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REINSURANCE FROM THE CEDING COMPANY'S VIEWPOINT

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- As the nature of our business slowly evolves, the uses of reinsurance and the nature of the relationship between reinsurer and ceding company also changes. The panel will discuss how companies now use reinsurance and what they would like to see from their reinsurer.

MR. RONALD L. KLEIN: Mel Dunn is an FSA and a CLU. He's currently the executive vice-president and chief marketing officer for Security Mutual Life in Binghamton, New York and also on the Board of Directors. It's sort of interesting that Mel is speaking at an actuarial meeting because he likes to think of himself more as a marketing officer than an actuary. A couple of years ago Mel took all the actuaries at Security Mutual, sort of lumped them together and threw them off into their own profit center (or maybe loss center) and put them in a different company. So now Mel is the only actuary at Security Mutual.

Mike Pado is a marketing actuary at one of our competitors, North American Reassurance, and he's in charge of the northeast region. Another claim to fame for Mike is he is one of the only actuaries who failed the Fellowship Admissions Course. I think by the third time you got through the ethics course there, Mike.

Jack Bailey is currently a senior actuary at Northwestern Mutual Life in Milwaukee and responsible for reinsurance activities. Northwestern Mutual is probably one of the largest users of traditional reinsurance in the industry, so Jack has a lot of knowledge on the reinsurance topics and that's why we're pleased to have him here. Also, as many of you know, Jack is very active in the reinsurance field.

Finally, I'm an FSA for Life Reassurance Corporation and I'm the marketing actuary for them. Previously, I was a reinsurance actuary for a large mutual company, so I do have both points of view. Well, I guess at all the general sessions you've seen that polling seems to be the general way that the meeting is going. I just want to take a quick poll because the session is reinsurance from the ceding company's viewpoint. I'd like to see how many people in the room are from ceding companies. There are 10 or 12 people who raised their hands and there are about 100 people in the room.

That reminds me of a little story. When I was a reinsurance actuary for a mutual company and I went to my first meeting as a reinsurance actuary, it was a similar theme to this one. It was more of a workshop with a smaller group. The conversation was going on and I didn't really understand what was going on because I was very new in the reinsurance business, but it seemed like everything was the opposite of what I thought. So finally I opened my mouth and said, "That's not what we think" and everybody's head in the room just flipped toward me. Everybody was furiously taking notes. I was representing the only ceding company in the room and,

needless to say, I got taken to lunch about three times a day and dinner about three times a night.

We worked very hard over the last couple of months on a reinsurance survey in conjunction with the SOA and I'll talk a little bit about the survey results. Everybody will get a copy of the survey results afterwards. I didn't want everybody breezing through while we were talking. Mel and Mike will also talk about the survey and then Jack was asked to talk about issues relating to the survey and maybe even more current than the survey.

This survey was mailed out, again, through the SOA. There were 629 surveys mailed to life insurance companies throughout the United States and Canada and we had 173 responses, so we thought that was a great response rate – about 28%. We were expecting about 10% or 12%.

So now let's get right into the survey (Table 1). We started off with general information, what region of the country is your company located. Of the 173 people who responded, 172 actually answered this question. We thought it was an easy enough question and we know who the one company who didn't respond to this question is, but I'm not going to mention that.

TABLE 1

1. *In what region of the country is your company located?*
172 Responses
70 (41%) Central
32 (19%) Northeast
37 (22%) South
20 (12%) West
13 (8%) Canada

2. *What type of company are you?*
173 Responses
125 (72%) Stock
48 (28%) Mutual

3. *Are you a New York Company?*
170 Responses
10 (6%) Domiciled
23 (14%) Authorized
14 (8%) Have a New York York subsidiary
123 (72%) No

4. *What are your 1991 total assets?*
169 Responses
Average $1.8 billion (high $35.7 billion, low $6.0 million), Total $300 billion.

5. *What is your 1991 total Surplus plus MSVR?*
167 Responses
Average $159 million (high $2.7 billion, low $–55 million), Total $27 billion.

6. *What are your 1991 total premiums inforce?*
167 Responses
Average $264 million (high $4.7 billion, low $4 million), Total $44 billion.

A lot of these earlier questions are used when we're trying to compile and do some regression analysis, if there are any patterns by location or whatever. It didn't interest me that much where the responses were from, but when we get into assets a little

bit later on it interested me where the average assets and the largest average assets lied within a region. "What type of company are you, stock or mutual?" Actually, all 173 responded, so I guess that one person who didn't know where he was located knew what type of company he was. Actually, one wrote fraternal. I threw that into the mutual companies.

The results of the next question, "Are you a New York Company?," are really interesting. I was in a New York company for a long time and I was really surprised that of the companies that responded, 28% don't have a New York subsidiary, don't have authority in New York and aren't domiciled in New York. I was wondering if this is significant in the industry or is it just that the New York companies are having so much trouble now or are so busy now that they haven't responded to the survey. I'm not sure. Let's get into the heart of the survey.

One hundred sixty-nine responded to what are the total assets. The survey gave a page number from the annual statement so the results could be consistent. As you see, the average assets of the companies that responded were $1.8 billion, which I thought was very high. If you looked at the median, the median was a lot lower. The median was about $500 million, which says to me that the larger companies skewed the results. There were a few, maybe a dozen, very large companies that had in the range of $20-30 billion of assets, so that skewed it. Total for the group of 169 we had $300 billion of assets responding, so the survey is over a wide range of companies. How wide a range? The highest was $35.7 billion, and the low was $6 million.

Now we get to the next question, which was surplus plus Mandatory Securities Valuation Reserve (MSVR). This will give an idea of what's going on. The average was $159 million, which I thought was very large, but the median was a lot lower at about $59 million. Again, it's skewed toward those larger companies. The next question is total premiums in force. We have $44 billion of total premiums in force responding to this survey. The purpose of these questions was just to give you an idea of who is responding to the survey.

MR. MELVIN B. DUNN: Logistically, if you would ask questions while we go along, we'd prefer to operate in that environment. Ron said he'd keep you all in check.

MR. HAROLD R. SHERRY: One came to mind when you were putting up the initial charts. What was the correlation between the averages among those who responded versus those of all companies that it was sent to?

MR. KLEIN: All life companies were sent questionnaires, so I guess that's a good question. We could do a correlation over the total industry, but I did not do any. We had 629 that we mailed surveys to. Any company that had a chief actuary, we sent the survey to that chief actuary.

MR. DUNN: But generally you have over one third who responded. I've seen the results of the survey. As background, I think it's fair to just give you a brief overview and actually I'll answer the first part of the general information so that you understand where I'm coming from when I make some of my comments as far as my company.

