ordinary and group life reinsurance new business production and in force. The ordinary numbers are further subdivided into:

(1) Recurring reinsurance[1] : conventional reinsurance covering an insurance policy with an issue date in the year in which it was reinsured,

CONTINUED ON PAGE 4

[1] Included in the definition of recurring category is business assumed from the direct side of companies that also have a reinsurance division. Business assumed from the reinsurance division would fall under the retrocession category.

Actuaries
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Reinsurance news

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Letter from the Chair

By Mary Ellen Luning

The Reinsurance Section has been busy this year!

The Reinsurance Section Council (with help from countless volunteers) has been working toward our goals in education, research and networking. I would like to give you some highlights of the year's milestones, both achieved and planned.

The 3rd Annual ReFocus Symposium held in Las Vegas in March was again a huge success. Feedback from the attendees was extremely positive and attendance was very impressive considering the travel restrictions imposed by many companies. The meeting is a joint venture between the SOA and the ACLI. The co-chairpersons, Craig Baldwin, Mel Young and Larry Carson, along with a dedicated crew of volunteers and speakers, did a tremendous job.

The RSC Research Committee, led by Ed Hui, has completed a survey related to concentration of risk. Highlights of the survey are included in this edition of the newsletter, and indicate a shift in priorities for cedants choosing a reinsurer. It is definitely a worthwhile read for direct company as well as reinsurance company executives. The research team has identified new initiatives for 2009: two of which are currently underway—Mortality Improvement and The Future of the Reinsurance Industry. Anyone interested in joining the team of volunteers should contact Ed at edward.hui@caldwellfunding.com.

The LEARN program has kicked off under the leadership of Jeff Katz. This program is designed to provide detailed reinsurance education to regulators and rating agency personnel. The Continuing Ed team (led by Tim Ruark) has also been providing great reinsurance sessions and webcasts. Please check the Web site for upcoming webcasts as they are a cost effective way to get up-to-date information on industry trends. Our communications team produced a special edition newsletter featuring the history of reinsurance, by Dave Holland. If you missed that issue, you can catch it online.

Lastly, the Reinsurance Section is giving back to our community and providing an opportunity to network through a charity fun run to be held at the Annual Meeting in October. The planning involves a team from various reinsurers (thank you), and the proceeds this year will benefit the American Diabetes Association. It is going to be fun, but you don't have to run (walkers welcome)!

Thanks again to the many volunteers that make our section a success. Your efforts are very much appreciated by reinsurance section membership. ■

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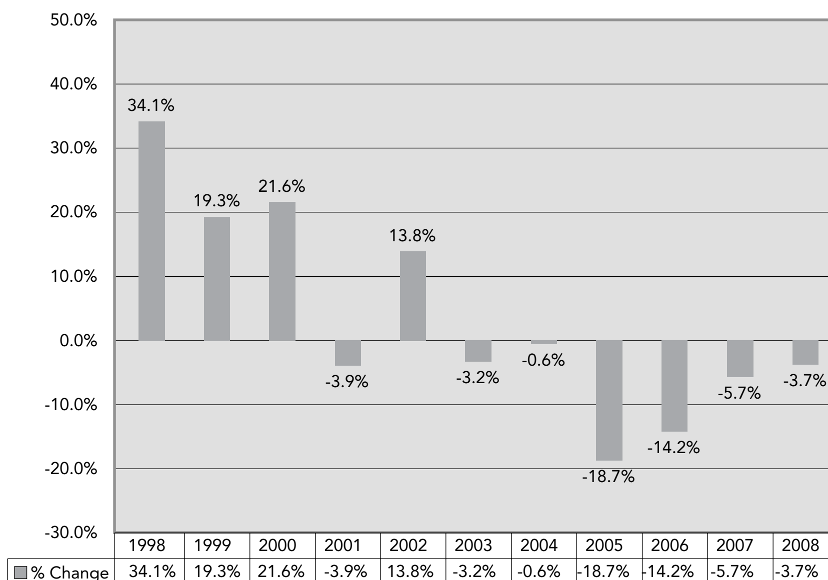
Life Reinsurance New Business Production						
	U.S.			Canadian		
	2007	2008	Change	2007	2008	Change
Ordinary Life						
Recurring	683,085	657,791	-3.7%	139,335	150,038	7.7%
Portfolio	35,058	256,786	632.5%	7,897	19,078	141.6%
Retrocession	29,890	28,838	-3.5%	3,824	2,778	-27.4%
Total Ordinary	748,033	943,415	26.1%	151,056	171,894	13.8%
Total Group	21,954	337,463	1427.1%	7,749	6,201	-20.0%
Total Life	769,987	1280,878	66.4%	158,805	178,095	12.1%

U.S. figures are in $US, Canadian figures are in $CAN

(2) Portfolio reinsurance: reinsurance covering an insurance policy with an issue date in a year prior to the year in which it was reinsured, or financial reinsurance, and,

(3) Retrocession reinsurance: reinsurance not directly written by the ceding company.

Complete survey results can be found at Munich American's Web site: www.marclife.com (look under Publications).



LIFE REINSURANCE PRODUCTION: PORTFOLIO SAVES THE DAY!

A quick glance at the total life production numbers would have one thinking the U.S. life reinsurance industry made a miraculous turnaround in 2008. A 66.4 percent increase in production was recorded in the United States. However, a closer review shows the increase is largely coming from just a couple of companies and is a result of the sharp rise in portfolio business – both on the ordinary life side and the group side. All of the increase in 2008 was driven by in-force block deals as, once again, U.S. recurring business production fell from the previous year. In Canada, increases in recurring and portfolio production resulted in a 12.1 percent increase in total new business for 2008. Recurring rose 7.7 percent while portfolio jumped up 141.6 percent. Meanwhile, Canadian group production fell by 20.0 percent in 2008.

Life reinsurance production results for 2007 and 2008 are shown in the chart on the left.

U.S. RECURRING: DOWN AGAIN!

The bad news: Recurring production continued its decline in 2008. The good news (OK-somewhat good news!): the decreases continue to get smaller. After an 18.6 percent decrease in 2005, a 14.2 percent decrease in 2006, and a 5.7 percent decrease in 2007; recurring dropped 3.7 percent in 2008. This makes the sixth straight year, and seven out of the last eight years, that recurring production declined in the United States. As good as the 1990s were for recurring production, the current decade has been lackluster at best. In fact, recurring new business has not been at this low of a level in over 10 years.

The annual percentage change in U.S. recurring new business since 1998 is shown below. Since 2001, there has only been one year where recurring production increased.

Looking at the U.S. recurring results by company shows just how concentrated and stratified the market has really become. The top three companies account for 63 percent of the market share and the top five companies

make up 83 percent of the market. These percentages are virtually identical to the 2007 percentages for the top three and top five companies. The company results can be broken down into the following four groups:

1. Group One: This group represents those companies who reported over $100 billion in recurring production in 2008. There was no change to the members of this group from 2007 (Swiss Re, Transamerica Reinsurance, and RGA Re), but there was a change in their relative position as Swiss Re and RGA swapped positions from 2007. Collectively, the market share of this group was 63 percent with each individual company's market share around 20 percent. With a 13.6 percent increase in production, Swiss Re climbed back to the top spot with $143.8 billion of recurring new business. Transamerica's $139 billion in recurring put them in the second position, a 3.1 percent decrease from 2007. Rounding out the top three was RGA who wrote $132.5 billion—a 17.8 percent reduction from 2007.

2. Group Two: This group includes the two companies who wrote between $50 and $100 billion in recurring production. Generali USA Life Re's 11.4 percent increase in recurring productions resulted in $82.4 billion being written in 2008. Meanwhile, Munich American Re's $49.6 billion in recurring represented a 17.7 percent drop from 2007. These two companies had a combined market share of 20 percent.

3. Group Three: This group is made up of six companies who reported recurring new business between $10 and $20 billion in 2008: Hannover Re, SCOR, Canada Life Re, General Re, XL Re and Ace Tempest Life Re. Together, these companies made up 13.5 percent of the market share. Standouts in this group include Hannover, who reported a 224 percent increase from 2007 and XL Re, who had a 184 percent increase in production.

