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Session 49SM How Does the Reinsurance Industry Influence Its Environment?

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Summary: The reinsurance industry faces challenges and regulatory issues at various levels. What organizations are involved? How are reinsurance concerns represented? How are organizations currently interacting, and how can they better coordinate their efforts?

A panel consisting of representatives from the American Council of Life Insurance Reinsurance Committee, the SOA Reinsurance Section, and the Reinsurance Association of America answers these questions.

Mr. Le Roy H. Christenson: Our topic is how the industry faces the challenges and regulatory environment at various levels. What organizations are involved? How are reinsurance concerns represented? How are organizations currently interacting, and how can they better coordinate their efforts? Frank Nutter represents the Reinsurance Association of America (RAA). David Atkinson is from the American Council of Life Insurance reinsurance subcommittee. I'll be discussing the Reinsurance Section. Frank has been president of the RAA since May 1991. He was also president of the RAA from 1981 to 1984. During the interim, he was president of the Alliance of American Insurers and the Property Loss Research Bureau. Prior to becoming president of RAA in 1981, Frank served as the

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general counsel from 1978 to 1981. Frank has a Bachelor's degree in economics from the University of Cincinnati, and a Jurist Doctorate from the Georgetown University Law Center. He is also a Vietnam veteran and is listed in Who's Who in America.

David Atkinson is currently executive vice president and chief operating officer of Reinsurance Group of America (RGA) and chairman of the American Council of Life Insurance (ACLI) reinsurance subcommittee. Prior to joining RGA and General American, he served as vice president and actuary of Atlas Life from 1981 to 1987, as chief actuarial consultant at Cybertec Computer Products from 1979 to 1981, and in a variety of actuarial positions with Occidental Life Insurance Company of California. David has a Bachelor's of Science degree in mathematics from the California Institute of Technology and an Master's degree in business administration from Washington University. I'm a reinsurance actuary at American United Life and currently chairperson of the reinsurance committee.

Mr. Franklin W. Nutter: Most of you are in the life side of the business, and therefore some of what I'm going to describe about what the Reinsurance Association does and how we do it may not seem particularly relevant. However, I would say this: we and the ACLI have been doing a much better job in the last few years in trying to address public policy issues in coordination. We've also talked a good deal about the things that the RAA does to see if, in fact, they may be appropriate for the ACLI. There may be things that we do that are available to you as public documents or public resources, whether you're affiliated with a member of the organization or not. The Reinsurance Association is, for all practical purposes, a lobbying organization on behalf of the property and casualty, domestic reinsurance industry. Most of the domestic reinsurance companies belong to the RAA, and that includes those companies that have affiliates that are separately staffed for property and casualty reinsurance. So, from General Reinsurance, Swiss Reinsurance, Munich Reinsurance, St. Paul Reinsurance, and CNA Reinsurance, it's that kind of company, including affiliates of some of your own companies.

We do not represent these companies with respect to life reinsurance matters. We see ourselves as providing education. It's fairly targeted education.

Like most associations, we serve as a forum, not unlike the Society does, for its members to get together under various relationships within the companies. Our organization is headquartered in Washington, although we deal with all the states and the federal government. We have a staff of 24 people. So when you see us go through the things that we do, it will give you some sense of the resources devoted to achieving those objectives. We have a series of policy committees. Basically, there are organizations not unlike the SOA Reinsurance Section where

representatives from these disciplines meet from time to time. The accountants in the organization focus on statutory, GAAP, and accounting issues that may come up with the NAIC or FASB, wherever they may arise, and provide oversight to the statistical studies that we publish.

We are probably better known to you, if you follow the trade press reports about quarterly results for the reinsurance industry, for the statistics we publish. We publish both quarterly and annual statistics. I'll describe those in a little more detail.

With respect to the actuaries in our companies, they have had a targeted role. We do publish a loss development study every year. Tillinghast prepares it, but it's basically a pooling of statistics from our companies. Just last week, actually, we published the 1997 loss development study. It is commonly referred to by companies and insurance departments when looking at loss triangles and some analysis of loss development in the industry. This committee really became the centerpiece for looking at the NAIC's development of risk-based capital (RBC), since it had so many actuarial components. The actuaries among our companies became critical in our understanding of the consequences of various proposals for RBC.

Senior claims people from our companies will conduct a claims conference, as is fairly common for most of our committees. They will develop any public policy that may be related to claims. The environmental liability people from the companies do the same. The law committee, tends to be probably our most important committee, largely because so much of what we do is really involved with laws and regulations effecting reinsurers, which could include your own companies. That is why we try to work as closely as possible with Don Preston and the ACLI to make sure that we haven't done something that steps on the life reinsurer's toes and that we've coordinated our efforts.