We are in Binghamton, New York. Security Mutual is obviously a mutual company, but we do have a wholly owned stock subsidiary, also a New York domiciled company. We are authorized to write in all states, but our business is heavily concentrated in the northeast. We have a little over $1 billion in assets and our surplus with MSVR is a little over $50 million. I honestly don't know what it will be when the Asset Valuation Reserve (AVR) is introduced. I want to make a comment on that a little later.

We do distribute our products through a very independent general agency distribution system. Larger companies are trying to compete in our marketplace, which is really what's commonly called the upscale marketplace. Our average policy size is fairly high. Our average premium per policy is fairly high. The other thing is that our organization is very fluid. Between the time I sent my brief resume to Ronnie and now, I'm no longer the chief marketing officer, although I am responsible for the marketing division of the company. I've been away for a few days and when I get back I might find out I'm not involved in reinsurance either, but at least when I left the office the reinsurance area also indirectly reported to me, even though I was the chief marketing officer.

Now let's go forward with the results of the second section of the survey, which primarily covered retention limits (Table 2). The single life maximum retention limits average about $443,000 with a high of $10 million and a low of just $20,000. Our own retention is about $400,000.

TABLE 2

1. *What is your single-life maximum retention limit for individual insurance?*
   168 Responses
   Average $443k (high $10 million, low $20k).

2. *What is your joint-life maximum retention limit for individual insurance?*
   101 Responses
   Average $720k (high $15 million, low $25k).

3. *Do you grade your individual insurance retention down by:*

6	(3%)	Age
18	(10%)	Table rating
7	(4%)	Product
61	(35%)	Age & Table Rating
0	(0%)	Age & Product
2	(1%)	Table Rating & Product
7	(4%)	All
7	(4%)	Other – Aviation, Foreign Risk
71	(41%)	None

4. *Do you retain a different limit for group policies?*
   173 Responses

80	(46%)	Yes
93	(54%)	No

   If yes, what is your retention limit?
   Average $167k (high $750k, low $150k), some are fully retained.

5. *What is your group accidental death benefit retention limit?*
   101 Responses
   Average $164k (high $3 million, low $2k).

Ron mentioned that they did a study of retention divided by surplus. The average was 0.27%. The high was 3.76%. The low was actually a –0.18% and the median was 0.37%. My own feeling is that as we move toward this risk-based

capital and companies look at how much they have available to invest in new business, we may be looking at other criteria to measure or to set your retention limits.

I mentioned before that we have a wholly owned stock subsidiary and we looked at setting a retention limit across both companies; in other words, looking at how much we really wanted to expose, all of our companies or, in that case, just two companies on any one life. I don't know if any of you who have affiliates or subsidiaries have looked at it in the same light or whether you set your retention limits independent in each company. I think as you look at the capital available, you may be looking at different ways of setting your retention limits more than the traditional methods that have been used in the past.

The second question was a retention limit on a joint life product, and I assume most people answering this had a second-to-die policy, although many companies now are coming out with a first-to-die or multiple-life policies. With that thought in mind, the average was $720,000. The high was $15 million and the low was $25,000, quite a range. When we compared the joint-life retention with the single-life retention, the low was 100%; in other words, where they set the joint-life retention the same as a single-life retention. The high was 250%; in other words, 2.5 times the single-life retention for the joint life. The average was 125%. I don't know how many companies represented here are selling a multiple-life or a joint-life product and whether this falls within your retention limits.

There were some results for the next question here that kind of surprised me. This is the question. "Do you grade your individual insurance retentions down by. . .?" The answer is kind of like what Dave Holland flashed on the board with general session -- all of the above, none of the above. As you can see, many of the companies said none. Forty-one percent said that they do not grade their retention limits. I found that rather surprising. Sixty-one companies said age and table rating. One of the reasons I found it surprising was that I think today maybe companies are, I'll say, experimenting in new marketplaces or special underwriting programs. Those didn't seem to show up on this. There weren't any answers where there was an available place to put the risk. A couple of companies did mention, as you can see, aviation or foreign risk, but it just surprised me that more companies didn't have limits that varied by product or by marketplace or other considerations.

The smaller companies, and we've been categorized as a small company, although many of you are not on the reinsurance side here and do represent companies smaller than we are, are going to be living in an environment of controlled growth. We have really for the last few years. Then you get into the question as to whether you want to continue to supply as much product as possible to your distribution system and enter into reinsurance relationships and maybe expanding what I would call surplus relief, but I don't mean that in the sense of cosmetic reinsurance but actually transferring the risk and being able to keep your distribution system supplied so that, as you build more capital, you can invest in new business. You'll have the distribution side already in effect.

For those of us who have tried to curtail writings, you find out it's very difficult to shut the valve down. You usually overreact, so I just think in the future when we're

analyzing the capital that we have available to invest, especially the smaller companies that have been known to be innovative trying to enter new markets or new products, I think you'll be looking at joint ventures. I throw into that category different types of reinsurance arrangements where you can get the surplus to support your new business so that you can build it up, presuming the products are profitable, from the profits to new business.

I've heard rumors that there are other companies besides Security Mutual that are looking at that issue. Larger companies were looking at controlled-growth environment and were partially influenced by the risk-based capital requirements and partially by the rating bureaus looking at the capital, as well as the earnings on their business.

The other thing I'll throw out is joint ventures. I mentioned joint ventures. Some of you perhaps are distributing products manufactured by other companies and then reinsuring back on a portion of that business, so that there may be in joint ventures a form of reinsurance going on that's not reflected in some of these surveys.

We have not entered into that type of relationship, although in reverse we've been approached by companies that want to distribute several of our products and we've told them part of the arrangement would be that they reinsure a portion of that risk to protect ourselves if we're not familiar with their distribution system.

So what I'm saying from the reinsurance company's perspective, there may be more direct writing companies getting into reinsurance relationships among themselves with different focuses in the future. I would encourage those reinsurers who do have capital available that they may want to talk to the direct writing companies about more coinsurance type arrangements or surplus arrangements where risk is actually transferred.

The results of the next question show that some companies do retain a different limit for group policies. As you can see, it was almost evenly split. We asked what is your retention limit. The average was $167,000, with a higher of $750,000 and a low of $150,000.

I'm assuming, again, that companies answered this as to an addition; in other words, that if you have a large group life where your retention limit is a couple hundred thousand that you then maybe insure the excess with your ordinary department up to their retention before it goes outside. I'm not sure how your companies structure those ranges. In our own company, we have a $100,000 individual group life limit. The excess then would go to the ordinary department up through its retention before we go out to a third-party reinsurer.

The last question on the retention limit area is what is your group accidental death benefit retention. Table 2 shows an average of $164,000, a high of $3 million, and a low of $2,000. In this area our company retains the $75,000.

The next section was on the reinsurance activities (Table 3). The first question was who administers day-to-day treaty negotiations. Probably a little better word, Ron, would have been who coordinates . . . I guess there were varying answers in this area.

