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**REINSURANCE SECTION SPECIAL TOPICS**

Moderator: JAMES R. HOREIN  
Panelists: MARK R. WHITE  
MICHAEL R. WINN  
Recorder: MARK R. WHITE

- o Report of Reinsurance Section Council Chairperson
- o Guidelines for the Reporting of Self-Administered Reinsurance

MR. MICHAEL R. WINN: The Reinsurance Section Council, of which I have been Chairman during the past two years, had an election in the latter part of the summer. The Council members of the Reinsurance Section for the year 1986/1987 are Johanna B. Becker, Wayne D. Bidelman, Denise E. Fagerberg, James R. Horein, Donald C. Kiefer, Denis W. Loring, Diane Wallace, Eugene M. Woodard, and John B. Yanko. I would also like to introduce the new officers of the Council of the Reinsurance Section. Those are: Chairperson, Denis Loring; Vicè Chairperson, Johanna Becker; Secretary, Diane Wallace; and Treasurer, Denise Fagerberg.

We do have a democratic process at work in the Section. At current count we have roughly 937 members, and I would encourage you to please take an active role and vote. During the election last year we had a percentage voting of roughly 43%. I talked to Bern Bartels, and he has indicated to me that our percentage, although it has gone down slightly, is still among the highest of all the sections. This does make me feel good, but we want it to go in the other direction. We want it to go up. To that end, the Election Committee is going to make some modifications next year when we begin the balloting process once more.

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I'm going to give you an idea of some of the tasks we have accomplished over the last 12 months. We have several committees, and that's how the work of the Reinsurance Section is really done. It's done at the grass roots level, and we certainly appreciate the support that we get from our committee members.

One of our committees is Administration, headed by Mark White. During the past year, the Administrative Committee published the final Guidelines for the Reporting of Self-Administered Reinsurance. It has in the works a proposal on reinsurance auditing, and it is also working on standardizing the reports from ceding companies to reinsurers. That Committee has certainly done an excellent job, not over just the past year, but ever since its inception.

We have an Educational Committee chaired by Denise Fagerberg. During the course of this year, it put on a very fine seminar in Boston on AIDS, AIDS related diseases, and the underwriting aspects of AIDS. It was very well attended and was a financial success for the Section.

The Elections Committee has been ably headed by Sue Ann Collins. Sue has decided to press on to other things and has turned over her responsibilities as Chairman of the Elections Committee to the Vice-Chairman of that Committee, John E. Tiller, Jr. As I indicated earlier in my remarks, we are going to make some minor changes in the election process in an effort to solicit a higher percentage of returned valid ballots.

The Financial and Tax Committee is headed by Jay A. Novik. It produced articles for the newsletter, has worked with an Advisory Committee of the NAIC, and plans to produce several programs over the course of the next few years.

The Newsletter Committee is the Committee that I once headed myself, so I know that it's quite a challenge to the individual who is the editor of that particular committee. Over the past year the editor has been Eugene Woodard, and Gene has done a splendid job in revising the format of our newsletter and soliciting the membership for articles. Gene plans to step down this year, but he's turned that responsibility over to Diane Wallace, who I'm certain will pick up the torch and carry it forward even higher.

## REINSURANCE SECTION SPECIAL TOPICS

We have a Program Committee headed by Melville J. Young. I don't think I have to tell you about the number of programs that we've had over the past two years. We look forward to any comments that you may have about our programs, but we feel that in Mel we have a Program Committee Chairman who will carry the Reinsurance Section successfully into the future.

The Statistical Committee is headed by Melvin C. McFall. It has done some work in reporting reinsurance mortality. We are still working with at least two different options for trying to get our mortality reports published on a more frequent basis.

The Treaty Committee was active a couple of years ago, but we have had a couple of changes in the chairmanship of that particular committee. The Chairman for the past year was Richard D. Ashton. The Chairman in the future will be John Nye. John is not here today, but John and Johanna Becker have asked that I make an announcement that if anyone is interested in working on the Treaty Committee, they would certainly welcome your thoughts and suggestions.

We have an Underwriting Committee headed by Gabriel L. Shaheen. During the course of this year, it produced articles for the newsletter. It also had a discussion group or panel discussion at the Boston meeting on lifestyle underwriting and regulatory concerns, which was a very well attended program.

We have another individual, Dave Holland, who I would like to recognize. He's not a full committee, but he has certainly done an excellent job in keeping the Reinsurance Council abreast of any regulatory changes through sending copies of correspondence from regulators and other documents.

At the beginning of August 1985, we had funds on hand of \$8,505. We had income over the fiscal period which runs from August to July of this year of \$19,554. We had expenses during that same period of time of \$13,397, leaving a net balance as of July 3, 1986, of \$14,662.

I don't anticipate any dues increase. As a matter of fact, we are getting some mild pressure from the Society to spend more of our money on useful programs, and I'm certain that will be done in the future.

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Mark White is currently working for The Wyatt Company in Washington, D.C., as a Life Consultant. His previous work experience was with John Hancock, where he had much to do in the area of ceded reinsurance. As I indicated earlier, Mark has, through the efforts of his Committee, published a document that I am certain will be useful in the future.

MR. MARK R. WHITE: The reason I am speaking to you today is twofold. First, I want to formally read the Guidelines for the Reporting of Self-Administered Reinsurance into the *Record* so that we will have a permanent copy of it in the Society literature. The Guidelines have been distributed to all of the members of the Reinsurance Section, to all of the members of the Individual Product Development Section, and to as many of the computer vendors as we could identify.

I also wanted to publicly recognize the hard work of a couple of the people who were involved in the development of the Guidelines. There were a lot of people involved, of course. We went through an exposure draft process and so on, but there were really four people -- three of whom were on the Administration Committee, and one who commented -- who put in an extra effort and who really were responsible for a large part of the document that came out. Those four people that I would like to recognize are Michael R. Slater, William W. Zielman, Melvin C. McFall and Andrew F. Bodine. Mike, Bill and Mel were the three who drafted original sections of the document, and for those of you who have read it, you know that it covers quite a lot of material. Obviously, there was a lot of extra work putting that together. Andy Bodine, who is not a member of our Committee, responded to our request for comments early on in the process and wrote a letter that was so detailed and well prepared that it ended up being the basis for yet another section of the document.

There are still a limited number of copies of the Guidelines available. They are in the possession of Jim Horein and myself. Either of us will be happy to send a copy out to anyone who corresponds with us at our Yearbook addresses.

REINSURANCE SECTION SPECIAL TOPICS

Guidelines for the Reporting of  
Self-Administered Reinsurance

January 1, 1986

Reinsurance Administration Committee  
Reinsurance Section  
Society of Actuaries

## OPEN FORUM

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## REINSURANCE SECTION SPECIAL TOPICS

### I. Introduction

Reinsurance treaties are negotiated agreements. For many years the primary area of negotiation for most companies was price. Reinsurers traditionally performed the administrative functions associated with the business based on information transmitted on individual cession forms.