Natural disaster is a prominent issue for the property and casualty industry, as I'm sure you're well aware. The tax committee focuses on tax matters. Nearly all of these committees conduct conferences every year, which is fairly standard. The conference would including outside speakers, for a day or day-and-a-half-long programs focused on topical issues or business-related development.

This organization really is a lobbying organization. How do we represent the reinsurance industry? We retain lobbying counsel in about 10 or 12 states on a fairly regular basis to represent us in the capitals and help us with the insurance department. We belong to probably 20 state trade associations so that we can work with the domestic industry in those states on issues. We are in a position to retain counsel in any state, but in some states we've retained counsel on an ad hoc basis,

when the issue arises. From our perspective of the property and casualty side, we do not expect any legislation or regulation to be considered in a state without our review and input into that process. We expect to be the most prominent business-based or reinsurance-industry-based organization that regulators or legislators will have to deal with in considering legislation.

I will list some issues that we cover, just so you can set a sense of the kinds of things that we tend to follow. Some of these are hardly glamor issues. Credit for reinsurance does not tend to be a glamor issue in the industry. On the other hand, it's such a cornerstone of regulation of our business that it's probably what we focus on most. As I said, we have a staff of 24, many of them are devoted to state legislative and regulatory matters or the council network I referred to before, and we have various computerized systems to track legislation and regulation in all 50 states. We probably review 400 or 500 bills every year introduced by legislators that would be of interest to the reinsurance industry. If we need to take a position, we, the staff, or the retained counsel will testify or meet with legislators to do so.

In Washington, we cover federal issues that are of interest to the property and casualty side of the business. We have staff resources. We retain counsel to represent us, particularly on tax matters, because of the importance of taxes. We retained counsel in 1997 on financial services, because Congress had shown interest and tried to develop legislation to restructure the financial services sector. There's a large amount of activity related to these issues, and it's important not to be hurt at the federal level. Many of these issues are really designed to make sure that we're involved in the process.

The front page would suggest that campaign finance is a sore spot with the public, but like most interest groups, including the ACLI, we have a political action committee to contribute to the campaigns of those people who we believe support our positions, or we believe are running against people who don't support our positions. We have a grassroots network at our companies through which we are trying to do a better job of organizing people like yourselves from our member companies, to get to know their members of Congress and their state legislators and to express their views when issues of interest come before them.

We offer a variety of publications for education. Most of them are available on our web site. We publish them largely as part of an educational effort, although you would see that this is not public education, as much as it is education for the industry, or regulators with an interest in the industry.

My fondest quote about reinsurance was given by the chief executive officer of a company back in the 1970s. He said, "Reinsurance is a mystery not worth solving."

It is a humorous remark, and yet it was fairly typical of the attitude of the companies about reinsurance. Low key, behind the scenes, keep your head down, not a prominent part of the business. A couple of things happened in the 1980s, some property and casualty market crises, some of which were attributed to reinsurance or the lack of availability or cost of reinsurance, the NAIC's effort to try and improve its regulation, and the accreditation program that I'm sure you're familiar with in the late 1980s and early 1990s. Reinsurance was a very prominent part of that effort. We took the quote that I gave you and began to rethink whether or not that was the right strategy. In fact, we were worse off, with uneducated regulators, than we would be if we had regulators who had a better understanding of reinsurance.

So we began a program of working with four or five insurance departments every year on a rotating basis, to come in and do training sessions for insurance department people, not advocacy stuff, not public policy things, but really to try and help them understand some of the basics or even some of the more esoteric aspects of reinsurance.

We frequently get questions about life reinsurance and we frequently include—I work with the ACLI and others—life reinsurance speakers to help educate these people. We now also participate in the Ken Smith Foundation Program at Drake University. We do an NAIC symposium every year. We try, whenever we can, to work with any insurance department that expresses an interest in reinsurance education. It gives us standing with those departments, and hopefully it's improving the overall understanding.

This program has been going on for four or five years. Our estimate is there probably have been 2,000 people from insurance departments who have gone through these various programs: phenomenal number of people. It's fairly common when we do programs to get 80–100 people from a department for a day-long or two-day session. We hope we're making a difference in people's understanding of what reinsurance is all about.