TABLE 3

1. *Who administers day-to-day treaty negotiations?*
171 Responses

129	(75%)	Actuarial	95 (56%) FSA 22 (13%) ASA 12 (7%) Other
18	(11%)	Underwriting	
14	(8%)	Administration/Service	
10	(6%)	Other (Please Specify)	

Reinsurance Manager (2), Reinsurance FSA, Legal, FSA and Underwriter, FSA and Underwriter and Administration, Committee.

2. *When receiving a quote from the Reinsurer, who makes the final decision to accept or reject the quote?*
171 Responses

9	(5%)	Chief Financial Officer
85	(50%)	Chief Actuary
16	(9%)	Chief Underwriter
10	(6%)	Treaty Negotiator
1	(1%)	Financial Officer
22	(13%)	Reinsurance Committee
28	(16%)	Other (Please Specify)

President (10), FSA (or Chief FSA) and Underwriter (6), FSA (Products, Financial) (4), VP or SVP (6), CFO plus another (2).

3. *How important are your reinsurance duties considered by your company?*
172 Responses

49	(28%)	Very important
89	(52%)	Moderately important
29	(17%)	Moderately unimportant
5	(3%)	Unimportant

4. *For what purposes does your company use reinsurance?*

164 Responses Main Purpose		224 Responses Use Frequently		282 Responses Have Used		
68	(41%)	21	(9%)	24	(9%)	Risk sharing/transfer
90	(55%)	61	(27%)	9	(3%)	Excess above retention
0	(0%)	0	(0%)	12	(4%)	Equity for policyholders
0	(0%)	14	(6%)	47	(17%)	Aid in new/specialty-products
0	(0%)	10	(4%)	33	(12%)	Surplus Relief
1	(1%)	10	(4%)	23	(8%)	Aid in initial Surplus Strain
3	(2%)	52	(23%)	39	(14%)	Aid in Underwriting
2	(1%)	56	(25%)	56	(20%)	Facultative Outlet
0	(0%)	0	(0%)	39	(14%)	Tax Reasons

5a. *When developing a new product, generally how many Reinsurers do you usually ask to quote?*
170 Responses

40	(24%)	1 - 2
106	(62%)	3 - 5
20	(12%)	6 - 9
4	(2%)	10+

5b. *Are these Reinsurers only those which are used on current inforce?*
169 Responses

68	(40%)	Yes
101	(60%)	No

5c. *Do you share any of the following data with these reinsurers?*
173 Responses

2	(1%)	Current mortality studies
2	(1%)	Current lapse studies
22	(13%)	Age/Class distribution
10	(6%)	Mortality and Lapse
11	(6%)	Mortality & Age/Class
10	(6%)	Lapse & Age/Class
71	(41%)	All
45	(26%)	None

TABLE 3
(Continued)

5d. From the time all information is sent to possible reinsurers, what response time do you expect from them detailing the cost of reinsurance?

168 Responses

25	(15%)	less than two weeks
81	(48%)	two - three weeks
54	(32%)	three - four weeks
8	(5%)	greater than four weeks

In my company, as Ronnie said, we had turned the liability into an asset by setting up a subsidiary with all of our actuaries, so my response is a little different. We do have a vice-president, a corporate actuary, who recently joined our company and is with the current company and now responsible for coordinating our reinsurance negotiations. I'll get into that in detail a little more as we go down, but you can see there is quite a variation in who basically coordinates the negotiations.

I suspect here that most of the responders were looking at the rate structure and sending out basically bids on reinsurance and reviewing the rates coming in. I certainly would hope that none of you are excluding the underwriting department. In my company, I'm also responsible for the underwriting department and I think that they are the ones who interface with the reinsurer more frequently and want to be comfortable. They may not get into the negotiations or the rates, but they may as far as the automatic limits or facultative premiums and things of that nature. I think it depends perhaps on the type of treaty you negotiate, if you will, and exactly what was meant by negotiations.

The next question elaborates on the first. The question was "Who makes the final decision to accept or reject the quotation?" Again, it is the chief actuary, or who we'd call the vice-president corporate actuary, that would be more or less responsible for making that decision. Ten people thought the president should. In our company, it happens that the president and CEO has an underwriting background, but we've always told people, at least I have, that if you pass the buck up to the executive department, they'll make a decision, usually the wrong decision; so I would advise you not to necessarily ask for the president's decision on this.

Actually, I think where the executive department, and I'm not sure how your companies are structured organizationally, perhaps should get involved as if you're entering into a new type of treaty where you haven't reinsured previously; for example, say coinsurance, where you've always done Yearly Renewable Term (YRT). You may want to pass it by the executive department, whether it be the president or someone else, to say this is why we think we're going to enter into this treaty. Do you see any reasons why we shouldn't or historically why we haven't? If you're going to deal with a new reinsurer, there may be reasons politically or otherwise why the executive department has not wanted to deal with that particular reinsurer, but I would hope in general that the decision-making would be at a lower level than the executive department level, even in the smaller company environment that I operate in.

I guess we'll get into this a little later as to who's involved in that decision. Here is listed the reinsurance committee. In our company, depending upon the type of treaty that we're considering, we have an informal committee and that might range from two or three people all the way to six or seven and I'll throw in there the legal department, certainly in some situations, because of the question as to whether the treaty adheres to the regulations or proposed regulations. If you're taking reserve credit, would it be acceptable in all states or not or whether you're going to be forced to file in different states, things of that nature. You might get a tax accountant or lawyer involved, especially today with the DAC tax, if you're passing allowances back and forth for the federal income tax implications. It would be the controller or the controller's department. Certainly it should include your reinsurance administrator. I know Jack appreciates this comment, but we involve our reinsurance administrators.

There's nothing worse than entering a treaty and then finding out that you can't administer it, so we have really a group of people that meet and bring to the table every area of expertise. That is coordinated, again, by our vice-president corporate actuary and then the decision is made. I don't believe the committees make the decision, but basically they steer the recommendation and the final decision-making process. I can't overemphasize, at least in our company, the need to bring the different people into the decision-making process. Again, it will vary depending on the type of treaty that we're looking at.

The third question was how important are your reinsurance duties considered by your company. They seem moderately important was the popular answer. I guess this question here, if I understand it correctly, went to the chief actuary of the companies, so that was from that perspective. If it had gone to, in our case, our vice-president corporate actuary, he might have felt it was more important than just moderately important as far as his own responsibilities.

MS. JOHANNA B. BECKER: Can I make a comment? The survey for our company did go to our chief actuary and he passed it on to me. My answer to the question was "moderately important." Our chief actuary may have placed less importance on it.

