



SOCIETY OF ACTUARIES

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By Ronora Stryker and Scott Campbell

One of the major initiatives of the Reinsurance Section Council is to initiate and produce quality research that benefits Reinsurance Section members. A dedicated group of volunteers have been assembled to oversee this process. This research team was very active in 2013 and this article will summarize some of the highlights from last year.

One such project completed in 2013 is on life reinsurance treaty construction and has been featured in a past issue of the newsletter. Reinsurance treaty negotiations can be a long complicated process that may lead to lengthy unwieldy documents and negative experiences for the direct writer and/or reinsurer. While the ACLI Life Treaty Sourcebook provides sample treaty language and the 2007 updates to the 1994 Guidance and Commentary on Life Reinsurance Treaties provides insight on the purposes of most reinsurance treaty clauses, it is difficult to find information on historical construction of treaties including the current prevalence of treaty terms and the impact on the reinsurance transaction, ceding company, and reinsurer. The Section initiated this project to increase awareness of the importance of many reinsurance treaty terms/provisions, identify common treaty structures, practices, and/or solutions in reinsurance treaty construction and negotiation and illustrate how treaty terms have evolved over time. The knowledge from this research should assist individuals involved in reinsurance treaty negotiations to optimize resources and success in future reinsurance treaty development. The report authored by Steve Stockman and Tim Cardinal of Actuarial Compass is available on the SOA website under Completed Research Projects – Life Insurance.

The research team met throughout the year and deliberated on many ideas before selecting two projects to move forward, living benefit riders and conversion mortality experience. Project teams were assembled to further develop the scope and prepare solicitation materials to hire researchers to perform the studies.

The living benefit riders project group recognized that many life insurance and annuity companies offer living benefit riders—riders that provide for the payment of

all or a portion of the death benefit or account value upon the occurrence of a covered event prior to death. The market is beginning to demand these riders be attached to more policies. Direct writing companies of these riders may desire that reinsurance on the base policies extend to these riders as well. Yet reinsurers and direct writing companies may not fully appreciate the complexities associated with issuing, administering and reinsuring these riders. Therefore, the project group defined a study to identify and describe the various living benefit riders available in the life insurance and annuity marketplaces and discuss the implications of these benefits from both a direct writer and reinsurer perspective. The outcome of the study could help companies enhance current practices around these benefits.

This project group has selected a researcher to catalog a listing of common living benefit riders and features, highlighting the impact of each feature on policy pricing (e.g., increased policyholder optionality/antiselection; impact on mortality, policy persistency, and premium persistency), legal/compliance requirements, and the impact of each feature on reinsurance pricing and administration (inforce policy administration, claims administration, etc.). Some of the items to be addressed in the study include:

Identification and definition of the types of living benefit riders available in the life insurance and annuity marketplaces:

- Company policy language and variations;
- Sales by type of benefit/rider;
- Underwriting for these riders;
- Cost of the benefit;
- Overall level of claims activity associated with these riders;
- Administrative handling (including outsourcing);
- Filing requirements; and
- State variations.

The conversion mortality experience project team has also been busy investigating the need and likelihood of available data for a study. It is common that term life policyholders can convert their insurance to permanent



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life insurance without new evidence of insurability. For example, if a 20-year term policy has a 10-year conversion clause, it is possible that the policyholder could develop health problems within the 10-year conversion period and convert the term policy to a permanent policy without a physical exam and other underwriting. The policyholder could end up having permanent coverage at a much lower annual premium than if he would have gone through the underwriting process for a new permanent policy. Therefore, the mortality experience on conversion policies could be higher than expected on similar permanent policies due to the anti-selection.

To help with the planning for a study, the group conducted a short survey of insurers to gain a better understanding of the type of data available and interest in participating in the experience study. Responses

were encouraging leading the project group to prepare a Request For Proposals to find a researcher to develop the request for data, perform the necessary aggregation and analysis, and summarize the research findings in a report.

As these two projects are in very early stages, no definitive completion date has been determined. Look for more information about the studies in the second half of 2014.

The Reinsurance Section's research team has already begun establishing a 2014 research agenda. If you have an idea for a research project that would help Reinsurance Section members or would like to help with Section research efforts, please contact Scott Campbell at scott2.campbell@prudential.com. ■



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