I mentioned a couple of things before. The RAA, just like the ACLI, is an excellent place to do ad hoc studies or analysis, and frequently that's what you'll find us doing. We probably spend about two years looking at various formulas with companies contributing data and retaining companies to work with us to help us understand the consequences of various proposals. In addition to the routine, regular recurring kinds of committee deliberations, ad hoc studies become a prominent part of what organizations like the RAA, the ACLI, probably even the SOA can do in bringing attention to or understanding an issue.

One thing that I would not want to overlook is that we have found that, regrettably, the courts have become a prominent part of reinsurance. There has been much more litigation in the reinsurance field. We prepare and file probably six or seven amicus briefs a year in cases of interest to reinsurers. They are reviewed by our law committee and approved by our board of directors, reflecting the views of the "reinsurance industry" before all manner of courts, state or federal. We have found that to be an effective way to try and influence the decisions that influence the business coming out of the courts. Because we focus so much on laws and regulation, a by-product of that is documents that we prepare. The compendium is a current review of laws and regulations that affect reinsurance and reinsurers, and the digest is a three-volume set of case law dealing with reinsurance cases that have been decided over the years, the explanation of what those cases are. So while I hesitate to mention this because they're not available to you unless you're with one of our companies, it is one of those things that organizations can do and probably should do to make sure that companies are well aware of developments in the law.

Another area that's been of interest to our companies, particularly of late, is improvement in the arbitration process. As anyone who is interested in reinsurance knows, it's commonly expected that we attempt to work out reinsurance disputes through arbitration. Yet arbitration has become, in many ways, bogged down by lawyers like myself, who make the process nearly as expensive and as inefficient as going through court. So we have recently published an arbitration manual, and we published the names of recommended arbitrators who have proven to be effective in the arbitration process as a means of trying to represent our companies and influence the process by which disputes are dealt with in the industry. There's nothing proprietary about these documents. In fact, we'd be delighted if your company or your organizations would take a look at them and make them a prominent part of any educational programs that you have.

We also publish position papers. What we found in the law area is that there are trends and that if we publish papers dealing with various topics, that not only do people read them, but others who are looking for guidance and expertise, cite them and refer to them for their expertise. Part of our way to represent the companies is to try and influence that repository of information that's out there, about what the law says in an area.

We also utilize electronic data standards. The Reinsurance Association and the Broker Reinsurance Markets Association, a New York-based organization, represent the U.S. community in a project with the London Insurance Market Network and the Reinsurance and Insurance Network, which is a Brussels based-organization, in developing electronic data standards for electronic commerce in the reinsurance field. This project has been going on about four years, and we have developed and

submitted to various standard-setting bodies recommendations for the processes by which electronic commerce and the reinsurance field should take place to try to make it more efficient. The initial phase of the project has concluded, and now we're moving on beyond that to look at insurance-related electronic commerce that might affect the reinsurance industry.

Just as a communications technique, we have various newsletters as most trade groups do, and I would encourage you to visit our web site at www.reinsurance.org. The statistical information is routinely published there, which is probably what might be of greatest interest to you, even though there are other things dealing with the advocacy side of what we do.

Mr. David B. Atkinson: I think we can learn a great deal from what the RAA does for its members. The ACLI has been talking to the RAA for a few years, and we are both getting gradually closer and more familiar with what they do and trying to adopt some of those ideas to the life reinsurance business.

As kind of an incentive for us to work together and to push our industry forward, I think we can get more done by doing things together and by having some common concerns and interests.

There is no doubt that we are going to make some mistakes from time to time. We are going to experience some bad luck, but by working together, there's much we can do and are doing, as a matter of fact, as an industry, to minimize our losses. First, I'd like to plumb the depths of despair, and then offer you some hope and salvation through the ACLI and other industry efforts.

Let's just talk about life reinsurance from a depressing point of view. It's highly competitive. I don't have to explain that to you. We do suffer from lags that are such that from the time you price a product and offer a reinsurance quote until the time you really know how you did, it could be 15, 20, 50 years. It's a very long process, and if it's a huge block of business with a large amount of data, maybe you find out in a few years how you did or get an idea of how you're doing. It's a long process and it's worrisome, also from the standpoint of, say, errors and omissions. You may think you're doing very well with a certain block of business, only to find out that the lapses were not reported accurately. Now you owe \$2 million in refunds on a particular block. That's the way our business works. It's a tricky business. The fact that we have a large amount of bulk reporting and often an inability to get the details right just makes it that much more complicated. That's a common backdrop to all my comments to follow. Also I would observe that some portion of our current profits are due to mortality improvement. It probably varies from company to company, but certainly that's true at our company.