MR. KLEIN: I would disagree just a little bit and say that the lower down the line, the people who really work on the reinsurance, especially in the larger companies, would probably answer lower down on the list because they don't get the funding and the resources to perform their duties. I came from a large mutual company and I would have answered this as "is there anything under unimportant to fill in."

MR. DUNN: I think there's a valid point though, Ron, at least in our case. In the last ten years, our reinsurance has played a much more important role in our company from a financial point of view. If you went back ten years ago, we probably didn't pay very much attention to the reinsurance area either and we are now reinsuring more business and in so doing we're obviously looking at the causative reinsurance much more closely and placing more emphasis on it. That evolved, as I say, in the last ten years and so I appreciate where a lot of you are coming from, but I would hope that if reinsurance starts to become a bigger part of your operation, a more important part of it, you would certainly get the resources necessary to do the job the way it needs to be done.

Next question: For what purposes does your company use reinsurance? Ninety companies responded that the main purpose was excess above retention and 68 indicated risk sharing. Then "used frequently" would be almost even on most between excess above retention, aid in underwriting, and facultative underwriting. Finally, "have used," we see about 47 companies said in new or specialty products, facultative underwriting, and aid in underwriting. I'm not sure how the different companies interpreted some of these options, if you will. I took aid in underwriting to mean where the reinsurer perhaps had a strong underwriting department or expertise in some areas where the direct writing companies did not and the direct writing company therefore was using their support in underwriting some of the risk that they assumed. Again, some of these were subject to interpretation.

MR. MANUEL VILLA*: Who designed the working of the survey? What is the difference between aid in underwriting and facultative outlet?

MR. KLEIN: The wording was designed in our office. We've had a lot of deals where small companies have asked us to either underwrite certain areas in which they aren't experts or simply to offer our manual to help them underwrite or to bounce questions off of, or some expertise in that area -- any kind of aid in underwriting; so not facultative underwriting, but any other kind of aid.

MR. DUNN: Any other questions or comments? The next question is a multiple choice type. When developing a new product, generally how many reinsurers do you usually ask to quote?

Most of the companies did say between three and five reinsurers. That would have been our company's response as well. Are these reinsurers only those which are used on current in-force business? Here, the answers, which seemed to bother me, are that more companies are looking at different reinsurers and perhaps for the first time, as I eluded to before, reinsuring business where they haven't reinsured before.

The next question involved sharing data. As you can see, 71 companies said they do share quite a bit of data with the reinsurer. In our case, we certainly could share where we think the distribution of the business would be. I think we share just in general terms our mortality and persistency data, as we see it, in the particular market that we're dealing in and how that will be affected by the product that we're coming out with. Obviously it's going to have a different experience in different marketplaces and some companies are probably shifting their marketplace, especially the older-age marketplace where we all know the wealth will be in the future.

The last one I'll be covering is the question of turn-around time. Eighty-one companies said 2-3 weeks. That's generally where we would also put the turn-around. It's interesting, though, because the last question basically asked what can your reinsurer do for you rather than you doing for your reinsurer. One of the most frequently indicated responses was faster turn-around.

* Mr. Villa, not a member of the Society, is Assistant Vice President, Regional Marketing Director of Cologne Life Reinsurance Company in Stamford, Connecticut.

I think that was the third highest number as far as companies saying that they would like to see faster turn-around from their reinsurer. So that is a key going forward from a reinsurer's perspective. I believe that covers it.

MR. KLEIN: There were four companies that asked ten or more reinsurers to quote and the average assets for those four was well over $10 billion. So there is a little bit of correlation with the larger companies. They are going out and getting more aggressive quotes. One quick comment I wanted to throw in was the average surplus-to-assets ratio. It was about 9% for the study, so the average surplus-to-assets ratio was about 9%. Coming from a large mutual company, I thought that was really large, so I thought that was interesting.

One other interesting thing which is sort of an ancillary question that we asked, and we thought this was a real interesting question to ask (Table 4). What positions in your company are more highly respected than the reinsurance actuary? In this one, you see that all 173 people responded. It's that person who did not know what area the company is. He knew his company's structure. I wasn't surprised to see the CEO, president, chief actuary, agent.

TABLE 4

What positions in your company are more highly respected than Reinsurance Actuary?

173 Responses		
25	(14%)	CEO
30	(17%)	President
22	(13%)	Chief Actuary
27	(16%)	Agent
12	(7%)	Janitor
21	(12%)	Human Resources Director
8	(5%)	Lawyer
28	(16%)	Other (Please Specify) Every Position

MR. MICHAEL W. PADO: Perhaps some of you might find it unusual that a reinsurer should be on this panel. It seems a bit odd, but being in the insurance business for 14 years, I spent half of them with North American Reinsurance and the other remaining time has been about equally split between mutual companies and stock companies and that has some relevance.

The first question I'll address is "What are the most important factors when choosing a reinsurer?" (Table 5). That was actually a three-part question of A, B and C and I've chosen to lump them all together. Given that 75% of the respondents claim that an actuary administers the day-to-day treaty negotiations and another 50% mention that the chief actuary made the final decision with respect to the reinsurance relationship, it wasn't very surprising to me that the most popular vote for the first three categories was pricing, pricing, and financial strength. You have to look at A, B and C to actually see that, but that's what they're saying.

After 14 years in the business, I've concluded that pricing and financial strength are the two most important factors. As a reinsurance marketing and pricing actuary, I know all too well how critical pricing issues can be to a ceding company. Mel eluded to that earlier. Many companies have started to review their product profitability after

the reinsurance basis. Therefore, the companies with the lower retention have exhibited the greatest concern in this area.

TABLE 5

6a. In choosing a Reinsurer, name the three most important factors (1 = most important).

First most important. **171 Responses**

Count	Percent	Factor
74	(43%)	Price
1	(1%)	Expertise in new Product Development
13	(8%)	General Service
32	(19%)	Long-Term Relationship
1	(1%)	Expertise in Underwriting Guideline
0	(0%)	Diversification
44	(26%)	Financial Strength
2	(1%)	Automatic Capacity
4	(2%)	Facultative Service
0	(0%)	Other (Please Specify)_____

6b. Second most important.

167 Responses

Count	Percent	Factor
39	(23%)	Price
8	(5%)	Expertise in new Product Development
20	(12%)	General Service
26	(16%)	Long-Term Relationship
16	(10%)	Expertise in Underwriting Guideline
0	(0%)	Diversification
37	(22%)	Financial Strength
7	(4%)	Automatic Capacity
13	(8%)	Facultative Service
1	(1%)	Other-Update on Industry Practice

6c. Third most important

167 Responses

Count	Percent	Factor
33	(20%)	Price
7	(4%)	Expertise in new Product Development
27	(16%)	General Service
19	(11%)	Long-Term Relationship
21	(13%)	Expertise in Underwriting Guideline
1	(1%)	Diversification
35	(21%)	Financial Strength
7	(4%)	Automatic Capacity
17	(10%)	Facultative Service
0	(0%)	Other-Update on Industry Practice

Just as a word of advice, I'd like to offer that the direct writer should really try to contact his reinsurer early in the product development process and to try and negotiate its rates in advance. The earlier, the better. I understand that the second concern, the financial strength, is usually addressed by relying on the ratings and our assessments issued by rating agencies such as Best's, Standard & Poor's, Moody's, Duff & Phelps, among others. I suspect there are other methods of due diligence and I anticipate that Jack Bailey will be addressing that in his comments following mine.