Times have changed. There has been a great development of self-administered reinsurance in recent years. These self-administered arrangements have generally resulted in lower costs for reinsurers, and consequently in lower reinsurance rates. For ceding companies, increased administrative costs have tended to offset the reinsurance rate decrease. Self-administering companies have gained a significant amount of control over reinsurance processing, but they have also assumed a greater responsibility for its accuracy and timeliness.

With the advent of self-administered agreements, the range of negotiated items has expanded to include the question of what shall be reported to the reinsurer. The primary purpose of this document is to provide guidance to ceding companies and reinsurers alike on the information which should be reported through a self-administered arrangement.

Since there is a great deal of variation in the abilities of ceding companies, the needs of reinsurers, and the purposes for reinsurance, there is a correspondingly great variation in the terms of self-administered agreements. For example, there are certain arrangements which are reported on a "pure bulk" basis where only summary information is transferred. These arrangements frequently are used for financial planning reinsurance and are outside the scope of this document.

The agreements to which this document applies are those designed to replace individual cession reinsurer-administered agreements. These are frequently referred to as bordereau or listed-based reinsurance agreements. While the focus is on life insurance, the discussion can be generalized to other forms of insurance.

It is important to remember that self-administration is a two way street. Ceding companies considering that option should weigh the savings generated by lower reinsurance rates and the additional control over handling against the higher self-administration costs and the added responsibility. For reinsurers, the reduced administration expenses must be weighed against the loss of direct control of the reinsurance processing and the reduced reinsurance rates.

The negotiated reporting requirements of an agreement can play a large role in its ultimate cost to both ceding companies and reinsurers.

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### II. Considering Self-Administration: Thoughts on Systems Development

A ceding company which has never self-administered before or which is considering a revision of an existing self-administered agreement should consider many details in the course of developing the new self-administration system. Naturally, no single list of considerations can be completely comprehensive, particularly when products are evolving as rapidly as today, but the following list is presented to indicate the scope of matters that should be addressed before a ceding company decides to self-administer.

#### 1. Responsibility

In cession basis reinsurance, the ceding company is responsible for the determination of facts regarding the reinsured policy (e.g., policy status, premium payments) and the transmission of these facts to the reinsurer. Self-administration requires the ceding company to assume some or all of the reinsurance support functions from the reinsurer (e.g., billing reports, annual statement information). The ceding company therefore becomes responsible for the timely and accurate reporting of the agreed items. Year-end timing can be especially critical.

#### 2. EDP Resource Allocation

Developing and maintaining any reinsurance system will require a significant investment of EDP time and money. Many ceding companies find it difficult to assign a high priority to reinsurance systems work. If a company cannot devote sufficient EDP resources to the reinsurance system, it should not be self-administering. This source of expenses should be carefully examined by any ceding company which is considering self-administration. Some ceding companies reduce their EDP requirements by doing extensive systems work on local microcomputers instead of the company main frame. In this case, audit systems or procedures should be developed for the separate microcomputer systems to insure their accuracy.

#### 3. Development Approach

A system might be more easily developed in piecemeal fashion than by attempting to handle the entire reinsurance process at once. Top priority would normally be given to major blocks of business currently being issued which require reinsurance. The piecemeal approach may be necessary if EDP resources are limited.



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### 4. System Design

System design should be as flexible as possible in order to adapt to new situations without an inordinate amount of new programming. Adaptability could be required for new types of policies, new coinsurance allowances or YRT rates, and variations in the treatment of factors such as sex-distinct vs. unisex treatment, smoker/nonsmoker vs. composite rates or varying select periods.

Similarly, certain transactions may vary from agreement to agreement in the manner in which they are calculated. The optimal approach is to anticipate as much future variability as possible when building the system without encumbering it with overcomplexity.

### 5. Manual Processing

Most systems still require some degree of manual processing. It may not be realistic or cost effective to expect to program everything. Attempting to build too ambitious a system can result in delays and cost overruns.

### 6. External Constraints

Reinsurance is not governed solely by an agreement between ceding company and reinsurer. State regulations, tax rules and auditing requirements can all constrain a reinsurance arrangement.

Furthermore, such constraints are largely beyond the control of the ceding company and reinsurer and may change with little or no warning which may force changes in the self-administration system. A recent example is the development of the AICPA Statement of Position on Auditing Life Reinsurance.

### 7. Detail Reporting

In addition to the obvious reporting situations such as those described in later sections of this document, there are many ancillary issues which must be addressed. For example, how will the system handle the following:

- a. Multiple inforce policies on the same life with different reinsurers.
- b. Multiple inforce policies on the same life with the same reinsurer.
- c. Multiple reinsurers on the same policy.
- d. Replacements and continuations (e.g., select term products).
- e. Automatic versus facultative treatment.

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- f. The reinsurer's retrocession arrangements, particularly where additional information or different timing is a factor.
- g. Recapture and small amount cancellation rules.
- h. ADB retention (added to or included in basic life retention).
- i. Waiver of premium reinsurance which is frequently coinsured even though the other risks use a different form of reinsurance such as YRT.
- j. Coordination of ceded business with business being assumed from the same reinsurer.
- k. Changes in the retention level.

### 8. Errors and Omissions

The errors and omissions clause of a reinsurance contract is designed to address instances where a case has been processed incorrectly by accident. It is not intended to cover situations where a system is known to be deficient when it is put into production. A self-administration system should not be put into production until it is fully checked. The tendency of some ceding companies and reinsurers to negotiate an agreement first and worry about the self-administration later can put a great deal of pressure on the company to rush a system into production.

### 9. File Management

Some ceding companies have found that the best course is to build all necessary reinsurance information into a trailer on the policy master file. Others have preferred to set up a separate reinsurance master file which is coordinated with the policy master file. This decision is a fundamental one that should precede any systems work.

The advantage of using the policy master file itself is that handling problems caused by two separate systems can be eliminated. On the other hand, modifying the policy master file and its associated programs can be a more difficult and time consuming task than creating an independent database. The advantage of setting up a separate reinsurance master is the complete control the reinsurance area has over its structure and operation. A disadvantage is the extra handling required to keep the reinsurance file in agreement with the policy master file.

There is another related consideration. User friendly languages and modern database management techniques may not be readily adaptable to the existing policy master file and programs. In order to take advantage of these advances, it may be necessary to build a separate reinsurance file.

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### 10. Safeguards

Any production system should have documentation, backup files, hard copy records and security procedures to cope with accidental or intentional damage to the system.