I have a few scenarios I'd like to explore in a little more depth. The first one is consolidation. Let's imagine the future, where the number of insurers gradually declines, and maybe instead of having the 2,000 or 500 really active independent insurers that we do today, we have half or a third of that number. Those survivors are going to be larger, with higher retentions. At the same time, let's imagine a day when the uncertainty related to preferred mortality starts to disappear so that direct writers know what kind of mortality to expect on preferred business. That could then push down the quota share deals that we're seeing today that are really making the reinsurance business take off in terms of volume of business.

Well, those two different forces could interact to really push down the amount of new business. We're all interested in having a growing, dynamic company, so I would imagine there will be a good deal of thrashing and reaction to a declining market, and companies will try their best to hold on to all the new business they can and try to keep it growing. One uncommon result of that is lower prices. If prices drop, it's quite possible they'll drop to unprofitable levels—and not that it'll be consciously done, you know, none of us would consciously price to lose money. But how do you know? Like I said before, it takes years to really find out how we're doing. In the meantime, we could lose hundreds of millions of dollars as an industry and severely damage the reinsurance industry and the capacity available to the ceding companies.

I can imagine another scenario, and this is probably a bigger stretch for you. Can you imagine a world in which there isn't so much customer loyalty, and maybe reinsurance decisions are based mostly on price? It's hard to imagine, but bear with me here. Imagine also, maybe one reinsurer who's a little more aggressive than another, or maybe having a little bit of a leapfrog action where, in order to get a little more business, prices are dropped, and maybe another reinsurer says, "We're not going to let them get away with that. We'll do the same thing." Then a few other reinsurers saying, "Why are we getting blown away on all the deals? Maybe we'd better adjust our pricing." Imagine that happening.

I don't know if you've ever heard this comment, but I certainly have heard our sales people say that the whole market can't be wrong. You actuaries are way too conservative. That kind of thinking is infectious and commonplace, I think.

Imagine that preferred mortality has very good early results, because we do a great job of selection, but let's say that wears off over time a little faster, a little more than we expected. So that ultimate preferred mortality may be much closer to standard than we currently expect. If that's the case, we could be lulled into a false sense of security with the good results, in which, earlier results on preferred mortality are good. But if that gradually evaporates, we could, in the meantime, write tons and

tons of this business. Not only that, but with super-preferred coming in to replace preferred, that could further exacerbate the problem and maybe leave you with more nonpreferred risks in the preferred categories and so forth.

I think what we're seeing is most preferred business being reinsured, especially on term products, because of the uncertainty. Direct writers, if they can, lock in a certain price that is profitable for them and put the risk on the reinsurer, who is eager to grow, eager to capture market share; that's a good decision for them. For the reinsurer who has a very optimistic view of the future, it could be a great way to grow the company and make future profits. It's seemingly good for all parties. But again, we don't know what's a profitable price. I don't know anyone here who has the statistics that will tell us what the future will be, and we're not likely to know for a few more years.

Let's take another example. I'm trying to think of some non-RAA members that could cause a problem for us. Just a few years ago, we did have such a case. We did actually see some of the regulators overreact. There was talk of federal regulation of reinsurance and federal licensing of reinsurers. Now, that could easily happen again. Who knows what can come out of it? We could have not only licensing requirements, we could even have maybe a federal bureau of reinsurance that has to approve every reinsurance transaction and puts all kinds of required provisions into every transaction. They might have the power, in the event of an insolvency, to reform the insurance contract or the reinsurance contract. Who knows? There are many of terrible things that could happen. Of course, if there's that kind of crimp in the business, it could make reinsurance difficult to do constantly. It could put downward pressure on the insurance volume.

Now, to cheer you up a little bit, let's look back. I think many of you remember the select and ultimate term "glory days." I think we know about 818C, how that kind of drove some of the pricing, and certainly there was some wishful thinking in terms of If we offer them a really low rate, maybe they'll be willing to pay double the rate next year and not lapse. Who knows? On the reinsurance side, there was a good deal of market share posturing and leading companies trying to stay in the lead, and just a huge explosion in the market. Results took a little while to figure out, but I do remember that American United Life was one of the leaders in exposing the problem, and that was helpful. It was probably around 1984 or 1985 before we really started coming to grips with this problem, which was a number of years after companies had started writing these huge volumes, and truly the bill was something in the \$100 million range. When you think about that, too, it doesn't take much of a price error with the volumes we're writing today to make a big mistake. I'd say a 5% or 10% mistake in pricing could translate to these kinds of losses for the industry.