If you also look through the survey, you find that the general range of services ranked high after the other two of pricing and financial strength. I was pleased to learn this. Our company, as well as many others in the room, have prided themselves on providing a broad range of quality and services at usually affordable prices. Fourth was long-term relationships as being important and I think it was deservedly so. In this very complex marketplace, I really do think that we need to have a well-informed reinsurance community with a very close relationship to the marketing, pricing, and underwriting professionals at the direct company.

MR. PAUL A. SCHUSTER: Was there a difference by size of company in terms of price, price, and more price?

MR. KLEIN: I did a correlation between price, price, and more price. Actually, one company did write price, price, price as one, two, three in the price column. There actually was no positive correlation between size of company and this question at all. I couldn't find any correlation between them. I thought that I might find the larger companies were more interested in price and the small companies were more interested in long-term relationship. That's what I was expecting. That was a good question. If there are any questions about correlation that I might not have calculated, I'd be willing to calculate, and I will get back to you at some point.

MR. DUNN: Just as a general observation, I think the rating agencies place much more pressure today on earnings as opposed to balance sheet and I think that will follow through on reinsurance operations as well.

MR. PADO: I was surprised by what ranked low rather than what ranked high. Issues such as automatic capacity and facultative issues, at least through my pricing and negotiating experience, are of paramount importance and I was surprised actually to see them so low. I don't know if anybody would like to comment on that.

FROM THE FLOOR: I guess you said that this went out to chief actuaries and one of the advantages of living where I live is that I'm the source of a lot of focus groups. Whenever you have a group such as only chief actuaries, their responses, as you were eluding to before, are going to be related to price. So it's very possible that if you asked the same question to say a CEO or a head of an underwriting department, your response could be very different. So maybe you want to take that into account, as you were eluding before, as to who is answering these questions.

MR. KLEIN: I think that's a good point. As Johanna said before, I would personally think, and I don't know this for a fact, but I would think that the chief actuary would get it and pass it on to the most likely party to answer it. At least I was hoping that. I know that in my ex-company that's what would have happened. I did, as my first original question, ask what is your title to the person who was filling it out; but the legal department at the SOA nixed that one real fast. They didn't want any personal identification, so to speak, of the person. Then I could have done a correlation and that would have been very interesting of what the CEOs think, what the chief actuaries think, and what the reinsurance administrators think. That's how that one question was worded. What are your duties in day-to-day treaty negotiations?

MR. JAMES W. PILGRIM: We have run focus groups and in the underwriting focus groups it's interesting. Price is their first interest, and maybe they've been influenced by others. Second, comes facultative underwriting support.

MR. PADO: When you are in need of service or are developing a new product, would you like to speak or visit with the FSA or an ASA in addition to your marketing representative (Table 6). It's quite obvious that the overwhelming majority of respondents indicated they would like to do so. I guess without trying to slight any of the marketing reps in this audience, I could always surmise that this result reflects the value-added service of a reinsurance pricing actuary. Usually there are many ways in

which a risk can arise and I suspect that a reinsurance pricing actuary can help identify them, and present a variety of alternative methods to address them in an attempt to quantify them.

TABLE 6

1. *When you are in need of service or are developing a new product, would you like to speak or visit with an FSA/ASA in addition to the Marketing Representative?*

166 Responses

143	(86%)	Yes
21	(13%)	No

COMMENTS:
2 (1%) Depends if Marketing Representative can answer questions.

2. *When was the last time you tested the competitiveness of your Reinsurer's premiums?*

164 Responses

78	(48%)	On Each New Product
32	(20%)	Within 1 Year
30	(18%)	1 - 3 Years
24	(15%)	3+ Years
0	(0%)	Other (Please Specify)__________

3. *What type of Reinsurance do you currently use most often/prefer?*

163 Reponses Use Most Often		**116 Responses** Prefer		
95	(58%)	64	(55%)	Straight YRT
48	(29%)	43	(37%)	Allowances off of your rates/Coinsurance
3	(2%)	3	(3%)	Allowances off your rates/Modified Coinsurance
16	(10%)	4	(3%)	Other (Please Specify) Combination
1	(1%)	2	(2%)	None Proportional

4. *How important are reinsurance rates which offer 100% allowances in the First Year (Zero First Year Rate)?*

166 Responses

45	(27%)	Very Important
68	(41%)	Moderately important
27	(16%)	Moderately unimportant
26	(16%)	Unimportant

5. *How statisfied are you with your current reinsurer(s)?*

170 Responses

93	(55%)	Very Satisfied
76	(45%)	Moderately satisfied
1	(1%)	Moderately dissatisfied
0	(0%)	Dissatisfied

6. *What improvement would you like to see from your current reinsurers?*
All responses are attached.

Again, in terms of any visit, I think the earlier this is done in the product development process, the better off we all are and end up in a better reinsurance arrangement. I'd also like to take this opportunity to suggest that it's not only the pricing actuary, but I have found it to be most rewarding to also travel and visit with the underwriter while visiting our ceding companies. We do this regularly and have found it to be highly successful. Much is usually learned from all four of us getting together than would otherwise be the case separately. It just provides the correct arena in which to discuss things.

The development of a preferred underwriting program to stay in conjunction with the new product that is perhaps the best example of how constructive this approach can be. The introduction of a joint life product is another. There seems to me to be a correlation between underwriting, pricing, and the ultimate profitability of the product that is simply too great not to bring these two forces together. Again, the earlier in the process, the better.

When was the last time you tested for competitiveness of your reinsurer premiums? I guess about half of the respondents test the competitiveness of their current reinsurance rates with the introduction of each new product. I was surprised to learn that this is only at that level of 48%. Our experience has been that it's tested each and every time a product comes out. Ron, I don't know if there was anything else that you could suggest, any correlations that arise.

MR. KLEIN: Yes, and this is one that we looked at the correlation and we thought maybe what size of company or whatever. Again, there was no correlation. This is spread over the spectrum.

MR. PADO: I would suspect that those who haven't checked their rates in three or more years perhaps may not simply be active in product development.