### 11. Special Products

Products such as Universal and Variable Life can create different self-administration problems than traditional products. For example, how will the system handle the following:

- a. Varying risk amounts as they affect retention. Options include level retention, proportional retention or a combination of the two.
- b. Varying risk amounts as they affect the net amount at risk. Options include a fixed annual amount, monthly updating or exact adjustment. Reinsurance benefits can be paid for either the amount purchased or the actual amount of loss.
- c. Varying risk amounts that float above and below fixed retention limits.
- d. Varying risk amounts on other policies on the same life whether retained or reinsured.
- e. Varying risk amounts as they affect the establishment of future waiver of premium disability reserves.
- f. An alternate set of reinsurance premiums required for increasing benefit policies (e.g., with a cost of living adjustment).

### 12. Report Formats

There are many options, once the above considerations are settled, as to how the information should be presented. The desired form of presentation may in some cases suggest or dictate other parts of the system.

Multiple benefits (e.g., basic life, ADB, waiver of premium, other insured lives) can be reported together on one form or separately. Various transactions (e.g., new issues, renewals, lapses, reductions, conversions) may require different information and different report formats.

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### 13. Uniform Reporting

When a ceding company works with several reinsurers, it can be very helpful to have all of the reinsurers agree to a uniform reporting format. While this may take some initial work to negotiate, it will be very beneficial to the ceding company in the long run.

### 14. Management Reporting

Management reports can be produced relatively efficiently and inexpensively if they are designed as part of the overall self-administration system. They are likely to be neglected by the ceding company if they are not specified as part of the initial system. One useful report, particularly for YRT reinsurance arrangements, is a simple cash flow summary.

\* \* \* \*

It is not possible to define one approach to the above considerations which is right for all companies. Nevertheless, in setting up a self-administration system, they must all be addressed to the satisfaction of both ceding company and reinsurer.

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### III. Transmission of Information

When considering the transmission of information between ceding company and reinsurer, it is clear that a great many options are available to get the job done. This document does not recommend any particular approach. Each ceding company and reinsurer should consider its alternatives before negotiating the methods in which information will be transmitted.

The areas which should be addressed include the following:

#### 1. Mode of Transmission

Although historically information has been transferred almost exclusively by paper, in recent years ceding companies and reinsurers have been exploring other options such as the use of computer tapes, floppy disks and direct computer interfacing over telephone lines.

If one of the more sophisticated methods is contemplated, it must be carefully coordinated with the company which is to receive the data. Many ceding companies and reinsurers are not yet prepared to use or currently discourage the use of these methods.

#### 2. Frequency and Timing

With the exception of some reporting such as Annual Statement work whose timing requirements are imposed by state regulators, there is room for ceding companies and reinsurers to negotiate whatever terms are appropriate. A typical provision might provide for the monthly or quarterly transfer of reports with a stated deadline (e.g., 30 days after the end of the reporting period).

#### 3. Format

No generally accepted standard format for reports currently exists, nor is one proposed. In many cases, the selection of the information to be transferred will have a lot to do with the report format. To the extent that electronic data transfer is contemplated, both parties must have a complete understanding of the format used in order for the transfer to be successful.

#### 4. Summary vs. Detail

In self-administered reinsurance, much reporting is of summary information (e.g., aggregate reserves, total premium due). One of the advantages of self-administration for the reinsurer is the greatly reduced amount of information that it is required to handle.

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Under certain circumstances, however, significant amounts of detailed backup may be transferred between ceding company and reinsurer. New issues would normally be listed individually along with any information which the reinsurer needs to handle new issues according to the agreement.

A few general statements may provide some guidance to ceding companies and reinsurers in negotiating an agreement.

First, summary information such as statutory reserves that the ceding company has to calculate whether the business is reinsured or not should normally be reported to the reinsurer. Summary information that would not normally be calculated by the ceding company should be negotiated. An example of this might be a smaller company which does not have to calculate separate tax reserves while its reinsurer does. Obviously, if the ceding company must take on extra tasks, this tends to undermine the cost justification for self-administration.

Second, both detail and backup information should be provided to reinsurers when necessary for reinsurance support. Typical situations where detailed information might be required are new issue listings, premium reports (including new issues, renewals, adjustments and lapses) and audits. Such detailed information should be kept to a minimum and is generally required to support summary information.

Third, whether transmitted or not, the ceding company should maintain sufficiently detailed backup information in its office to provide documentation for claims and reinsurer audits.

Fourth, some reinsurers prefer to calculate certain summary items themselves. In particular, the reinsurer may need to value its statutory reserves on a different basis than the ceding company. In these cases, it is usually sufficient for the ceding company to provide the reinsurer with the appropriate policy master file (or reinsurance file) information.

\* \* \* \*

When developing a self administration system, major decisions must be made in the transmission of information that are not as clearcut as in the past. The resolution of these questions can significantly affect the cost and ease of administration.

It is preferable to consider these questions openly between ceding company and reinsurer before entering into a self-administered agreement. Otherwise, there is the risk that the ceding company and reinsurer may have significantly different perceptions of how the information will be transferred.

## REINSURANCE SECTION SPECIAL TOPICS

### IV. Purposes of Self-Administered Reports

Under the traditional individual reporting of cessions the reinsurer would maintain its own records as to policies in force, policy movements and reserves, would generate appropriate premium billings and, thus, would usually be in a position to satisfy a wide range of reporting requirements including internal management reports as well as statutory and other external reports. Self-administered reports have to provide essentially the same information.

#### Statutory Reporting Requirements

Most life reinsurers doing business in the United States have to file an Annual Statement (Convention Blank) with one or more State Insurance Departments. As a minimum, they must have the information necessary to complete the following Annual Statement Schedules and Exhibits.

1. Exhibit 1: Premiums and Annuity Considerations.

Premiums and commissions, split by first year (other than single), single and renewal, must be reported.

2. Exhibit 8: Aggregate Reserve For Life Policies and Contracts.

Some reinsurers also are required to make quarterly reports of certain Annual Statement items such as reserves.

3. Exhibit 11: Policy and Contract Claims.

This is still reported on an individual claim basis by most ceding companies.

4. Exhibit of Life Insurance: Policy Exhibit.

This summary includes the annual transactions on assumed reinsurance business.

5. Schedule S - Part 3C.

This Schedule shows data on reinsurance assumed as of December 31. For life reinsurance, amounts in force at end of year, reserves, premiums and reinsurance payable on paid and unpaid losses must be shown.

Corresponding items will be used by the ceding company in its Annual Statement. These items may not be equal to the items in the reinsurer's statement if there are differences in timing, reserve basis, or valuation method.

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### Other Reporting Requirements

In addition to providing for statutory reporting requirements as set out above, many reinsurers find it necessary or desirable to obtain basic policy information for other purposes. Some of the uses of such basic data include the following:

1. Indexing (e.g., alphabetic) policies to identify accumulations of coverage on a given life.
2. Determining retrocession needs and producing retrocessions.
3. Verifying the accuracy of self-administered reports (usually on a sampling basis), particularly with respect to premium calculations.
4. Verifying that automatic binding requirements such as proper retention and treaty coverage are satisfied.
5. Determining the disposition of facultative cases on file (i.e., the reinsurer needs to close out pending case files).
6. Verifying the in force status and any preliminary claim amounts on death claim reimbursement requests from the ceding company.
7. Developing statistics for internal management purposes such as projections of premiums, in force, reserves, etc.
8. Developing comparisons of actual versus expected mortality and persistency.
9. Developing the reinsurer's GAAP reserves and tax reserves.