4. Group Four: This final group represents companies who wrote less than $10 billion in recurring new business in 2008. Wilton Re, Optimum Re, Scottish Re, RGA (Canada) and Employers Re (ERC) make up this group. Collectively, their market share was 3.2 percent. When looking at the company results, note the large differences in production separating the groups. There is a $50 billion difference between the bottom Group One company (RGA) and the top Group Two company (Generali). Similarly, there is a $31 billion difference between the bottom Group Two company (Munich American Re) and the top Group Three company (Hannover Life).

U.S. Ordinary Recurring Reinsurance (U.S. Millions)

Company	2007		2008		
	Assumed Business	Market Share	Assumed Business	Market Share	Change in Production
Swiss Re	126,599	18.5%	143,791	21.9%	13.6%
Transamerica Re	144,104	21.1%	139,703	21.2%	-3.1%
RGA Re	161,091	23.6%	132,474	20.1%	-17.8%
Generali Life Re	73,985	10.8%	82,423	12.5%	11.4%
Munich Am. Re	60,310	8.8%	49,634	7.5%	-17.7%
Hannover Life Re	5,525	0.8%	17,913	2.7%	224.2%
SCOR Global Life	24,520	3.6%	17,838	2.7%	-27.3%
Canada Life Re	26,116	3.8%	16,800	2.6%	-35.7%
General Re	14,738	2.2%	14,388	2.2%	-2.4%
XL Re Life	4,081	0.6%	11,576	1.8%	183.7%
Ace Tempest Life	5,154	0.8%	10,365	1.6%	101.1%
Wilton Re	7,142	1.0%	7,983	1.2%	11.8%
Optimum Re	6,546	1.0%	6,555	1.0%	0.1%
Scottish Re	22,786	3.3%	5,982	0.9%	-73.7%
RGA Re (Canada)	160	0.0%	232	0.0%	45.0%
ERC	228	0.0%	134	0.0%	100.0%
Total	683,085	100%	657,791	100%	-3.7%

The largest increases in 2008 recurring new business were reported by Swiss Re, Hannover and Generali. Swiss Re's production rose by $17.2 billion, Hannover had a $12.4 billion increase and Generali's new business increased by $8.4 billion. The largest decreases in 2008 were reported by RGA ($28.6 billion), Scottish Re ($16.8 billion) and Munich American Re ($10.7 billion).
(see chart above)

CANADA RECURRING: BACK ON TRACK

After experiencing a small decrease in recurring production in 2007, the Canadian market bounced right back with 7.7 percent increase in 2008. Sizable increases were reported by Swiss Re ($8.7 billion), RGA ($3.7 billion) and SCOR ($1.1 billion). Munich Re's production dropped $3.0 billion from 2007 to 2008. Market share is

CONTINUED ON **PAGE 6**

still dominated by the top three companies: RGA, Swiss and Munich Re. These three companies accounted for over 94 percent of the total recurring new business production in 2008. After the top three, production drops off considerably. SCOR and Optimum hold down the fourth and fifth positions respectively with each having about 3 percent of the market share (compared to the top three who each have shares around 30 percent).

LIMRA estimates that Canadian life insurance sales grew by 8 percent in 2008. Given this is a similar rate of increase experienced by the recurring market (7.7 percent), it would appear the overall reinsured percentage (cession rate) remained close to the same level as 2007.

Totals for Canadian recurring ordinary reinsurance assumed in 2007 and 2008 are shown in the chart below

Canada Ordinary Recurring Reinsurance ($CAN Millions)

Company	2007		2008		
	Assumed Business	Market Share	Assumed Business	Market Share	Increase in Production
RGA Re	48,537	34.8%	52,289	34.9%	7.7%
Swiss Re	36,360	26.1%	45,135	30.1%	24.1%
Munich Re	46,872	33.6%	43,828	29.2%	-6.5%
SCOR Global Life	3,390	2.4%	4,452	3.0%	31.3%
Optimum Re	4,174	3.0%	4,303	2.9%	3.1%
Aurigen Re	0	0.0%	30	0.0%	100.0%
Canada Life Re	2	0.0%	1	0.0%	-50%
Total	139,335	100%	150,038	100.0%	7.7%

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PORTFOLIO AND RETROCESSION: PORTFOLIO UP, RETRO DOWN

Several reinsurers reported increases in U.S. portfolio business in 2008, but no one as much as Hannover Life Re. Hannover's portfolio new business went from $25.4 billion in 2007 to $218.5 billion in 2008—an increase of $193 billion. Other companies with sizable portfolio writings in 2008 include: Munich American Re ($10.0 billion), Canada Life Re ($8.1 billion), Wilton Re ($7.4 billion), RGA ($6.1 billion) and Swiss Re ($5.9 billion.). It all added up to a 632.5 percent increase in assumed portfolio business in 2008. What is interesting about the 2008 portfolio number is compared to the big portfolio production seen in the recent past (e.g., 2001 and 2004), which was mainly due to merger and acquisition within the reinsurance industry, the 2008 number appears to be in-force blocks coming from direct companies.

U.S. retrocession's 3.5 percent decrease in 2008 production mirrors the 3.7 percent decrease experienced by recurring. For the last three years, retrocession has closely followed the pattern of recurring production.

Canadian portfolio rose sharply again in 2008. The 141.6 percent increase in portfolio can be attributed to newcomer Aurigen Re, who reported $19.1 billion in portfolio production. The Canadian retrocession market fell by 27.3 percent in 2008—in contrast to the 7.7 percent increase reported by the recurring market. Changes to some reinsurers retention levels in 2008 impacted the retrocession numbers.

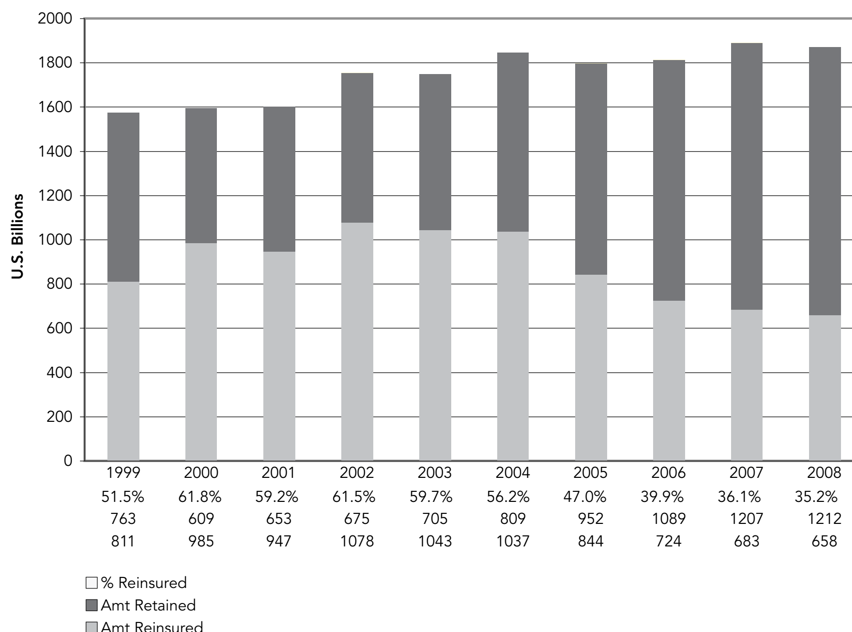
GROUP: BLOCK DEALS DOMINATE!

As on the individual side, the tremendous growth in the U.S. group market was due to large in-force block deals. Specifically, Canada Life Re reported almost $290 billion in in-force block writings. Also noteworthy is Generali who reported over $26 billion in an in-force block deal. Along with individual life portfolio, these group deals were the reason for the growth in the U.S. market in 2008. Without these block deals, U.S. group new business was flat. True group new business essentially stayed at the same level as in 2007, around $21 to $22 billion in total. The top writers of group new business were: Group Reinsurance Plus, Munich American and ING. To put in perspective just how big the in-force deals were for the group market, these two deals caused almost a 200 percent increase in the total Group in-force levels—not new business, but in-force!
The Canadian Group market reported a 20 percent decrease going from $7.7 billion in 2007 to $6.2 billion in 2008. What's worth noting here is that every Canadian group writer reported a decrease in their group writings in 2008. The top three writers make up 93 percent of the group market share. These are the same three companies who dominate the Canadian recurring market—Munich Re, RGA and Swiss Re.