MR. PILGRIM: I'd like to ask a question relative to a correlation with administration. If, in fact, you test the competitiveness of your reinsurance premiums on each new product and if, in fact, you end up with different reinsurer on each product, haven't you possibly created a nightmare for yourself that ends up to be more expensive than it might have been had you made a different selection by product with the existing reinsurer?

MR. KLEIN: I think that Mike will address those in the next section, which is the administration section, and I think what you'll find is it depends on the administration systems within the company. Maybe Jack will handle that a little bit also, because I know in his company the administration systems are strong enough to handle different reinsurer for each new product.

MS. BECKER: How frequently we test the competitiveness of our reinsurance rates depends on certain factors. For example, we have a facultative shopping program with various rate structures. We do not test the competitiveness of this program with each new product. But we do test competitive of rates on the automatic new business. So how often we test rates really depends on the nature of the reinsurance involved and the purpose of the reinsurance.

MR. PADO: Relates to what type of reinsurance do you currently use most often and/or prefer. By and large, the majority seems to be that traditional YRT reinsurance is the primary mode. The next most popular mode was coinsurance and it seems to be a combination of what I would call coinsurance formatted as YRT. The latter mode is typically utilized to reinsure term plans on a YRT basis, wherein the YRT premiums are derived by reducing the ceding company's gross premiums by allowances made either by age, sex, smoking status, and/or duration. While this looks like traditional coinsurance in some sense of the word, it's not.

It's unfortunate that the question wasn't phrased in such a manner that would have yielded a little bit more information in terms of traditional coinsurance and this other mode that I'm talking about (but this is really a good questionnaire).

The next question deals with reinsurance types. The use of modified coinsurance alone or in combination with other modes seems to have held off a bit and I'd like to suggest that this is possibly an effect of California Bulletin 91-10 and the pending NAIC model regulation of surplus relief.

How important are reinsurance rates with 100% allowances in the first year or zero to first-year premiums? I guess the respondents to the survey produced a mixed bag of results. Twenty-seven percent felt it was very important to have them, while 32% felt that they were relatively unimportant. On the balance, I guess the conclusion is sometimes they are and sometimes they're not. Their value, of course, is due to the fact that a zero first-year premium yields a smaller amount of surplus strength to the ceding company that would otherwise be the case. But this usually does not come without cause, as it does transfer a greater amount of lapse risk to the reinsurer.

In terms of satisfaction, how satisfied are you with your current reinsurer? I was absolutely delighted to note that 100% of the respondents were generally satisfied with their current reinsurance relationships. In fact, 55% claimed they were very satisfied. It's a bit puzzling, however, that notwithstanding that there's still 1% that's still dissatisfied.

I think the next question is really segued, which is "what improvement would you like to see from your reinsurer?" Obviously, there's always room to improve. Let me just go through the top three or four here (Table 7). Nineteen respondents wanted their reinsurer to do a better job at administration, including treaty work. Twelve wanted lower rates. Eleven wanted faster turn-around time on quotes, which excluded treaty work. Seven would prefer to have some assistance with product development. So those were the top four areas that were noted on improvement.

What type of recording do you use most often (Table 8)? About two-thirds of the respondents use self-administered bulk reporting and I was surprised to learn that there was still a third using individual sessions. In this day and age of computers and other methods, I was just very surprised to learn that there is still one third out there that utilizes this approach. I think cost will eventually push the total self-administered to bulk.

MR. SHERRY: Was there any correlators between the size of company and the type of reporting done?

MR. KLEIN: To tell you the truth, I didn't get that far in the correlation process, but I would assume that there would be. If you write that question on the back of your card or something, I'll get back to you and let you know.

TABLE 7

SUMMARY OF RESULTS

	Better Administration 19 (Including treaty work)	
1	62	139
10	65	140
12	105	184
22	110	188
25	118	199
38	119	206
53		
	Lower Rates 12	
30	121	197
45	125	198
52	132	201
107	178	202
	Faster Turnaround Time 11 (Excluding treaty work)	
27	138	188
46	161	203
57	166	206
105	175	
	Aid in Product Development 7	
13	153	169
39	167	181
146		
	Educational Support 7	
61	153	191
129	167	206
146		
	Better U/W Service 5	
20	107	150
105	141	
	More Client Contact 4	
111	174	191
148		

MR. PADO: My experience in traveling around the Northeast does indicate that there is a correlation. I think that many smaller companies simply can't afford the resources either in straightforward dollars or the personnel to operate computerized administration systems. They simply go with what works. In terms of those that do have systems, Ronnie has compiled the distribution of the various systems that are in place. Some are mainframe systems and some are PC-based systems. I suspect that any time that you do have a system like any of those listed here, you would be able to report to your reinsurer on some sort of magnetic program.

For those that don't have a system, about 48% plan to have one within five years. There was a surprising majority that are still out there that say they'd never go that way or at least on a very, very long-term horizon with respect to doing so. Do you report to your reinsurer. Most, obviously, still report on paper. I think this is somewhat unfortunate because we miss a lot of information in the process. As far as I'm concerned, there's no reason why we can't work toward tape-to-tape transmission or just educate. Going from computer to paper makes for a breakdown of information that the reinsurers have.

TABLE 8

1. *What type of reinsurance reporting do you most often use?*
166 Responses

105	(63%)	Self-administered/Bulk
54	(33%)	Individual cession
7	(4%)	Other (Please Specify) Combination

2a. *Do you have a computerized reinsurance administration system?*
165 Responses

93	(56%)	Yes
47	(28%)	No
25	(15%)	Combination

If Yes, which System

In-House	83	PDA	2
TAI	8	C2RE	2
TARSAS	7	ACES	1
SMART	5	GOODSHARE	1
CAP-S-L	3	LMS	1
PALLM	2	AUTOREAD	1
LIFEPRO	2		

2b. *If no, do you plan to have a system within five years?*
64 Responses

31	(48%)	Yes
13	(20%)	No
20	(31%)	Not sure

3. *Do you report to your reinsurer(s) by:*
164 Responses

55	(34%)	Tape/Disk
107	(65%)	Paper
2	(1%)	Fiche
0	(0%)	Other (Please Specify)______

If more than one item was checked, only the most technically advanced answer was recorded.

MR. KLEIN: Finally, we have Jack Bailey and he will address some of the financial topics and some other issues, some treaty issues close to heart.

MR. JOHN E. BAILEY: I'm going to take a little different perspective than the other panelists. Ron let me talk about whatever I wanted to talk about instead of being limited to the survey. Since the title of the session is really "Reinsurance From The Ceding Company's Point of View," I'm really going to talk about a number of the concerns that ceding companies may well develop in the reinsurance process. Before saying that, on the off-chance that there might be one of our reinsurers sitting somewhere in the audience, I want to say that while I'm going to talk a lot about concerns, we do really get a lot of benefits out of reinsurance. It's very helpful in our competitive efforts. It helps us get favorable classifications for a number of applicants and it adds greatly to our capacity.