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### V. Guidelines for Administrative Reporting

This section presents information that is transferred periodically (e.g., monthly or quarterly) from ceding company to reinsurer in order to provide for the basic administration of the reinsurance. Uses of this information include those listed in the previous section under Other Reporting Requirements, items 1-6.

Although reinsurance agreements vary considerably in the specific information transferred, these guidelines list those items commonly reported. The details listed here are developed from list-based or bordereau reinsurance agreements. This is the most common form of self-administration in the amount of information provided.

Significant departures from this approach which transfer less information can be negotiated with reinsurers depending on factors such as the purpose of the agreement, the past experience of the ceding company with self-administration, and the ease of reinsurer audits.

#### Policy Details Generally Required

The following details are commonly required to be reported in self-administered reinsurance agreements. Where appropriate, items should be split by life, ADB, waiver of premium, and other ancillary benefits.

1. Policy number or other cession identification. There is some interest in using social security numbers as identification.
2. Name of insured (last name, first name and middle initial).
3. Sex.
4. Date of birth.
5. Issue age.
6. Attained age (or policy duration).
7. Policy date.
8. Transactions (with the appropriate details on the number of policies, amount and premium) plus a transaction code or other means to identify them:
  - a. First year or renewal premiums.
  - b. New business not previously reported (required when modal first year reinsurance premiums are used).
  - c. Policies resulting from a continuation of coverage.

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### d. Policy movements or changes such as

- (i) Not taken
- (ii) Surrender
- (iii) Lapse
- (iv) Reinstatement
- (v) Conversion
- (vi) Increase in amount
- (vii) Decrease in amount
- (viii) Cancellation of reinsurance
- (ix) Recapture
- (x) Death
- (xi) Expiry
- (xii) Other changes

- 9. Effective date of transaction.
- 10. Table rating.
- 11. Flat extra amount and term in years. If multiple flat extras are a possibility, the system should allow for it.
- 12. Plan name or plan code.
- 13. Underwriting or premium class (e.g., smoker/nonsmoker/preferred or special underwriting).
- 14. Amount issued.
- 15. Death benefit option (especially for Universal Life or similar plans).
- 16. Reinsurance amount (separately for Life, ADB or WP if applicable). An alternative is to show the net amount at risk and the percent reinsured.
- 17. Reinsurance premium due (separately for Life, ADB or WP).
- 18. Reinsurance commission or allowance.
- 19. Net amount due reinsurer or ceding company.
- 20. Automatic or facultative indicator.

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### Additional Policy Details Not Always Required

Some ceding companies and reinsurers find it desirable to provide or obtain certain additional policy details not included in the above list.

1. Retention indicator (e.g., F = Full retention, P = Partial retention, N = Nothing retained). Provide either an indicator or actual amounts retained for both previous and new issues. This information is required both on a per cession and a per life basis.
2. Large volume indicator (or a separate listing) where total reinsurance on an insured equals or exceeds a specified amount.
3. Policy fee.
4. Currency code.
5. Amount reinsured at issue.
6. Premium taxes to be reimbursed.
7. Cash value to be reimbursed.
8. Dividend to be reimbursed.
9. Special risk class (e.g., aviation, military, foreign).
10. Joint life information.
11. Policy duration and an indication of whether the duration is based on a previous policy.

One report that is not always required but which many reinsurers find useful is a list of pending facultative cessions.

### Form of Administrative Reports

Some self-administered agreements specify separate listings for new issues, renewals, lapses and other adjustments. Others allow for the intermingling of various transactions on fewer listings.

From the reinsurer's point of view, separate listings are usually more convenient to work with. For example, a new issue listing can be used to add policies to the reinsurer's database or to set up retrocessions. A separate lapse listing can be used to terminate retrocessions.

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Another approach is to have only a couple of listings, but provide various subtotals. In general, a minimum of two listings is required:

1. List of Risks Reinsured (including new issue and renewal information).
2. List of Adjustments or Changes.

Each report should include appropriate subtotals and totals so that the reinsurer can readily record premiums and commissions in the proper categories (e.g., First Year/Renewal/Single). In addition, subtotals split by new issue and renewal for each transaction type should be provided for policy movements (number of policies and amount).

In addition to the individual policy details set out above, a policy exhibit summary and a premium summary should be provided with each periodic listing. These summaries include totals of all transactions being reported with appropriate subtotals as required for the completion of Annual Statement Exhibit 1 and Exhibit of Life Insurance. Where applicable, corresponding totals for items such as expense allowances, dividends or cash values should be included.

Some method of transmitting information that does not affect premiums (e.g., a name change) should also be included in the discussions between ceding company and reinsurer.

On the following pages is a sample set of administrative reports. The sample shows Universal Life policies, but it could be modified for other plans. Although the new issue listing is combined with the in force listing in the sample, it is often presented separately in practice. The in force listing may be provided less frequently than the new issue listing. In addition, the sample reports present accounting information along with the in force and policy change information. Since the accounting information must be calculated from separate tables of YRT rates or coinsurance allowances, it may be easier to show the accounting information on a separate report.

## REINSURANCE SECTION SPECIAL TOPICS

### Sample Administrative Reports

December 1983

1. List of Risks Reinsured - December 1, 1983
2. List of Risks Reinsured - January 1, 1984
3. List of Adjustments - December 1, 1983 through December 31, 1983
4. Policy Exhibit and Accounting Summary Report - December 1, 1983 through December 31, 1983

SAMPLE LIFE INSURANCE COMPANY OF AMERICA

LIST OF RISKS REINSURED AS OF

December 31, 1983

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POLICY NUMBER	NAME OF INSURED	DATE OF BIRTH	SEX	S/NS	PLAN	ISS AGE	ATT AGE	POLICY DATE	EFFECT DATE	TRAN CODE	AUTO FAC	TABLE OPR RATE	F/E RATE	F/E YRS	(SPECIFIED)	CURRENT	PROP-	CURRENT	REINS	REINS	NET DUE
															AMOUNT ISSUED	AMOUNT AT RISK	REIMS. (\$)	REINSURED AMOUNT	BEN	PREMIUM	COMM
UL0007500	SMITH, SUSAN	09-30-30	F	S	106	52	52	06-10-82	06-10-82	3	F	1	2	300,000	300,000	50.00	150,000	L	180.00	90.00	90.00 DEC
UL0008745	AMHLE, BEN A.	07-06-25	M	S	106	58	58	07-14-82	07-14-82	3	A	1		175,000	175,000	50.00	87,500	L	95.00	45.00	50.00 DEC
UL0009000	JONES, JOHN	05-02-47	M	S	106	36	36	05-15-83	05-15-83	2	A	1		200,000	200,000	50.00	100,000	L	60.00	60.00	0.00 DEC
														200,000	200,000	50.00	100,000	MP	6.00	6.00	0.00 DEC
UL0009130	ROBERTS, MAURICE	09-11-46	M	NS	107	37	37	09-15-83	09-15-83	1	A	1		500,000	500,000	50.00	250,000	L	80.00	80.00	0.00 DEC
UL0010135	HAND, OLD O.	10-29-40	M	NS	107	43	43	08-24-83	08-24-83	2	A	1	2	500,000	500,000	50.00	250,000	L	70.00	70.00	0.00 DEC