COMPARISON WITH DIRECT MARKET: DIRECT SALES DOWN/CESSION RATE FALLS

Final data from the ACLI shows individual life insurance purchases dropped 1.3% in 2008. This results in the percent reinsured rate ("cession rate") to be 35.2% in 2008. The graph on the right compares ordinary life new business totals with the recurring life reinsurance totals for the United States.

Total U.S. ordinary life sales have stayed relatively flat during the last five years—hovering around $1.8 trillion. However during this same time period, the percentage reinsured has dropped from 56 to 35 percent. Also, if you look a couple of years prior to 2002, the cession rate was as high as 61 percent. It is believed the steady drop over the last five years can be explained, at least partially, by two key shifts in the market. First, we are still seeing the lingering effect of the repricing efforts in 2004-06 era by the reinsurers. Direct companies who raised their retentions during this period have been slow to change back. Second, ceding companies were able to find alternate solutions, besides reinsurance, to finance their 'XXX' term reserve strain.



CONCLUSION AND A LOOK FORWARD

In summary, the growth in the U.S. market in 2008 can all be traced to portfolio business. Large in-force deals on both the individual side and group side more than made up for the falling recurring production. It is also important to note that most of the growth can be traced to just a few companies. Meanwhile, the Canadian market continues to grow steadily.

The economic environment is going to play a big role in 2009. Given the current environment, one would expect direct sales to be down again in 2009 with UL and VUL sales likely to be more impacted than term sales. But all is not bad for the reinsurance market. There is currently, and will continue to be, opportunity for coinsurance term business. With the capital and credit markets drying up, direct writers are once again turning to reinsurers for help to provide reserve support for term business—similar to 2000 when Reg. XXX became effective. And if 2008 is any indication, expect to see continued interest in financial/in-force block deals. Companies looking to improve bottom line results may look to reinsure certain blocks of their in-force business. The big question is whether the reinsurance industry can step in and provide the support needed at a price deemed reasonable by the direct companies. ■

Disclaimer:
Munich American Reassurance Company prepared the survey on behalf of the Society of Actuaries Reinsurance Section as a service to section members. The contributing companies provide the numbers in response to the survey. These numbers are not audited and Munich American, the Society of Actuaries and the Reinsurance Section take no responsibility for the accuracy of the figures.

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What Reinsurers and Cedants Can Learn from Uncle Rex and the Bulls

By Rick Flaspöhler

Rick Flaspöhler is president of Flaspöhler Research Group located in Kansas City, Mo. He can be contacted at 816.421.5504 or by e-mail at rflaspohler@frsurveys.com.

My wife's uncle, Rex Holloway, was a man whose wisdom was acquired through experience and observation. His was a special kind of wisdom, the kind that worked itself into a person's being. It was a deep and resonant kind of wisdom that can neither be bought nor learned in the sterile environment of a classroom.

It was the kind of wisdom, I believe, that the Greek philosopher Heraclitus had in mind when he said, "Character is fate."

Rex passed away this winter, shortly before his 89th birthday. A few months earlier, his children hosted a "roast" for Rex Holloway. Atypical of the roasts you sometimes see on television, this event was held at the Christian church in Arnett, Okla., and the "roast" consisted of an incredibly large and diverse group of friends (for individuals like Rex there are no colleagues or acquaintances, only friends) who all had stories to share.

My favorite story was the one about the time Rex showed up for church service on a bitterly cold, icy, snowy, windy Oklahoma Sunday. It was a treacherous enough Sunday, and a small enough town (pop. 520) that Rex was the only person to make it to the service that day.

Noting that Rex had made it to service, overcoming many of nature's toughest winter obstacles, and further noting that Rex had failed to overcome significantly lesser obstacles to find his way to service on the vast majority of previous Sundays, the preacher wanted to do the right thing. So, he said to Rex, "Thank you so much for making it to service this morning, in spite of the weather. As you can see, you are the only one who made it. But, I'm still happy to preach if you want me to."

To which Rex replied, "Well preacher, I'm not the smartest man in the world. But I do know that if I go out to the pasture to feed the bulls and only one bull shows up, I feed it."

The preacher smiled thoughtfully and then proceeded to conduct a regular, hour-long service with Rex being the only person present.

At the end of the service, perhaps with a longer than normal sermon due to the preacher's excitement at having Rex attending church, the preacher again walked back to where Rex was sitting, shook his large, tanned and calloused right hand and asked, "Well Rex, what did you think of the service?"

Rex replied, "Well preacher, I'm not the smartest man in the world, but if I go out to feed the bulls and only one shows up, I don't give him the whole bale of hay!"

With Rex in mind, I'm not going to share everything that was learned in or recently published survey of U.S. life cedants. Instead of sharing the "whole bale of hay," I'll instead focus on the most important result from that study.

FIRST SIGNIFICANT INCREASE IN SATISFACTION SINCE 1993

The most important result from the 2009 U.S. Life Cedant survey is that the proportion of cedants indicating they are "very satisfied" with the reinsurers that they use, shows significant positive movement for the first time since 1995.

The proportion of cedants indicating they are "very satisfied" with their reinsurers now stands at 36 percent.

As you may know, reinsurer satisfaction had been falling fairly steadily since 1995. See chart below.

For U.S. reinsurers and cedants, this is welcome, and very timely, good news. Importantly, this good news does not appear to be limited to the U.S. market.

Between 2006 and 2008 the proportion of European cedants indicating they are "very satisfied" with the life reinsurers they use rose from 30 percent to 40 percent.

Also notable, the proportion of Canadian cedants indicating they are "very satisfied" with the life reinsurers they use is at 27 percent in a survey conducted in March of this year.

Based on additional findings in our surveys, satisfaction is poised to continue to rise, at least in the short term.

When asking cedants in the United States, Europe and Canada whether relationships with reinsurers are improving, declining or unchanging; we find that cedants in all three markets are extremely positive:

- 35 percent of U.S. cedants believe relationships are improving (versus only 5 percent who believe relationships are declining).
- 53 percent of European cedants believe relationships are improving (versus only 5 percent who believe relationships are declining).
- 51 percent of Canadian cedants believe relationships are improving (versus only 3 percent who believe relationships are declining).
- In the U.S. market, this is a dramatic change from as recently as 2005 when 61 percent of cedants felt that relationships with reinsurers were declining.

What happened to cedant/reinsurer relationships?

As with just about everything else in life and business, there is no single answer that explains everything. In examining the responses of cedants who were asked to explain their newly found, positive outlook, however, one answer does explain a lot.

To fully understand the explanatory power of the answer we must first go back in history to the time when human beings first set up markets to buy, sell and exchange goods and services. It was at this point in history that the basics of business relationships were established.

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Very important to those relationships was the simple fact that they involved sight, sound, smell, taste and touch—all of the senses.

In fact, when I first started working with reinsurers in the late 1980s, I was told by most executives that this was a highly personal business where deals were typically "done on a handshake" and that everybody "knew everything about everybody."

It was the type of business where people met, in person, and talked and communicated and understood and empathized and figured things out. It was the kind of business that included all the human senses.

So things were good until the 1990s, and the very advances that were supposed to make business more effective somehow made things less effective, and less personal.

During this period more and more individuals stopped making personal visits, instead relying on the fax machine, or e-mail, or voice messaging or later, text messaging.

And before anyone knew what had happened, a handshake just wasn't any good anymore. Suddenly, the proportion of cedants happy with their reinsurer relationships had dropped to just 15 percent, and very few people, anywhere, thought it would improve anytime soon.

THE ANSWER—RELATIONSHIPS ARE IMPORTANT AGAIN

When we ask those cedants what is making things better, the overwhelming majority in every market answer "relationships." The actual words they use include the terms "communication," "partnership," "mutual understanding," "service," "support" and "caring," but when one reads the narrative it becomes obvious what is happening. People are again spending time building strong relationships.