While many of my comments might suggest improvements and changes, this doesn't indicate an overall dissatisfaction with the reinsurance process. I think, in general, there's a perception in the industry that the old-style gentleman's agreement, partnership philosophy probably isn't as prevalent today as it was in the past. I think the ceding companies are tending more and more to evaluate individual programs on their profitability and so the answer that price, price, and price were the first three considerations. It's not as true today that a ceding company will link up with one or

two reinsurers and stay with them through thick and thin and through all products. That's really the nature of the competitive marketplace today.

In many companies, the cost of reinsurance is getting a lot more attention. I think company managements are taking a little harder look at what reinsurance is really costing us rather than perhaps leaving this to an administrator to establish a reinsurance arrangement at the time the product goes on the market and then putting it on the back shelf. I think that company managements want to take a look at that over time and see how those arrangements are working out and see if they are profitable for the companies. I'm not saying that that's an easy evaluation to make, but I think that perception is there.

I do want to mention a number of concerns in relationship to reinsurance arrangements. I'll get to as many of these as Ron will let me have time to take. The first concern I want to talk about is the financial stability of the reinsurer. We've all been very well aware that some life insurance companies have had significant financial difficulties in the last several years. It's been in all the papers and so forth. This really leads to a concern on the part of company management about the financial stability of reinsurer. The question is how do you evaluate the financial stability of reinsurer. I think it's a little unfortunate that the actuarial educational process doesn't give us a little more guidance on financial evaluation. We've struggled with this for a number of years and I find that my background there probably isn't as strong as it should be. Because of that, we've brought in some investment people to help us out with that process.

A ceding company can use lots of measures in trying to evaluate the financial stability of a reinsurer. Some of the ones that we look at include: assets, surplus, amounts in force, and the profitability of the reinsurer. We look at growth, growth in profitability, growth in assets, return on equity, cash flow, premium size, ratio of cash flow to assets, capital and surplus per thousand in force, asset mix, which has received a lot of attention recently, and lots of trends. There is a lot of work to this, but it can be done. Our own company does use a set of statistical tapes that we get, I think, from Best and are able to do a lot of evaluation through the computer and make lots of comparisons among the reinsurers. We get lots of numbers. It's not always evident what all those numbers really tell us, but they certainly serve as guidelines and we consider them to be very important.

MR. SCHUSTER: The question I have about financial strength is one that I've heard talked about in similar sorts of panel discussions like this in the past. What's come back to me many times is, well, so what. So what if your reinsurer is seized by the state? What's the down side? I would be interested in your reaction to what you gain from doing this in terms of what are you protecting yourself by doing a rather elaborate analysis?

MR. BAILEY: Well, I think there are a couple of things. I'm not a lawyer, but I don't know quite where we would, as a ceding company, stand in liquidation procedures. I would rather have you write a check that I could cash than have to go to a liquidator to get my money. The second point there is that our agents are the very conscience of our reinsurance operations. Even though there is not a direct correlation between the solvency of the reinsurer and the beneficiary there's that perception -- and I think

if we had a failed reinsurer – it would not bode well for us from a public relations standpoint.

MR. DENIS W. LORING: I think you can have two possibilities. One is do you have something in your reinsurance treaty that says what you do if the reinsurer ever becomes insolvent, and the other is you don't. If you do, the standard clause is you get to recapture it all, in which case you're suddenly sitting on all sorts of risks that you didn't expect to or want to be sitting on in the first place. In the second case, and this is one I can speak on from personal experience, you may well find yourself getting less than a hundred cents on the dollar on your reinsurance element, which was not the deal that you entered into, because you will find the states and liquidators are not quite as generous as solvent reinsurers in terms of paying claims.

MR. JOHN M. BRADLEY: To answer that last question, also in Canada we have or are a little bit ahead of the states, I guess, in the appointed actuary role. The appointed actuary is required to look at the financial strength of the reinsurer. If there's any question at all about the solvency of the reinsurer, you can't take credit for the reinsurance reserves. If you're marching down the same road that we have in Canada or that the appointed actuary role has taken in Britain, you're going to have to consider that as well.

MR. BAILEY: Those are some real good points. I do want to mention that in addition to looking at the numbers from the statements, we try to review all the public financial data, including the footnotes, which often are very revealing. We have an investment officer who reviews this material and, in many cases, we're able to ask the financial officer of the reinsurer to come in and give us a little review of their financial situation and their future plans, which we find very informative and very helpful. I guess we're more able to do that because of our size, but I would certainly suggest that may be appropriate for any ceding company.

I find the financial review kind of difficult because you can't line up all the reinsurers and compare them. They're all different and I'm sure that's the way they'd like it to be. Some of them are stand-alone companies and some are companies that do both reinsurance and direct business. Many have foreign parents. We're never quite sure what the relationship is between the U.S. corporation and the foreign parent, particularly in an insolvency situation. Another problem is that many of the reinsurers do not subscribe to all the rating agencies, so there are lots of questions here; but I think there's a great deal to be gained by rolling up your sleeves and getting your hands dirty in looking at these numbers and trying to make an evaluation of the financial stability of the reinsurer.

I'd like to move on to something that Denis already eluded to and that is the possibil ity of some financial protection provisions in your reinsurance arrangement. We've observed in the last few years that a number of reinsurers have been sold, gone through leveraged buy-outs, acquired by foreign parents, offer the block of reinsurance for sale. This is rather disquieting to us as a ceding company in that, if a company-owned block of business is sold, we have no guarantee about the financial stability of the acquiring company, nor do we have any guarantee about the ability of the acquiring company to administer the business or their attitude toward claims or

toward underwriting or any of the other important features, which makes this instability a matter of some concern.

It would be possible for a ceding company to deal with this by appropriate provisions in the reinsurance agreement. I would suggest that those provisions could consist of a set of triggers and a set of consequences that would follow from those triggers. I'm not going to try to relate those, but I think you can see how they might fit together. The triggers could range from a mere reduction of surplus ratio, a reduction of assets or some financial measure like that to the sale of a block of business, to the sale of the reinsurer, to a specific downgrading by specific rating agencies, all the way to insolvency or supervision.

The consequences of these changes would be specified in an agreement. They would range from the mere financial review that maybe the reinsurer would send the financial officer in to talk to you and may be able to assure you that everything is all right, that this is according to some plan and there's no need for concern. If that's not satisfactory, it would be possible to require the establishment of a letter of credit or some trust account for the reserves to guarantee the adequacy of the arrangement. It would be possible to include an agreement for some sort of cut-through provision. I know that this has been done in some situations.