TRANSACTION CODES:

FIRST YEAR, NEWLY REPORTED 1  
 FIRST YEAR, PREVIOUSLY REPORTED 2  
 RENEWAL YEAR 3

	NO.	LIFE AMOUNT	ADD AMOUNT
LIFE NEW BUSINESS	1	250,000	0
LIFE RENEWAL BUSINESS	4	587,500	0
TOTAL LIFE IN FORCE	5	837,500	0

REINS PREMIUM      REINS COMM      NET DUE REINSURER

LIFE PREM & COMM			
FIRST YEAR	210.00	210.00	0.00
RENEWAL	275.00	135.00	140.00
TOTAL	485.00	345.00	140.00
MPD PREM & COMM			
FIRST YEAR	6.00	6.00	0.00
RENEWAL	0.00	0.00	0.00
TOTAL	6.00	6.00	0.00
ADD PREM & COMM			
FIRST YEAR	0.00	0.00	0.00
RENEWAL	0.00	0.00	0.00
TOTAL	0.00	0.00	0.00
TOTAL PREM & COMM			
FIRST YEAR	216.00	216.00	0.00
RENEWAL	275.00	135.00	140.00
TOTAL	491.00	351.00	140.00

OPEN FORUM

SAMPLE LIFE INSURANCE COMPANY OF AMERICA

LIST OF RISKS REINSURED AS OF

January 1, 1984  
\*\*\*\*\*

POLICY NUMBER	NAME OF INSURED	DATE OF BIRTH	S E X	S/ NS	PLAN	ISS AGE	ATT AGE	POLICY DATE	EFFECT DATE	TRAN CODE	AUTO FAC	TABLE OPT RATE	F/E RATE	F/E YRS	(SPECIFIED)CURRENT	PROP.	CURRENT	REINS	REINS	NET DUE	
															AMOUNT ISSUED	AMOUNT AT RISK	REINS. (\$)	REINSURED AMOUNT	REINS BEN PREMIUM	REINS COMM	REINSURER
UL0007500	MARTIN, SUSAN	09-30-30	F	S	106	52	52	06-10-82	06-10-82	3	F	I	2	300,000	300,000	50.00	150,000	L 180.00	90.00	90.00	JAN
UL0008745	AKHILE, BEN A.	07-06-23	M	NS	106	58	59	07-14-82	07-14-82	3	A	I		175,000	175,000	50.00	87,500	L 79.26	50.91	48.35	JAN
UL0008745A	AKHILE, BEN A.	07-06-23	M	NS	106	59	59	07-14-82	06-14-83	1	A	I	2	50,000	50,000	50.00	25,000	L 54.53	54.53	0.00	JAN
														50,000	50,000	50.00	25,000	MP 5.45	5.45	0.00	JAN
UL0009150	ROBERTS, MAURICE	09-11-46	M	NS	107	37	37	09-15-83	09-15-83	2	A	L		500,000	480,000	50.00	240,000	L 76.80	76.80	0.00	JAN
														500,000	480,000	50.00	240,000	MP 8.00	8.00	0.00	JAN
UL0010135	HAND, OLD O.	10-25-40	M	NS	107	43	43	08-24-83	08-24-83	2	A	I		500,000	500,000	50.00	250,000	L 54.79	54.79	0.00	JAN
UL0010431	READY, T. GOSH	01-10-36	F	S	109	48	48	12-05-83	12-05-83	1	F	I	6	200,000	200,000	100.00	200,000	L 620.00	620.00	0.00	JAN
UL0010567	ABLE, ANDREW W.	09-21-32	M	NS	109	51	51	12-17-83	12-17-83	1	A	L		200,000	191,300	50.00	96,750	L 46.14	46.14	0.00	JAN
UL0010570	YOUNG, JACK	03-09-50	M	NS	109	34	35	03-14-82	12-14-83	3	A	I		200,000	200,000	50.00	100,000	L 50.00	25.00	25.00	JAN

TRANSACTION CODES:

FIRST YEAR, NEWLY REPORTED	1
FIRST YEAR, PREVIOUSLY REPORTED	2
RENEWAL YEAR	3

	LIFE NO.	LIFE AMOUNT	ADB AMOUNT
LIFE NEW BUSINESS	3	323,790	0
LIFE RENEWAL BUSINESS	3	827,900	0
TOTAL LIFE IN FORCE	8	1,151,250	0

	REINS PREMIUM	REINS COMM	NET DUE REINSURER
LIFE PREM & COMM			
FIRST YEAR	852.86	852.86	0.00
RENEWAL	309.26	145.91	163.35
TOTAL	1,162.12	998.77	163.35
MP PREM & COMM			
FIRST YEAR	13.45	13.45	0.00
RENEWAL	0.00	0.00	0.00
TOTAL	13.45	13.45	0.00
ADB PREM & COMM			
FIRST YEAR	0.00	0.00	0.00
RENEWAL	0.00	0.00	0.00
TOTAL	0.00	0.00	0.00
TOTAL PREM & COMM			
FIRST YEAR	866.31	866.31	0.00
RENEWAL	309.26	145.91	163.35
TOTAL	1,175.57	1,012.22	163.35

REINSURANCE SECTION SPECIAL TOPICS

SAMPLE LIFE INSURANCE COMPANY OF AMERICA

LIST OF AMENDMENTS FOR THE PERIOD OF  
 December 1, 1983 through December 31, 1983  
 \*\*\*\*\*