Not surprisingly, the reinsurers we survey report the exact same thing. Reinsurers and cedants are talking again; listening to each other, making connections and using more of the senses.

Which brings me back to my wife's Uncle Rex.

One is likely to look at the preacher story and see little more than a humorous tale of country wisdom.

To do so would be to miss the real point, the underlying greater truth in the story: that wisdom born of the actual experience of difficult events provides a person with wisdom that a person carries into every aspect of life. A wisdom that changes character.

Rex Holloway's character was forged by extreme events including the Great Depression and the dust bowl. Rex Holloway drew on that wisdom to answer whatever challenges and questions life threw at him. More often than not, he had the right answer.

So, too, has the basic character of reinsurers and cedants has been altered and adjusted by the events of the last 10 years, the reinsurance equivalent of the dust bowl.

The result is that reinsurers and cedants now have a deeper, special type of wisdom to draw on to answer the challenges and questions the industry throws at us.

It's the kind of wisdom that works itself into a person's being. It is a deep and resonant kind of wisdom that can neither be bought nor learned in the sterile environment of a classroom.

It's the kind of wisdom that will result, more often than not, in getting the right answer. It's character.

I'll write it again. "Character is fate." ■

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7-12 March 2010

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Reinsurance Modernization — A New World View

By Daniel W. Krane and Elizabeth A. Diffley

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Reinsurance is a global business, yet reinsurers suffer from widely disparate accounting and regulatory requirements from jurisdiction to jurisdiction, particularly in the areas of credit for reinsurance and collateral requirements. Recently, insurance regulators in the United States and worldwide have taken dramatic steps toward harmonization, mutual recognition and regulatory cooperation in connection with regulation of reinsurance, with a focus on modernizing collateral requirements.

At its Winter 2008 National Meeting, the National Association of Insurance Commissioners (NAIC) adopted the Reinsurance Regulatory Modernization Framework Proposal (Framework) to modernize state-based regulation of reinsurance, and discussions regarding implementation have continued through the Spring 2009 National Meeting (Spring Meeting). On March 24, 2009, the NAIC's Reinsurance Task Force exposed for comment a draft of federal legislation regarding implementation of the Framework and two drafts relating to the NAIC Credit for Reinsurance Model Act. In the meantime, Congress also has considered various proposals to deregulate or modernize reinsurance regulation.

Given the global economic crisis, opponents of reinsurance reform question whether now is the time to reduce collateral requirements, while proponents firmly believe modernizing (and in some cases reducing) collateral requirements will bring the United States more in line with the worldwide regulation of the rapidly growing global reinsurance market, thereby increasing availability and competition. Because U.S. federal enabling legislation is still needed to implement the new NAIC framework, interested parties will have more opportunities to continue this heated debate.

NAIC REINSURANCE REGULATORY MODERNIZATION FRAMEWORK

The NAIC adopted the Framework to modernize the current state-based regulation of reinsurance in the United States. This conceptual framework is designed to establish single-state regulation of eligible U.S. and non-U.S. reinsurers, to promote mutual recognition of U.S. and non-U.S. regulatory regimes, and to introduce modified risk-based collateral requirements. The NAIC also ratified several principles for the creation of the Reinsurance Supervision Review Department (RSRD) contemplated by the Framework. The Framework would change the rules for collateralizing reinsurance obligations.

KEY ELEMENTS OF NAIC FRAMEWORK

The Framework sets forth a new regulatory approach under which eligible reinsurers could be supervised by a single "home state supervisor." Home state supervisors will enter into mutual recognition agreements with non-U.S. jurisdictions, and a reinsurer's collateral requirements will be based on a determination of its risk profile. While the changes will create additional methods for reinsurers to engage in reinsurance business within the United States, reinsurers will have the option to continue under the current regulatory system.

Creation of two new classes of reinsurers in the U.S.

- National Reinsurers: A national reinsurer is defined as "a reinsurer that is licensed and domiciled in a home state and approved by such state to transact assumed reinsurance business across the United States while submitting solely to the regulatory authority of the home state supervisor for the purposes of its reinsurance business." National reinsurers will be supervised by their "home state supervisors," whose responsibilities will include (i) approving reinsurers to be licensed as national reinsurers; (ii) examining national reinsurers for solvency and compliance with applicable laws; and (iii) establishing and, when appropriate, adjusting, the collateral ratings of the national reinsurers under their supervision.

- Port of Entry (POE) Reinsurers: A POE reinsurer is "a non-U.S. assuming reinsurer that is certified in a port of entry state and approved by such state to provide creditable reinsurance to the U.S. market." To be certified as a POE reinsurer, a reinsurer must be organized in a non-U.S. jurisdiction that the RSRD has recommended to be eligible for recognition. POE reinsurers will be supervised by "POE supervisors," whose responsibilities will include (i) entering into supervisory recognition frameworks and appropriate regulatory cooperation and information sharing

arrangements with non-U.S. jurisdiction supervisors; (ii) certifying reinsurers as POE reinsurers; (iii) establishing and, when appropriate, adjusting, the collateral rating of the POE reinsurers under their supervision; and (iv) serving as the conduit for, and consulting with, the non-U.S. jurisdiction supervisor concerning any issues regarding the POE reinsurers they supervise. POE reinsurers will be required to submit periodic reports, including audited annual financial statements prepared on a US GAAP basis, if available, to their POE supervisor.

- National insurers and POE insurers will have a minimum capital and surplus requirement of $250 million.

Establishment of the RSRD. The supervisory board of the RSRD will consist of state insurance regulators. The RSRD's functions will include:

- Evaluating the supervisory regimes of non-U.S. jurisdictions, as well as considering the rights, benefits and extent of reciprocal recognition afforded by non-U.S. jurisdictions to reinsurers licensed and domiciled in the United States, to determine the recognized jurisdictions from which non-U.S. reinsurers may apply to be certified as POE reinsurers.

- Developing the criteria a state must meet to serve as a home state or POE supervisor. Not all U.S. states are expected to serve as such supervisors because supervisors will need to have extensive resources, expertise and experience with sophisticated market participants.

- Developing a sample supervisory recognition agreement and protocol for recognition and a sample information-sharing and regulatory cooperation agreement between non-U.S. jurisdictions and POE supervisors.

- Providing a purposes and procedures manual for home state and POE supervisors.

Credit for Reinsurance. A ceding insurer's jurisdiction of domicile will be required to grant credit for reinsurance ceded to national reinsurers and POE reinsurers, yet will retain its existing authority to determine whether the reinsurance contract transfers risk from the cedent to the reinsurer.

Collateral Requirements. A reinsurer's home state or POE supervisor will assign the reinsurer a rating for purposes of determining how much collateral that reinsurer would be required to post for the cedent to obtain credit for reinsurance. The ratings will range from "Secure – 1" for the highest level of financial strength to "Vulnerable – 5" for the lowest.

- The reinsurer must maintain a financial strength rating with at least two ratings agencies approved by the Securities and Exchange Commission (SEC), and the maximum financial strength rating that the home state or POE supervisor may assign a reinsurer will correspond to the lowest financial strength rating from an SEC-approved rating agency as outlined in the table on page 13. Failure to obtain or maintain financial strength ratings from two SEC-approved ratings agencies will result in a Vulnerable—5 rating.

Rating	A.M. Best	Standard & Poor's	Moody's Investors Service	Fitch Ratings
Secure - 1	A++	AAA	Aaa	AAA
Secure - 2	A+	AA+, AA, AA-	Aa1, Aa2, Aa3	AA+, AA, AA-
Secure - 3	A, A-	A+, A, A-	A1, A2, A3	A+, A, A-
Secure - 4	B++, B+	BBB+, BBB, BBB-	Baa1, Baa2, Baa3	BBB+, BBB, BBB-
Vulnerable - 5	B, B-, C++, C+, C, C-, D, E, F	BB+, BB, BB-, B+, B, B-, CCC, CC, C, D, R	Ba1, Ba2, Ba3, B1, B2, B3, Caa, Ca, C	BB+, BB, BB-, B+, B, B-, CCC+, CC, CCC-, DD

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- National reinsurers rated Secure—1 through Secure—3 will not be required to post collateral; Secure—4 reinsurers must post 75 percent collateral; and Vulnerable—5 reinsurers must post 100 percent collateral.