Going beyond that, it would be possible to have an arrangement that allowed the ceding company to move the business to another reinsurer even without a cut-through arrangement or it's been suggested to be able to recapture the business if the financial stability of the reinsurer was not satisfactory. These are fairly serious consequences and I think in every situation the ceding company would want to move very cautiously and work with the reinsurer at every step. In most cases, it wouldn't come to some of the more severe consequences, but it certainly would provide some assurance to company management and to the policyholders, who basically are the final beneficiary of the reinsurance arrangement, that reinsurance arrangement is secure and in the best interest of the company. I think that provisions of this nature are going to become more common in the current age.

I'd like to talk just briefly about retrocessionaires. As the reinsurance person at our company, I get a lot of phone calls from agents and clients saying, "Who are your reinsurers? How financially secure are they?" The implication, of course, is that if the reinsurer is secure then they can buy the policy; because if our company should fail, they can rely on the reinsurer. That's not really true, of course, because the reinsurance agreement is between the ceding company and the reinsurer. It's not between the policy owner and the reinsurer. Should the ceding company fail, the reinsurance would be paid to the liquidator or the administrator and the beneficiary of the reinsured policy would get the same percent of benefit on his dollar as would everyone else. There's no direct relationship there.

Fortunately, I work for a very secure company and I am able to reassure them that they can rely on our assets rather than on the reinsurer's assets.

Why did I say that? I want to apply the same thing at the reinsurance level. We're interested and curious about the retrocessionaires that our reinsurers have. I've noticed some reluctance to discuss this. I've never really pressed it too much and I'm

not quite sure what the reluctance is. I know if the same situation holds, that is on the failure of a retrocessionaires doesn't affect us directly, only through the reduction in the assets of the reinsurer. I'm still very curious and I think that in the future I'm going to be a little more direct in asking that question just because I am curious.

I think there may be some impacts there. We've looked to see what the impact of the failure of one of our largest reinsurer would be and we found it's a very small percent of our total surplus. I'd like to have the same reassurance from our direct reinsurer if that same situation holds. Also, a reinsurance contract, I think the law probably treats that as an agreement between sophisticated parties. I don't think that, as a ceding company, we would have quite the same protection under the law that the policyholder would. The law is going to assume that we know what we're doing in these agreements and therefore I think we need to pay attention to that aspect.

We would like to get financial information on retrocessionaires, identification of them, and know a little bit more about what kind of concentrations of risk there are at the retrocession level and what kind of underwriting financial arrangements there are at that level.

I don't want to go that far. I could talk just a little about pricing guarantees. I think this is a real interesting question that's come up rather recently and that is the pricing in a reinsurance arrangement guaranteed. Most of the treaties give the price, of course, but they don't say whether it's guaranteed for one year or forever. Then the real question is what if the experience under the reinsured business does not meet the expectations or even the experience levels that the company has had before. What can the reinsurer do if he feels that it's not making money on the policy? Of course, in most treaties they can cancel future new business. But that doesn't address the real question, which has to do with in-force business.

We take the position that price is guaranteed for in-force business. We've relied on that pricing in setting our retail pricing and all of our guarantees to our policyholders, at least our representations to our policyholders, really are based on that. Again, some reinsurers have suggested that if the experience was not as they had anticipated, they would come back and ask for a price adjustment. This is kind of in the range of the partnership philosophy that has been prevalent in the reinsurance arrangement. They can point out that, as a ceding company, we have the right to modify the dividends. We have the ability to make up the difference if the experience doesn't match what was originally anticipated. Our response to that is that would come at a rather high price in the competitive marketplace and we would be very reluctant to do that.

I think most ceding companies today are writing nonparticipating reinsurance arrangements by choice. I've been around long enough to remember that a lot of them used to be participating and that's almost gone out of vogue, at least in my experience. The other point of view is that it's rare that the reinsurer comes back to us and says that the experience is so favorable that we'd like to give you a bonus refund. I don't know how many experienced that?

I guess I just want to say that it's our belief that the ceding companies should resist this kind of thing unless it's really spelled out clearly in the agreement, and that's something that might be important to become clear on at the onset of the agreement rather than waiting till you get to the point where you have to deal with it. I guess I'd like to leave a couple minutes for questions.

MR. DUNN: In our company, our CFO also has to review financial information from our reinsurer. With respect to the point brought out earlier about the appointed actuary, in our case this informal reinsurance committee, includes the appointed. Oftentimes a member of that committee has to make sure that the reserve credit can be taken. And in one case where we issued a very sizeable policy, we did provide the valuation actuary with the reinsurer name so that he was comfortable taking credit. More and more this valuation actuary is getting involved with the process. Like it or not, that is part of their responsibility.

MR. ROBERT J. TIESSEN: I'd like to get the panel's opinion on the situation where, especially after a block of business sold, the new assuming company does increase all the rates or reduces the credited interest rate, which is basically the same thing, and what the reinsurer's position in that kind of a situation would be.

MR. PADO: Typically, any price adjustment that a reinsurer would end up paying would be going forward. I think the distinction is of paramount importance, but the price adjustment would be going forward not on the in-force block. That's our approach to things. I should mention that you should ask for a price adjustment but that is on new business not on in-force business.

MR. JOHN CARROLL*: The question that I'm most frequently asked by ceding companies, as I work with companies, is many things in the treaty or many items are rather silent. Companies come in and ask about increasing retention and increasing benefit products, how waiver of premium is handled, continuations and off-anniversary. I'm often asked, "What do other companies do?" I think there's a real need within the industry to establish some standards and I think the guidelines from the SOA, of course, have been a step in this direction. But there still needs to be a lot more done, at least on the administrative level. It's more of an observation, I guess, than really a question, but if anybody would respond to that. Actually, Johanna Becker should perhaps respond, but she is chairing a committee that is looking at designing reinsurance treaty wording, so I won't steal her thunder.

MR. KLEIN: Would you like to respond, Johanna?

MS. BECKER: At this point, what we're doing is putting together a document that will review each treaty provision and discuss from a ceding company's or reinsurer's prospective, the kinds of items and issues that should be covered in each provision as you write or review a treaty. So we should be considering increasing benefits. We won't be doing model treaty work initially, but I think we should have a good document that they could follow on with the kinds of things that should be in a

* Mr. Carroll, not a member of the Society, is with TAI Life Reinsurance Company in Orland Park, Illinois.

treaty. Of course, in the final analysis, it is all up to the reinsurer and the ceding company to decide how they want to word the treaty.

MR. KLEIN: I would like to just make one comment. I think Jack had eluded to it earlier that reinsurance used to be a gentleman's agreement, a hand shake type agreement and, in that respect, the treaties weren't so technical. Plus the complications brought to the reinsurance table now with the complicated products and agreements and with the treaties becoming much more important. A lot of these questions haven't been addressed just because there was no need to address them and I think that it is important that we start to address them and they become more clear.