POLICY NUMBER	NAME OF INSURED	DATE OF BIRTH	TRAN CODE	TRAN DATE	POL CT	YEAR	REINS BEFORE CHANGE	REINS AFTER CHANGE	BEN	PREM DUE REINS	COMM DUE COMPANY	NET DUE REINS	COMMENTS
UL0007500	MARTIN, SUSAN	09-30-30	13	12-30-83	0	R	150,000	150,000	L	0.00	0.00	0.00	NAME CHG. FROM SMITH TO MARTIN
UL0008745	AMHILE, BEN A.	07-06-25	13	11-14-83	0	R	87,500	87,500	L	-15.74	-14.09	-1.65	RATE CHG. FROM S TO NS (DEC)
UL0008745A	AMHILE, BEN A.	07-06-25	13	06-14-83	0	F	-0-	-0-	L	327.18	327.18	0.00	(JULY - DEC) PREM. ADJUSTMENT
									WP	32.70	32.70	0.00	
UL0009000	JONES, JOHN	05-02-47	4	07-15-83	1	F	100,000	-0-	L	-300.00	-300.00	0.00	LAPSE (AUG - DEC)
									WP	-30.00	-30.00	0.00	
UL0009130	ROBERTS, MAURICE	09-11-46	9	09-15-83	0	F	250,000	240,000	L	-12.80	-12.80	0.00	CHANGE FROM I TO L (OCT - DEC)
									WP	24.00	24.00	0.00	WP ADDED (OCT - DEC)
UL0010135	HAND, OLD O.	10-25-40	13	10-24-83	0	F	250,000	250,000	L	-30.42	-30.42	0.00	RATE CHG. 1-2 TO STD (NOV - DEC)
UL0010570	YOUNG, JACK	03-09-50	10	12-14-83	1	R	-0-	100,000	L	0.00	0.00	0.00	REWRITE FROM OUR POL #3570 YOUR CESSION #166250

TOTALS BY TRANSACTION:	TRAN CODE	POL CT	REINS BEFORE CHANGE	REINS AFTER CHANGE
	4	1	100,000	0
	9	0	250,000	240,000
	10	1	0	100,000
	13	0	487,500	487,500

PREMIUM ADJUSTMENTS DUE REINSURER:	PREMIUM	COMM	NET DUE
FIRST YEAR	L -16.04	-16.04	0.00
	WP 26.70	26.70	0.00
RENEWAL	L -15.74	-14.09	-1.65
	WP 0.00	0.00	0.00
TOTAL	L 31.78	30.13	-1.65
	WP 26.70	26.70	0.00

TRANSACTION CODES:	
LAPSE	4
NOT TAKEN	5
SURRENDER	6
REINSTATEMENT	7
INCREASE	8
DECREASE	9
EXCHANGES, REWRITES	
CONVERSIONS	10
DEATH	11
RECAPTURE	12
OTHER	13

OPEN FORUM



## REINSURANCE SECTION SPECIAL TOPICS

SAMPLE LIFE INSURANCE COMPANY  
SELF-ADMINISTERED LIFE REINSURANCE

Summary Reporting Form As of January 1, 1984  
For the Period December 1, 1983 through December 31, 1983

Plan Types Reported Universal Life issued 1/1/82 to 12/31/83

Reinsurer Name Reliable Reinsurance Company Account 0000-00  
Prepared By A. Clerk Date 1/9/84 Phone (123) 456-7890

I. Policy Exhibit Summary (Life Reinsurance Only)

	Number of Policies	Amount of Reinsurance
A. In Force as of Last Report	<u>5</u>	<u>837,500</u>
B. New Paid Reinsurance Ceded	<u>3</u>	<u>323,750</u>
C. Not Taken (Negative New Paid)	<u>          </u>	<u>          </u>
D. Revivals (Reinstatements)	<u>          </u>	<u>          </u>
E. Increases (Net)	<u>1</u>	<u>100,000</u>
F. Deaths	<u>          </u>	<u>          </u>
G. Maturities	<u>          </u>	<u>          </u>
H. Cancellations	<u>          </u>	<u>          </u>
I. Expiries	<u>          </u>	<u>          </u>
J. Surrenders	<u>          </u>	<u>          </u>
K. Lapses	<u>1</u>	<u>100,000</u>
L. Recaptures	<u>          </u>	<u>          </u>
M. Decreases (Net)	<u>          </u>	<u>10,000</u>
N. In Force as of Current Report	<u>8</u>	<u>1,151,250</u>
O. ADB In Force as of Current Report	<u>          </u>	<u>          </u>

II. Accounting Summary

Category	Premiums		Commissions			Net Due Reinsurer
	First Year	Renewal Year	First Year	Renewal Year	Others*	
Life	<u>836.82</u>	<u>293.52</u>	<u>836.82</u>	<u>131.82</u>	<u>          </u>	<u>161.70</u>
WP	<u>40.15</u>	<u>          </u>	<u>40.15</u>	<u>          </u>	<u>          </u>	<u>          </u>
ADB	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL	<u>876.97</u>	<u>293.52</u>	<u>876.97</u>	<u>131.82</u>	<u>          </u>	<u>161.70</u>

\*If more than one category is included (e.g., surrender benefits, dividends), please show details on the reverse side of this form.

## OPEN FORUM

### VI. Guidelines for Statement Reporting

As was discussed earlier, one of the reinsurance support activities that is assumed to some degree by a self-administering ceding company is that of calculating statutory Annual Statement information for the reinsurer. In addition, there may be quarterly statements or GAAP statements prepared by the reinsurer for which it requires information.

In general, the ceding company has a clear responsibility to provide accurate and timely information for statutory statements. To the extent that reinsurers desire additional information for non-statutory purposes (i.e., GAAP statements or internal management reports), these additional requests should be specifically discussed by the ceding company and reinsurer as a part of the negotiation process.

In some instances, reinsurers are willing to work from in force files or other sources to generate some or all of the GAAP and statutory reports that are required.

A further question that should be agreed upon by the ceding company and reinsurer is how the various due and unpaid items listed below will be treated. In many cases, the emphasis is placed on "unusual" situations where the transactions are significantly past due. The more typical situations where there are simply timing differences between the ceding company and the reinsurer are not reported as due and unpaid.

#### Operating Statement Items

For the most part, the information necessary to complete Operating Statement items is available from the transactions made throughout the year. Exhibit 1 shows premiums, dividends, reinsurance expense allowances and reinsurance commissions. Exhibit 11 shows claims. Except where affected by due and unpaid items, this information is obtained directly from the paid entries to the reinsurer's accounting system. The ceding company normally does not do any special report of these items at year end.

#### Balance Sheet Items

These items represent the bulk of the extra statement reporting required. They can be grouped into two categories: the reinsurer's share of ceding company assets and liabilities, and due and unpaid adjustments to the reinsurer's paid accounts.

#### A. Reinsurer's Share of Assets and Liabilities

##### 1. Reserves (Exhibit 8)

The reinsurer's share of any ceding company Exhibit 8 reserve is reported here. At the end of this section is a sample form, Reserve Credit for Reinsurance Ceded, which shows the information usually required.

## REINSURANCE SECTION SPECIAL TOPICS

In addition to statutory reserves, some agreements may require the transfer of tax and/or GAAP reserves. It is also possible that some sort of detailed master file information is required in addition to or in lieu of summary information. This should all be negotiated between the ceding company and reinsurer.

### 2. Dividend Liability

This is usually reported if the reinsurer participates in dividends.