- POE reinsurers rated Secure—1 will not be required to post collateral; Secure—2 reinsurers must post 10 percent collateral; Secure—3 reinsurers must post 20 percent collateral; Secure—4 reinsurers must post 75 percent collateral; and Vulnerable—5 reinsurers must post 100 percent collateral.

- The home state or POE supervisor may adjust a reinsurer's rating downward from the maximum based on certain factors, including the reinsurer's business practices in dealing with its ceding insurers, the reinsurer's reputation for prompt payment of valid claims under reinsurance agreements, and regulatory actions against the reinsurer.

- A reinsurer's participation in any solvent scheme of arrangement or similar procedure that involves one or more U.S. cedents will result in a Vulnerable—5 rating.

The RSRD must undertake a re-examination of the collateral requirements and make recommendations for appropriate collateral amounts for reinsurers within two years after the first full year of operation under these requirements.

Implementation Issues

Opponents of the Framework have complained that, in view of the current economic crisis and its causes, now is not the time to decrease collateral requirements. Proponents, however, argue the Framework is necessary and long overdue given the global nature of the industry, and will actually increase options to cedents through a greater number of viable and strong reinsurers. While the debate continues among interested parties, regulators at the Spring Meeting focused on the implementation process.

- On March 24, 2009, the Reinsurance Task Force exposed for comment a draft of federal legislation regarding the implementation of the Framework, referred to as the "Reinsurance Regulatory Modernization Act of 2009." After an abbreviated comment period, the NAIC will submit the draft for consideration by Congress during the current

session. This legislation would enact the Framework into federal law. It would authorize the RSRD to oversee the new regulatory regime, under which the RSRD would evaluate supervisory systems of the states and non-U.S. jurisdictions and develop sample reciprocal recognition agreements to be entered into with qualified non-U.S. jurisdictions. The draft legislation would also permit states acting as POE supervisors to enter into those reciprocal recognition agreements under standards recommended by the NAIC and adopted by the RSRD, thereby eliminating constitutional concerns based on the Compact Clause, which prohibits states from entering into "any Agreement ... with another State, or with a foreign Power," without the consent of Congress. To achieve timely and uniform adoption of the Framework by the states, the legislation would preempt all inconsistent state laws. Opponents view the need for such federal legislation as another opportunity to derail the Framework.

- Neither the Framework nor the draft legislation specify the exact organization of the RSRD. To address concerns that states with small ceded premium volume would not be able to play a meaningful role in the RSRD, the NAIC adopted "Principles for the Creation of the RSRD," which were incorporated into the draft legislation. These principles envision the RSRD as a publicly accountable entity that is part of the NAIC with a governing board composed of state insurance regulators, and contain measures to prevent discrimination against small jurisdictions from participating as a home state or POE supervisor.

- At the NAIC Spring Meeting, the Reinsurance Task Force discussed the need to draft model state legislation that will be required for those states that wish to act as home state or POE supervisors and has requested input from regulators and interested parties on the standards that will be required for such supervisors and included in the state legislation.

- The Reinsurance Task Force also adopted a motion to expose for comment a proposed amendment to the Credit for Reinsurance Model Law, which would lower the minimum trusteed surplus requirement applicable to a multiple-beneficiary trust maintained by an assuming insurer in a run-off, and a related guidance memorandum addressing criteria for financial institutions issuing letters of credit and the authority of state Insurance Commissioners to accept alternative collateral arrangements.

> "**TREASURY SECRETARY TIMOTHY GEITNER HAS RECENTLY STATED …** THAT THERE IS A NEED FOR FEDERAL REGULATION OF FINANCIAL INSTITUTIONS POSING SYSTEMIC RISK AND NOT CURRENTLY REGULATED BY THE FDIC"

U.S. FEDERAL LEGISLATIVE DEVELOPMENTS

In recent years, Congress has considered several different approaches to insurance reform. While it is not yet clear what legislation will be considered by Congress in 2009, legislation providing for federal regulation of insurance has been proposed and additional legislative proposals are expected. Specifically, legislators recently introduced the National Insurance Consumer Protection Act (NICPA) and have also indicated an intent to reintroduce the Nonadmitted and Reinsurance Reform Act.

- The NICPA envisions an active regulatory role for the federal government as an alternative to the current state-based structure. The NICPA is in part the latest iteration of the National Insurance Act, better known as the optional federal charter bill. It would authorize optional federal chartering or licensing of U.S. and non-U.S. insurers, insurance agencies and insurance producers through a newly created Office of National Insurance within the Treasury. Unlike its predecessors, the NICPA would also provide for the appointment of a separate agency as a systemic risk regulator. This systemic risk regulator's powers would include making a determination that an insurer is so systemically important that it is required to be federally

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regulated. It also adds provisions aimed at consumer protection, including a new National Insurance Guaranty Corporation, and the establishment of a Financial Services Coordinating Council to serve in an advisory capacity to the systemic risk regulator.

- Past versions of the Nonadmitted and Reinsurance Reform Act, on the other hand, would have preserved a state-based approach by permitting a single state to exercise regulatory jurisdiction over credit for reinsurance (the ceding insurer's state) and reinsurers solvency (the reinsurer's state).

Furthermore, Treasury Secretary Timothy Geithner has recently stated in testimony to the House Financial Services Committee that there is a need for federal regulation of financial institutions posing systemic risk and not currently regulated by the Federal Deposit Insurance Company. He has also indicated federal regulation of insurance companies could co-exist with state regulatory authority. Though the details of the reform proposals remain uncertain, in the wake of the current economic crisis, industry commentators consider some form of federal regulation of insurance likely.

POST PUBLICATION UPDATE

Subsequent to the preparation of this article, several important developments have occurred. In response to significant comments to the March 24, 2009 exposure draft of the Reinsurance Regulatory Modernization Act of 2009, particularly related to concerns about the constitutional authority of the RSRD and a lack of sufficient due process protections, on July 27, 2009, the NAIC circulated a revised exposure draft for comment. Comments to the exposure draft are due on Aug. 17, 2009. It cannot predicted when a draft of the bill will be submitted to Congress for consideration. Further, on June 17, 2009, the Obama administration released a White Paper that outlined sweeping changes to how financial service firms, including certain insurance companies, will be regulated. On July 22, 2009, the administration delivered to Congress proposed legislation that would implement many parts of the White Paper. It is unclear what impact these federal proposals will have on the reinsurance modernization efforts. ■

Please feel free to contact the authors with any question about this article.

Call for Papers–Living to 100 Symposium IV

The Society of Actuaries will present its fourth triennial international Living to 100 Symposium in January 2011 in Orlando, FL. We encourage anyone interested in preparing a paper for the symposium to get an early start on pursuing the research and analyses. We are seeking high quality papers that will advance knowledge in the important area of longevity and its consequences. To learn more, visit *www.soa.org,* click on Research, Research Projects and Calls for Papers and Data Requests.

Life Reinsurance: Capacity and Concentration of Risk Survey Analysis

By William J. Briggs, Gaetano Geretto and Robert B. Lau

This survey was initiated by the research sub-team of the Society of Actuaries Reinsurance Section Council. The purpose of this survey was to solicit and analyze the extent to which the buyers of reinsurance are concerned about reinsurance capacity and the concentration of risk on their own books and on the books of reinsurers.

In early November 2008, this survey was sent to the chief actuaries of approximately 190 life insurers. There were 28 responses. This paper analyzes the survey results.

Most respondents to the survey were other than the chief actuary, although the chief actuary group was the largest of all respondents. Half of the responding companies had an in-force of over $100 billion (USD).

In terms of utilization of reinsurance, the average percentage of in-force, which has been placed in the reinsurance market is 48 percent. The average percentage of new business which is placed in the reinsurance market is 51 percent. A significant percentage of respondents (73 percent) anticipate sending a lower percentage of new business to reinsurers in 2009.

