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Reinsurance Research Review

By Ronora Stryker

Planning is underway on the 2015 Reinsurance Section's research agenda. A dedicated group of volunteers has been assembled to help the Reinsurance Section Council initiate and produce quality research that benefits Reinsurance Section members and to oversee the process. Ideas are generated by individual members of this research team as well as feedback from Reinsurance Section members usually through surveys. Topic areas currently being considered are diverse, ranging from longevity research to company practice surveys on administering reinsurance treaty terms.

Once the research team has identified a topic area to pursue, a project team (POG) is recruited to manage the study including defining the project scope, preparing solicitation materials to find a researcher, guiding the researcher to perform the study, and reviewing study deliverables. A POG was recently formed to investigate a study on group term conversion mortality experience.

This study is the second phase of a much larger study on term conversions. In the first phase, Lindsay Meisinger, Donna Megregian, and Derek Kueker of RGA conducted a

survey of U.S. life insurers on the assumptions and product features used for pricing and administering individual term conversions defined as when an individual term insurance policyholder exercises the option to convert to a permanent plan without underwriting. Results of the survey are available on the SOA website.

In addition, the RGA research team is working on an individual term conversion mortality experience study. Data has been collected and is currently being reviewed and analyzed. The results are targeted to be available by end of year.

Another project in progress examines retention management for life insurers. The study illustrates the impact of life insurance retention limits on retained reserves and required capital under Solvency II and a principle based framework. The study is intended to serve as a roadmap for companies to help them reexamine their retention limits and effectively manage their life insurance risk profile. Researcher Kai Kaufhold of Advanced Reinsurance Services has recently been engaged to perform the study. Since the project is in very early stages, no definitive completion date has been determined.



Two projects were completed this spring and summer. The first project examines living benefit riders. In U.S. life insurance and annuity markets, there is a growing demand for living benefit riders. These riders 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. A Milliman team led by Carl Friedrich researched the topic and authored the summary report. The study focuses on living benefits triggered by a covered health event.

The report is available on the SOA website and identifies the various types of living benefit riders found in the marketplace, explains rider benefits and how they might vary by state, and provides historical sales data and general filing requirements. The report also explores how underwriting and

administration is handled, and examines direct and reinsurance pricing implications of the riders to the extent they impact policyholder optionality and base plan financial characteristics.

In addition, results of a survey of direct company practices around the riders are summarized. Reinsurers were also interviewed and provided perspectives on the various rider types including pricing considerations, contractual issues and administrative factors.

The following riders are included in the report:

Accelerated Death Benefits (ADB) for Chronic Illness

ADB for Terminal Illness

ADB for Critical Illness

Life/Long Term Care Insurance (LTCI) Accelerated Benefits

Life/LTCI Linked-Benefit Plans

Annuity/LTCI Linked-Benefit Plans

Annuity Enhanced Payout Benefits triggered by a qualifying health condition

Given the comprehensive nature of the report, individuals and companies can utilize the report to help enhance current practices in supporting these benefits.

The second project completed in June provides illustrative examples of how various accounting regimes apply to a range of insurance contracts. This research was performed by an Ernst & Young LLP team. The study investigates the differences that occur when measurement is made under different bases. The observations come from research performed on two products, term life insurance with reinsurance and deferred annuities, under five reporting bases:

1. U.S. Statutory requirements
2. U.S. Generally Accepted Accounting Principles
3. The Canadian Asset Liability Method
4. International Financial Reporting Standards
5. Market-consistent balance sheet

Through an analysis of income emergence under the measurement basis, the report shows the different philosophical foundations for each basis as well as identifies the differenc-

es. The report should help insurance companies and users of financial statements to become better educated on the interpretation of results reported under various accounting regimes and to understand better the implications of some of the proposed changes to financial reporting frameworks currently under consideration.

As this article illustrates, producing relevant research for its members is a priority for the Reinsurance Section Council and the council members are interested in hearing from you. If you have an idea for a research project that would benefit Reinsurance Section members or would like to help with Section research efforts, please contact Scott Campbell, research lead for the Reinsurance Section, at scott2.campbell@prudential.com or Ronora Stryker, SOA research actuary at rstryker@soa.org. ■



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