### 3. Policy Loan Asset

This is reported if the reinsurer participates in policy loans.

### 4. Deferred Premium Asset

This is reported if the reinsurer participates in modal premiums.

## B. Due and Unpaid Adjustments

### 1. Due and Unpaid Reinsurance Premiums

As with the other due and unpaid items, the ceding company and reinsurer should agree on standards for declaring a premium payment due and unpaid.

### 2. Due and Unpaid Reinsurance Allowances or Commissions

### 3. Due and Unpaid Mean Reserve Transfer

This is applicable to modified coinsurance reserve transfers.

### 4. Amounts Recoverable on Paid or Unpaid Losses

This represents those claims that the ceding company has identified as payable by the reinsurer. The amount is split into claims paid by the ceding company and claims not yet paid (including claims in course of settlement).

### 5. Due and Unpaid Experience Retund

Normally the reinsurer would perform this calculation and report the result to the ceding company.

## OPEN FORUM

### Other Statement Items

#### 1. Exhibit of Life Insurance (Policy Exhibit)

If this type of statement is prepared with every periodic statement as discussed previously, there will be little reporting required other than adding together the routine reports. If not, then some agreements provide for such an exhibit to be transferred at year end.

Some additional Policy Exhibit information may be requested by the reinsurer, specifically a split of Industrial and Ordinary insurance for dividend and other paid up additions, a split of term and whole life, a split of participating and non-participating insurance, and breakdowns of Credit and Group policies in several categories.

#### 2. Statement of Ceding Company Actuarial Review

Any use of these statements should be discussed and agreed to by both the ceding company and the reinsurer. There is no required use of this type of statement by any regulatory or professional body.

There is a sample Statement of Ceding Company Actuarial Review at the end of this section.

The Statement of Ceding Company Actuarial Review provides the reinsurer with a source of documentation to satisfy its auditors. Furthermore, it assures the reinsurer of appropriate ceding company review of the reported numbers.

From the ceding company point of view, completion of the Statement of Ceding Company Actuarial Review should not be a problem if the ceding company's numbers are reasonable. If not, the need to sign it might provide some incentive to the ceding company to improve its method of calculation.

The purpose of the Statement of Ceding Company Actuarial Review is not to cause second guessing and professional review of the actuaries completing the form. Actual professional standards on self-administered reinsurance have not been proposed, nor is there any expectation that they will be. Reinsurers simply want to rely on the normal professional competence and standards of an actuary who has reviewed the reported numbers.

Some items in the sample Statement of Ceding Company Actuarial Review may well be zero or not applicable (e.g., a ceding company that computes no tax reserve itself and hence cannot report what it does not have). The ceding company and the reinsurer may agree to a different set of items to be reported and a different format for the statement.

## REINSURANCE SECTION SPECIAL TOPICS

### 3. GAAP Breakdowns of In Force

Many reinsurers report on a GAAP as well as statutory basis. Those that do have developed a variety of approaches to obtaining in force breakdowns for calculating deferred acquisition costs and related items. The three most common approaches are for the reinsurer to (a) calculate in force breakdowns from the reinsurer's own in force file, (b) ask the ceding company to calculate such a breakdown on the ceding company files, and (c) obtain an in force file from the ceding company upon which the reinsurer can do its own breakdowns. The reinsurer might request additional information such as annual gross premium with the in force breakdowns.

The three options result in varying degrees of timeliness, accuracy and control for the reinsurer as well as a varying amount of work for both parties. All three should be considered in entering a self-administration arrangement.

A sample form that might be used for option (b) above is included at the end of this section.

### 4. Auditing Requirements

Auditors are more concerned about reinsurance transactions today than has been the case in past years. A set of reporting and record-keeping requirements can be imposed on any reinsurance agreement by the auditing environment as it changes over time. The guidelines discussed in this document regarding all three types of reporting will be affected over time by changes in auditing standards.

A document that should be reviewed carefully by all ceding companies and reinsurers is the AICPA Statement of Position on Auditing Life Reinsurance which was published in November 1984.

# OPEN FORUM

## RESERVE CREDIT FOR REINSURANCE CEDED

Ceding Company: _____	<u>Type of Reserve</u>	<u>Type of Insurance</u>	<u>Type of Reinsurance</u>
Reinsurer: _____	Statutory	Industrial	Yearly Renewable Term
Treaty Number: _____	Tax	Ordinary	Coinsurance
Valuation Date: _____	GAMP	Group	Modified Coinsurance
		Credit	Other

		Valuation Basis Mortality Table, Interest Rate & Method	Issue Years	Face Amount or Monthly Income	Reserve Credit
A. Life Insurance	1.	_____	_____	_____	_____
	2.	_____	_____	_____	_____
	Total	_____	_____	_____	_____
B. Annuities	1.	_____	_____	_____	_____
	2.	_____	_____	_____	_____
	Total	_____	_____	_____	_____
C. Supplementary Contracts	1.	_____	_____	_____	_____
	Total	_____	_____	_____	_____
D. Accidental Death Benefit	1.	_____	_____	_____	_____
	Total	_____	_____	_____	_____
E. Disability Active Lives	1.	_____	_____	_____	_____
	Total	_____	_____	_____	_____
F. Disability Disabled Lives	1.	_____	_____	_____	_____
	Total	_____	_____	_____	_____
G. Miscellaneous	1. Deficiency Res.	_____	_____	_____	_____
	2. Non-deduction	_____	_____	_____	_____
	3. Surr. Value Res.	_____	_____	_____	_____
	4. Immed. Pmt. of Claims	_____	_____	_____	_____
	Total	_____	_____	_____	_____
Grand Total		_____	_____	_____	_____

\*Includes \$ \_\_\_\_\_ of extra reserves for substandard issues.

REINSURANCE SECTION SPECIAL TOPICS

SAMPLE

STATEMENT OF CEDING COMPANY ACTUARIAL REVIEW

SELF-ADMINISTERED REINSURANCE

I, (Name), am (Title of Actuary) of (Name of Insurance Company) and a member of the American Academy of Actuaries.

I have examined the actuarial assumptions and actuarial methods used in determining policy reserves and related actuarial items listed below, as reported to (Name of Reinsurer) for self-administered reinsurance for inclusion in the Annual Statement of (Name of Reinsurer), as prepared for filing with state regulatory officials, as of December 31, 19\_\_:

- A. Reserves for Policy Benefits (Exhibit 8) as specified in the attached Reserve Credit for Reinsurance Ceded
  - 1. Statutory Reserves \$ \_\_\_\_\_
  - 2. Tax reserves \$ \_\_\_\_\_ (If computed by the Insurance Company)
- B. Deferred Premiums
  - 1. Net \$ \_\_\_\_\_
  - 2. Gross \$ \_\_\_\_\_
  - 3. Reinsurance Allowances, Thereon \$ \_\_\_\_\_
- C. Dividend Liability \$ \_\_\_\_\_
- D. Policy Loan Asset \$ \_\_\_\_\_
- E. Due and Unpaid Reinsurance Premiums \$ \_\_\_\_\_
- F. Due and Unpaid Reinsurance Allowances and Commissions \$ \_\_\_\_\_
- G. Due and Unpaid Surrender Values \$ \_\_\_\_\_
- H. Due and Unpaid Mean Reserve Transfer \$ \_\_\_\_\_

My examination included such review of the actuarial assumptions and actuarial methods and underlying basic records and such tests of the actuarial calculations as I considered necessary.