Between 2002 and 2007, there was a significant (over 60 percent) increase in the level of concern about the number of acceptable reinsurers in the market. The same holds true regarding the quality of reinsurers in the market as measured by credit quality. In contrast, there were smaller (less than 20 percent) increases in the level of concern about the quality of reinsurers in terms of services available or knowledge and expertise.

Sixty-eight percent of respondents use a formal set of risk criteria to determine the acceptability of a reinsurer. In terms of the ranking of the importance of criteria in evaluating a reinsurer, reinsurer creditworthiness, competitive rates and facultative underwriting services rank very high in descending order of importance. Knowledge and expertise, capacity, and having a local license are next important, while reinsurers own concentration of risk, capital solutions, and having a presence in multiple jurisdictions are less important. It is important to note that, contrary to the past where competitive reinsurance rates ranked number one, these respondents ranked reinsurer creditworthiness as the current most important criteria.

The chief actuary is the most common decision-maker on reinsurer creditworthiness, closely followed by the risk committee.

Seventy-four percent of respondents reported that their company measures its own reinsurer concentration of risk. However, while concentration of risk is becoming an important topic, only 36 percent of respondents affirmed that their company has a formal policy regarding reinsurer concentration of risk. Face amount ceded and reserves ceded are the most common ways of measuring reinsurer concentration of risk. Concentration measures vary more by reinsurer rating rather than reinsurer size. Many respondents indicated that over-concentration was best defined as the maximum ceded amount being exceeded.

In regard to concentration of risk by individual assuming reinsurer, the first chosen reinsurer receives on average a share of 37 percent, the second chosen reinsurer receives on average a share of 22 percent, and the third chosen reinsurance receives on average a share of 14 percent. Based on the respondents' companies' concentration criteria, 80 percent of respondents felt that they have no over-concentration of risk with one or more reinsurers.

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In light of the current financial crisis, 89 percent of respondents expect to be re-evaluating the credit-worthiness of their reinsurers. At the same time, respondents were about equally divided on whether they would or would not be re-evaluating their parameters to assess creditworthiness.

In terms of which selection criteria insurers would place more emphasis upon in light of the current financial situation, credit ratings ranked number one.

Finally, 64 percent of respondents anticipate re-evaluating whether they have concentration of risk with any of their reinsurers.

COMPANY CHARACTERISTICS AND UTILIZATION OF REINSURANCE

In light of the current economic environment, this survey was directed and sent primarily to the chief actuary at various insurance companies. In turn, the responses were provided as desribed in the chart below.

Survey Respondants	
Chief Actuary	**43%**
Other	**57%**
Reinsurance / Product Actuary	36%
Actuary / Corporate Actuary	7%
CFO / Financial Actuary	7%
Other	7%

In these first two sections of the survey, volumes in-force are broken down into four size bands as follows:

$100 billion and higher
$50 billion to $99 billion
$15 billion to $49 billion
Less than $15 billion.

The number of companies in each category are 14, four, six and four respectively. In order to make the analysis more meaningful, the last three size bands will be combined in what follows and referred to as "small" companies. Thus, there are 14 large companies and 14 small companies.

The large companies have an average of 50 percent of in-force and 47 percent of new business reinsured. The results for the small companies are, respectively, 45 percent and 54 percent. This result—large companies having reinsured more of their in-force than small companies—is not surprising to those who lived through the many first-dollar quota-share deals in the 1990s. The results for new business reflect the new reality that the large companies have been moving away from first-dollar quota-share deals for several years as pricing has tightened (47 percent versus 50 percent). On the other hand, small companies are becoming more dependent on reinsurance (54 percent versus 45 percent).

Seventy-three percent of reporting companies anticipate reinsuring a lower percentage of new business in 2009 and 2010 versus 2008. Twenty-seven percent of companies anticipate ceding a higher percentage of new business.

Of ominous note to reinsurers, all but one of the large companies expect to reinsure a lower percentage of new business in 2009 and 2010 compared to 2008. For small companies, 57 percent expect lower ceding percentages and 43 percent anticipate higher ceding percentages.

REINSURANCE CAPACITY AND REINSURER CRITERIA

The first question of this section asks for the level of concern regarding available reinsurance outlets, expressed as a number from one to 10 with one indicating "no concern" and 10 indicating "very concerned." The level of concern for both the year 2002 and 2007 was requested. Twenty companies responded for both years.

"How concerned are you about the number of acceptable reinsurers in the market?"For the large companies responding for both years, the average level of concern increased from 3.8 to 6.5 between 2002 and 2007. This is a 71 percent increase (6.5/3.8-1). The responding small companies went from a 3.6 level of concern to 5.6, a 56 percent increase. The authors believe that, as the number of reinsurers able to assume high amounts of new business decrease, the large companies have to worry more about reinsurance availability. In turn, some larger companies have been either increasing their quota share or increasing their max dollar retention while some companies were warehousing term business for future securitization.

"How concerned are you about the quality of the reinsurer as measured by credit quality?" Here the large companies' average level rose from 4.4 to 6.8 between 2002 and 2007, an increase of 55 percent. For small companies, the average level rose from 3.25 to 5.6, an increase of 73 percent. Observations from the marketplace indicate that these big percentage increases most likely result from a greatly heightened interest in questions of credit quality because of severe problems in other parts of the financial markets. Large insurers have been developing an ERM discipline during this decade, while small companies with fewer resources (people, money and time) have probably assigned lower priorities to ERM. The sub-prime mortgage disaster has perhaps caused the 73 percent increase for small companies (versus 55 percent for the large companies). However, the level of concern for small companies still remains smaller than the corresponding result for large companies (5.6 versus 6.8), probably from the fact that, for a small company, its reinsurers are so much bigger than itself.

"How concerned are you about the quality of reinsurers as measured by services available?" and "How concerned are you about quality as measured by knowledge and expertise?" The overall levels of concern rose 20 percent and 12 percent, respectively for the companies answering for both years 2002 and 2007.

	All	Large	Small
Reinsurer creditworthiness	1	1	1
Competitive rates	2	2	2
Facultative underwriting service	3	3	3
Knowledge and expertise	4	5	4
Capacity	5	6	5
Local license	6	4	6
Reinsurer's own concentration risk	7		
Capital solutions	8		
Worldwide presence	9		

The second question of this section asks whether a company uses a formal set of risk criteria to determine the acceptability of a reinsurer. All but one of the large companies do use a formal set of risk criteria; only half for the small companies. Eighty-eight percent of those companies that do not have a formal set of criteria in place do not intend to implement a formal standard. Once again, this would appear to be related to size and consequent resources available to small companies.

The next question asks for the relative order of importance of various criteria used to evaluate a reinsurer. Unlike the past, this survey indicates a shift from

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"TWENTY PERCENT OF RESPONDING COMPANIES REPORT HAVING AN OVER-CONCENTRATION OF RISK FOR ONE OR MORE OF THEIR REINSURERS."

"competitive rates" being the number one driver to "reinsurer creditworthiness" being number one. Rankings shown in the chart above are based on averages of rankings for all companies, large companies only and small companies only.

The catch-all criterion "Other" garnered only six responses, so the sample size is too small for any significant analysis.

There doesn't appear to be significant variance between large and small companies with regard to the top three criteria. Criteria 4-6 include the same items albeit in slightly different order of importance.

If the financial markets stabilize, it will be interesting to see if creditworthiness concerns still outweigh the desire for competitive rates.

The chief actuary is the final decision-maker regarding the creditworthiness of a reinsurer for 36 percent of the companies, while a risk committee decides for 32 percent of the companies. By size, the risk committee approach is favored by responding large companies over the chief actuary approach (36 percent versus 21 percent). The opposite result holds for responding small companies which favor the chief actuary by 50 percent to 29 percent.

CONCENTRATION OF RISK—REINSURANCE CEDED

All but one of the large companies measures its own exposure to reinsurer concentration of risk, that is, how much of its business is reinsured with each of its reinsurers. About half of the smaller companies also do this. The survey was not extended to include how companies' measurement of exposure considers retrocession or other forms of risk transfer, nor the effect that these structures have on concentration of risk or counterpary risk. One could argue that this question should be extended to include each retrocessionaire's share of the reinsurance ceded. For example, suppose reinsurer A assumes 40 percent of the front company's ceded reinsurance but retrocedes 75 percent of that equally to three retrocessionaires. Further, suppose reinsurer B assumes 30 percent of the front company's ceded business and retains it all. Which reinsurer has the greater concentration of risk?

Ten companies (36 percent) have a formal policy regarding reinsurer concentration of risk, including 64 percent of the large companies. Only 7 percent of the small companies have a formal policy. Most likely resource and prioritization issues cause this result.

Ceding companies measure reinsurer concentration of risk primarily by face amount ceded (59 percent of responding companies) and reserves ceded (64 percent of responding companies). The large companies favor the reserves ceded basis, while the small companies favor the face amount basis. Only 9 percent of responding companies measure by premium ceded. Note that companies may use more than one measure; one company (a large one) uses all three, the third being by premium ceded.

Concentration measures vary by reinsurer size for 50 percent of responding companies, almost evenly split between large and small companies. Seventy-nine percent of responding companies vary by reinsurer rating;

	Size of responding company		
% ceded	All	Large	Total
80% or more	1	7	8
60% to 79%	8	4	12
Less than 60%	3	1	4
	----	----	----
Total for respondents	12	12	24
Non-responding Companies	2	2	4

large companies favor this approach by a two-to-one margin over small companies.

Seventy-five percent of responding companies define over-concentration as a maximum ceded amount being exceeded, while 29 percent define it in terms of a maximum percentage of business being exceeded. Since only four small companies reported (as opposed to 12 of the large companies), an analysis by company size was deemed inappropriate.

The next section asks survey participants for the percentage (of total business ceded) that was ceded to each of their top three reinsurers. Two approaches were used to analyze the responses.

The first approach was to add the three percentage shares reported by each direct writer to get the percentage ceded to the top three reinsurers. The table below shows the results by number of companies.

(Three small companies ceded 100 percent of their reinsurance ceded to just three reinsurers.) The second approach focused on the percentage ceded to the primary (#1) reinsurer. For large companies, the percentage ceded to the primary reinsurer averaged 27 percent. The percentage ceded ranged from 19 percent to 35 percent. For small companies, the average was 46 percent and the range of responses was from 26 percent to 95 percent.

Twenty percent of responding companies report having an over-concentration of risk for one or more of their reinsurers.

RE-EVALUATION—IN LIGHT OF CURRENT GLOBAL FINANCIAL/CREDIT CRISIS

Eighty-nine percent of reporting companies will be re-evaluating the creditworthiness of their reinsurers. However, only 46 percent will be re-evaluating the parameters by which they assess creditworthiness. Of these 46 percent, about half are large companies and half are small companies.

	Percentage of Respondents Saying	
Criterion	**More**	**Less**
Ratings	50%	0%
Reinsurer Concentration of Risk	43	0
RBC Ratios	32	4
Quality of Assets	25	0
Capacity	18	4
Reinsurer's own Concentration of Risk	19	0

The next survey question asked if a company anticipates placing less, the same, or more emphasis on each of various criteria used in selecting a reinsurer. Significant (greater than 15 percent) changes are shown in the chart above.

The increased emphasis on ratings is interesting in light of the recent spectacular failings of the rating systems in the matter of securities composed of sub-prime mortgages.

Finally, 64 percent of respondents will be re-evaluating whether their company now has over-concentrations of risk with any of their reinsurers.

This summary report purposely presented the responses received without attempting to provide commentary; thus allowing the reader to form his or her own initial interpretation. Future article(s) will include commentary to provide the SOA membership with further insight as interpreted by their authors. ■

Enhancing the Benefit: How successful limited-benefit health plans answer the demand for a more robust product

By Curt A. Wieden

Curt A. Wieden is vice president of product and marketing for CIGNA Voluntary at their headquarters in Phoenix, Ariz. He can be reached at 800.258.9260.

Much has been written on limited-benefit plans in trade and industry publications, including the Reinsurance News article, "Limited Medical Benefit Plans—What Insurance Companies, Employees and Reinsurers Need to Know," published in August 2008. This was an in-depth article with valuable information, and I would like to add to the discussion by providing my thoughts to Reinsurance News.

ACCESS GRANTED

With the current economic instability of domestic and global markets resulting in shrinking budgets across all industries, now more than ever employers and employees are looking at alternative options to absorb another national crisis—health care for the working uninsured. CIGNA HealthCare research estimates that over one million people are covered by limited-benefit plans. From Fortune 500 businesses to mom-and-pop shops, more companies have begun making them available to their eligible employees.

Why the interest in this product? With the medical insurance market once again experiencing health care inflation in excess of 10 percent, employers, employees, broker producers and insurance carriers are looking at alternative options. Politicians and regulators are as well.

According to the 2008 Census Bureau report, 45.7 million people in the United States are uninsured, and more than 37 million of them are in working families. Limited-benefit health plans serve the working uninsured and are never intended to replace a traditional comprehensive major medical plan. Limited-benefit health plans provide income protection for workers, rather than asset protection provided by major medical plans. The majority of these workers are hourly and part-time employees, without any other viable health care options. These employees are struggling to pay for necessities and often health care is a low priority. Limited-benefit plans serve as an affordable solution, only costing the average worker one to two hours of their weekly wage, while granting them access to the health care system.

For example, a worker making $5.85 an hour with a weekly gross pay of $234, would spend nearly one-third of his or her income, an estimated $76.75, on major medical insurance, according to the AHIP Center for Policy and Research. After additional deductions the worker's net pay would be only $139.35. The same worker enrolled in a limited-benefit health plan would only pay less than five percent, $10.95 to be exact, for a weekly net pay of $205.15.

Limited-benefit health plans have a distinct membership, the working uninsured, and leading plan providers within the industry have listened to their membership and marketplace by implementing an expanded and more robust plan. This feat has been accomplished while keeping plan administration to a minimum, thus creating a flexible, easy-to-manage product valued by insurance carriers, employer clients and employee members.

IN A MARKET OF ITS OWN

The voluntary benefits marketplace is full, and often confusing, to even those within the industry. Often mistaken for the 'mini-med' product, a successful limited-benefit health plan offers valuable education to the consumer regarding the health care system and access to benefits, not just a discount for certain services and prescriptions.

As actuaries and underwriters, we have been trained that certain industries are a challenge.

Limited-benefit health plans are tailored to those industries with high turnover that have been a challenge for traditional major medical plans to underwrite, sell and service successfully. The hotel, retail and restaurant industries—deemed headaches by the industry, are satisfied consumers of the limited-benefit health plan. Their satisfaction originates from their employees' access to an expansive PPO network, learning the proper use of the health care system while becoming a more efficient health care consumer. Businesses prosper from an increased level of recruitment and retention, limiting training expenses and absorbing fewer unscheduled absences. Many companies in the staffing,

construction, manufacturing and landscaping industries also provide limited-benefit health plans to their employees.

With an established record of success across these once thought 'hard-to-reach' industries, it is vital to note that the limited-benefit market continues to grow. This growth is matched by ongoing research into the demographic of limited-benefit plan members, allowing a successful niche product to expand its benefits to answer the market's needs.

SERVING THE MEMBERSHIP

Accommodating a membership with defined needs should be the motivation behind the plan design and expansion of a successful limited-benefit health plan. Limited-benefit plans tend to serve a younger population with a lower participation rate. These employees are typically in their mid- to late-twenties and value regular doctor visits more than in-patient coverage for hospital stays.

For groups with limited-benefit plans, there are several challenges that need to be managed.

For most members, enrollment in a limited-benefit plan is their first access to health care coverage, so initial member communication through an easily understood plan design is necessary. Recently a series of focus group tests were conducted to determine the needs of this significant demographic.