In my opinion, the amounts reported to (Name of Reinsurer) for the actuarial items identified above are computed in accordance with commonly accepted actuarial standards and fairly represent the balance sheet assets and liabilities for self-administered reinsurance.

\_\_\_\_\_  
(Signature of Actuary)

OPEN FORUM

DISTRIBUTION OF AMOUNTS

OF

LIFE REINSURANCE IN FORCE

As of \_\_\_\_\_, 19\_\_

Split by Plan, Issue Age and Issue Year

ISSUE YEAR

PLAN-ISSUE AGE	19__	19__	19__	19__	19__	TOTAL
TOTAL						



## REINSURANCE SECTION SPECIAL TOPICS

### VII. Guidelines for Statistical Reporting

This section outlines the policy-level data needed by a reinsurer of self-administered life reinsurance business in order to conduct basic experience studies and analyses. This includes small scale studies of individual ceding companies by individual reinsurers and also large scale studies such as those sponsored by the Society of Actuaries. Topics often studied include lapse experience, mortality experience and overall financial results. Most of the data items needed for experience studies and statistical reporting are also needed for basic administrative and annual statement reporting. A few additional data items allow the reinsurer to perform additional analyses that have great potential value to both the reinsurer and the ceding company.

Although self-administered reinsurance business offers a number of advantages, one unfortunate disadvantage is that it has been difficult, if not impossible, to conduct experience studies on such business. This is because the reinsurer has not had sufficient data to perform such studies. Even in situations where the reinsurer has had sufficient data, often it has not been in a particularly usable form so that the studies would have had to be performed manually at a prohibitively high expense.

Ceding companies benefit in a number of ways if reinsurers are able to conduct experience studies. For example, some companies are unable to do their own experience studies. Analysis of their experience by a reinsurer, even if the analysis applies only to reinsured business, can provide helpful insights. In addition, industry risk classification practices seem to be under increasing scrutiny from regulators. Only reinsurers and very large direct writing companies have enough experience on various impaired lives to help support underwriting practices. But industry impairment mortality studies can be done on self-administered reinsurance business only if ceding companies are able to provide the necessary data.

Finally, and perhaps most importantly, experience studies enable reinsurers to establish more accurate pricing assumptions. In the long run, the use of more accurate pricing assumptions by reinsurers will mean lower reinsurance rates for ceding companies, since uncertainty in pricing assumptions requires larger contingency margins (or more conservative assumptions).

It is important to note that a reinsurer wishing to conduct experience studies on self-administered business faces two obstacles. First, the reinsurer must obtain the necessary data from the ceding company. Second, the reinsurer must obtain the data in a form compatible with its automated file maintenance and study systems. As mentioned earlier, the cost of conducting manual experience studies is probably prohibitive. The same is true of manually inputting all of the information from paper reports. All this points to the necessity of retransmitting administrative data in a different format suitable for studies.

## OPEN FORUM

A uniform format for reporting data on self-administered business would greatly facilitate the transmission process; however, no such format currently exists. The same considerations apply on an even larger scale when considering industry studies.

The types of data that are needed for statistical studies include the following:

1. Identification information which allows for a clear description of the business being studied. These data are also useful in audit situations.
2. Experience information (e.g., deaths, lapses, amounts at risk) which is necessary for the study itself.
3. Segmentation information (e.g., impairment, line of business, smoker/nonsmoker) which allows the study results to be broken down by various factors.
4. Special characteristics of the ceding company or the business which allow results to be specifically tailored to the business and which allow for the meaningful comparison and combination of results of various ceding companies and blocks of business.
5. Policy change information which allows for the calculation of exposure data. Depending on the accuracy desired for the study, this type of information might be used very extensively or not at all.
6. Expected results which enable actual vs. expected calculations to be made.

Normally, information which is being collected for studies is collected on a current year basis. For this reason, a reinsurer and ceding company might agree to regularly transfer only certain basic information for routine reinsurer studies. In special situations more substantial data might be transferred to do more extensive studies or to participate in a Society of Actuaries study.

The following data items are needed for statistical studies:

### A. Summary Information

1. Client identification
2. Age basis
3. Type of reinsurance
4. Reinsurance agreement number

## REINSURANCE SECTION SPECIAL TOPICS

### B. Information Also Required for Administrative or Statement Reporting

1. Policy no.
2. Primary insured's name
3. Primary insured's date of birth
4. Primary insured's sex
5. Primary insured's issue age
6. Issue date
7. Amount issued by ceding company
8. Amount reinsured\*
9. Plan of insurance\*
10. Death benefit option
11. Automatic or facultative indicator
12. Retention indicator (full, reduced, or none)
13. Risk classification (preferred, nonsmoker, smoker, standard, table rating, etc.)\*
14. Flat extra per thousand,\* and term in years
15. Policy status (premium paying, paid up, nonforfeiture option, terminated, etc.) and effective date
16. Termination type (cancellation, not taken, conversion, lapse, surrender, death, recapture, expiry, maturity) and effective date
17. Amount of accidental death benefit reinsured\*
18. Amount of waiver of premium reinsured\*
19. Source (replacement, conversion, rollover, new business, etc.)
20. Activity type (reinstatement, change in issue date, age, rating, plan, amount, or status) and effective date
21. Currency code

### C. Information Required only for Experience Analysis

1. Underwriting basis (guaranteed issue, simplified issue, nonmedical, paramedical, or medical)
2. Primary impairment code

\*Include effective date if different from issue date (line 6)

A striking feature of the list of data items is that only two of them are needed strictly for experience studies. All other items are already needed for another reason. Thus, supporting experience studies requires very little additional data from the ceding company.

Unfortunately, many ceding companies do not keep this information on any existing database. This should be considered as yet another matter for negotiation between ceding company and reinsurer when self-administration is being contemplated.

## OPEN FORUM

One point that cannot be overemphasized is that the reinsurer needs data in a form (disk or tape) compatible with its file maintenance and study systems. With the information in the proper form, the reinsurer is able to build automated records with historical information that can be used to analyze activity for a variety of time periods. Without the information, the industry, both ceding companies and reinsurers, risks running short of supporting data when it seems to be needed more than ever before.

With good planning and cooperation between ceding companies and reinsurers, it appears quite possible to improve the effectiveness of self-administered reinsurance without taking away the ability to perform valuable experience studies.