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" BY OFFERING AN EXPANSIVE PPO NETWORK TO LIMITED-BENEFIT PLAN MEMBERS, THEY LEARN TO BECOME **PROACTIVE, RESPONSIBLE USERS OF THE HEALTH CARE SYSTEM.** "

The testing showed that the focus group of hourly and part-time workers needs enhanced benefit value and member communications, resulting in:

1. **Simplified content on enrollment and marketing material**
   The majority of limited-benefit plan members are not college-educated:

2. **24-hour nurse line for urgent requests**
   Members work non-traditional hours in service industries and are used to emergency room treatment as their only form of urgent care;

3. **Employee assistance program**
   Access to a limited-benefit health plan is the first experience with the health care system for the majority of members.

These communication strategies set the foundation to answer the demand for a more robust limited-benefit product. Effective client and member communications leads to a higher participation rate, and combined with ongoing member education, maximum benefit value can be reached.

MEETING MARKET NEEDS

The advantage of incorporating a PPO network is to provide additional discounts to individuals who utilize in-network (contracted) providers.

By offering an expansive PPO network to limited-benefit plan members, they learn to become proactive, responsible users of the health care system. There are financial incentives for members staying "in network," and no significant penalty (i.e. benefit differential) if they select from outside the contracted network.

Since most hospital stays are brief, an enhanced limited-benefit plan does not include daily coverage caps for in-patient care. By catering to a membership base that tends to be healthier with shorter hospital stays, the best plan design allows members to receive a larger amount of benefits up front instead of a minimal amount over a longer period of time. The same market need has been met through a pharmacy benefit that allows members to receive a discount at point-of-sale instead of submitting claims for reimbursement.

The cornerstone of a successful limited-benefit plan is preventive care, so an expanded wellness benefit is essential for members to attain maximum plan value. Often included in this benefit are annual wellness exams, discounts to wellness programs and incentives, along with access to health education.

This multi-faceted effort to meet market needs has resulted in a top-quality product that has benefit enhancements in place to meet demand, while keeping administration low-maintenance with turnkey features that benefit the broker producer and insurance carrier.

ADMINISTRATION EASE

Seamless administration is also a critical purchasing requirement since employers implementing a limited benefit plan for the first time do not budget for the potential maintenance and headaches that may come with these kinds of plans.

Ease of administration is valued by all parties in the implementation of a limited-benefit plan. The administration process is often as important as the actual cost of a plan. The ability to create an efficient administration process allows all parties to focus on important business activities instead of repetitive administrative tasks.

This has been accomplished by offering numerous turnkey features to streamline the administrative process. The entire process is highlighted by the effective use of technological resources, including electronic file transfers for rollover accounts and automatic biweekly payroll deductions. These administration solutions demonstrate that limited-benefit plans need not require a significant amount of ongoing administrative work.

TAKE A SECOND LOOK

These solutions to the common problems endured by limited-benefit health plans can serve as a detailed case study for the industry. Limited-benefit plans have become a more attractive product to businesses by embracing a higher level of commitment to serve current and potential members through research and added plan value. At the same time, limited are also addressing one of our nation's most urgent problems—serving the working uninsured. ■

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American Academy of Actuaries (AAA) Stop Loss Risk-Based Capital Work Group is Reviewing the Potential Need for Changes in the RBC Factors

By Michael L. Frank

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In 1999, the National Association of Insurance Commissioners (NAIC) requested that the American Academy of Actuaries (Academy) review the various risk-based capital (RBC) formulas for health insurance products such as long term disability, long-term care and stop loss insurance. The stop-loss RBC work group (work group) was formed to address stop loss (medical excess of loss) business, and charged with researching the formula to be used by carriers (HMOs, Blues plans, A&H insurers, P&C insurers) writing this business. RBC formulas are used to measure the minimum amount of statutory capital that an insurance company is required to hold based on the size and degree of risk taken by the insurer. As a result, the ongoing review of risk-based capital formulas is a vital process.

This summer, the work group will be working with the Society of Actuaries (SOA) to contact insurance companies and reinsurers for non-proprietary, non-confidential financial data for the purpose of updating the prior study to enable the work group to propose revised capital requirements to the NAIC. Information will be collected and analyzed by the SOA. The work group will use aggregated data results provided by the SOA to form a proposed formula. As in the past, the work group will be preparing a study of insurance and reinsurance company financial data in the stop loss insurance arena including self-funded stop loss (specific and aggregate), medical (portfolio) excess, HMO reinsurance and provider excess coverage.

Keys to the success of this updated review will include obtaining a critical mass of experience from insurance companies and reinsurers by the various stop loss product lines. Confidentiality of information is important for participants, and the work group will not be seeking to obtain data that is confidential or business proprietary in nature from participants.

The stop loss product lines are unique given that a significant portion of the business in the industry involves two or more parties (including reinsurers, issuing carriers and managing general underwriters). As a result, it will take significant energy to ensure that duplicate experience is not reflected in the review. Prior members of the work group have taken considerable care not to have duplicate experience, and the current work group will also focus its energy here.

Insurance companies and reinsurers interested in supplying data for the study should contact Barbara Scott at the SOA, at *bscott@soa.org*, to provide her with your name and contact information. Updates for the work group will be provided in future newsletters.

Members of the 2009 work group are: Devin B. Dixon, Michael L. Frank, David C. Fry, James A. Kaiser, John I. Mange, Ian K. McAlister, Shaun L. Peterson, Michael E. Rieth, Eric L. Smithback, David Vnenchak, Ruth Ann Woodley. ■

[1] The American Academy of Actuaries is a 16,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

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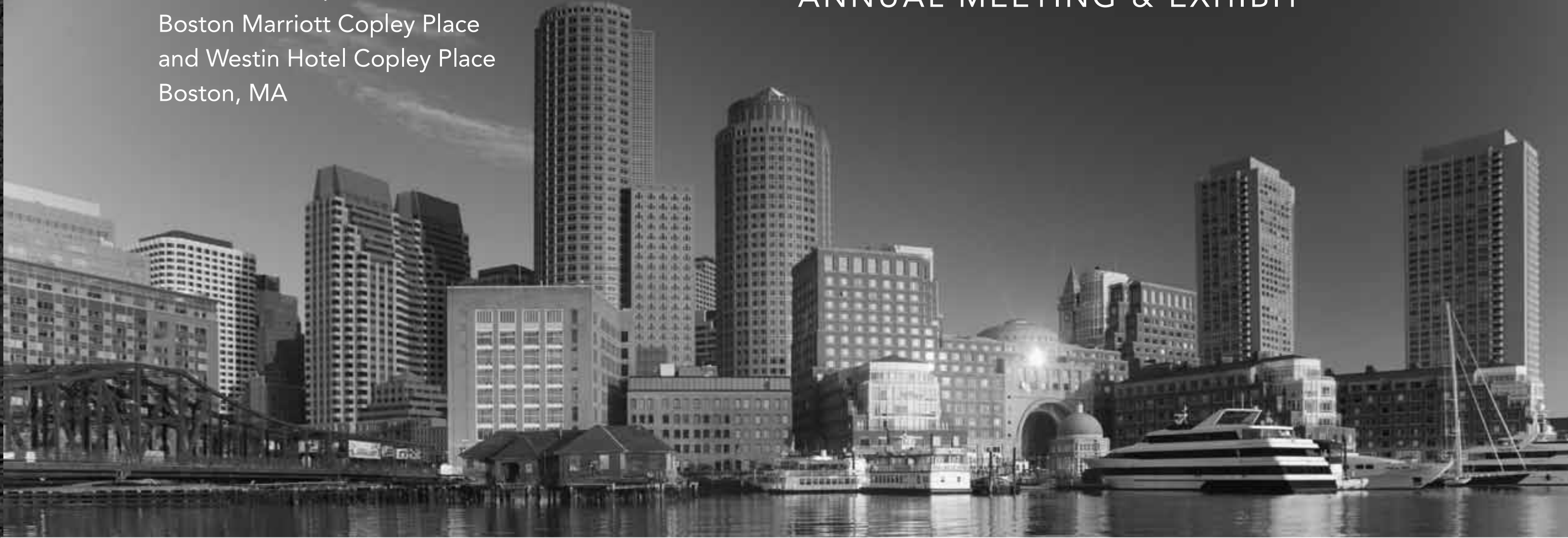

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