Let's look at these a little more seriously. Is the sky really falling? I don't think so all together. Consolidation is certainly underway. That's a force beyond our control. Follow-the-leader pricing, I think, is the norm in our industry. I don't know if anyone would disagree with that. Certainly we've observed that for my ten years in the business. Preferred mortality certainly is still an unknown. I think that in another five years or ten years, we'll know much better where to go.

Draconian regulation in this environment is something we always have to worry about. So let's move on to what can we do about it. Like I said, consolidation is beyond our control. But I think in terms of preferred mortality and some of the follow-the-leader pricing issues, the more we know, the more we can make rational decisions. I think that's good for everyone involved if we can know more and make rational decisions.

To paraphrase an old proverb, I guess, "Eternal vigilance is the price of freedom." We have to be active and have to know what's going on with our regulators and legislators.

There are specific things we can do to improve our industry knowledge. We can work on the flow of information. Frank mentioned electronic data information (EDI) I think that's something that's coming more and more for the life reinsurance industry. Short of EDI, just having tapes or CDs or electronic flow of information of any sort is a positive development, and I think we're seeing a big trend toward that around the industry. That's going to help.

Making the way our business flows more efficient is going to reduce cost, making it easier on ceding companies to handle reinsurance transactions, and also on the reinsurers to process them.

Another thing we could do, and this is probably more in the actuarial area, is use the information across the industry to do more studies. I certainly don't think we do a timely job of that, and I'm not sure we do it to the level of detail that we really need.

Another area, of course, is lobby. We need to be involved with the regulators and the legislators. One of the things we've learned from the RAA is that if you're proactive and get out there and meet the regulators, teach them something about our business. It's not always simple, but it's a very good way to get them on your side. I think it's much easier to legislate something out of existence when you don't understand it, than if you do and you appreciate the value.

In terms of what the ACLI is actually doing, again, spurred by the RAA, we're thinking more about how we can bring the industry together and have some dialogues about guidelines, common ways of doing business. For example, we are working on some treaty provisions that would be suggested as a common treaty provision. Maybe not for a whole treaty, but arbitration, perhaps, maybe insolvency. Why not have a standard wording that we can just pick and select? That would certainly make life easier for a company reinsuring the same business to five reinsurers. Do they really want to do five different reinsurance treaties? Many times they want only one. If the industry had said, Here's something that's acceptable to a large number of companies, that might be a good starting point.

Another thing we're working on is trying to get into more information gathering and analysis. All we have in our business is something that tells about new business volume and in-force volume. It doesn't give you a clue on premiums or profitability. I think that's a shame. Hopefully we can make some progress on that front down the road.

I think where the ACLI has really excelled in the past, and not only through ACLI staff but also through some amazing volunteer efforts, is the lobbying front. That's been a multipronged attack, both at the NAIC and the ACLI. It's probably the main effort, but every so often, we get a wayward state that wants to do something crazy, and it really comes down to one on one many times.

We've also started our first joint seminars with the NAIC and RAA, teaching regulators about reinsurance. That's something else that's going on. Let me give you a little sense of the structure behind this. There is an ACLI reinsurance committee: it's supported by Don Preston as our almost full-time staff member, 90% maybe. We have a number of working groups that work within the structure. We have a guideline working group headed by Johanna Becker. They're working on some of the treaty items right now that I mentioned. We have an information working group, which Don Keifer is heading. They're working on a reinsurance directory that will help us all find each other, not only the actuaries and the ACLI committee members, but also all kinds of other organizations that tie into the reinsurance business. That will be coming out shortly. He'll move on to other things from there.

We also have the lobbying groups. Jeremy Star is our head negotiator with the NAIC and has been extremely effective. Diane Lawson has been in that role before. We have an education working group that's been effective. We've had many volunteers who go out and speak to state governments. We do have another, I guess, quasi-government organization, a coordination group, that coordinates with the RAA, the AAA, SOA, Life Insurance Marketing and Research Association (LIMRA), and AICPA

groups to make sure that we're not operating in isolation at the ACLI, that we know who is doing what, and we're not duplicating efforts.

I think it is important that we contribute to the industry. It's not necessary that you, in particular, contribute. You might know someone at your company who has a little more time than you do and maybe has a particular area of interest. For example, we've had on the guidelines working group, several volunteers come forward from our companies who really aren't involved with the ACLI reinsurance committee. They really are interested in, say, treaties, and so it makes good sense to have them plugged into the issues that are near and dear to their hearts. Think about that, not only for you personally, but also for who in your company could be involved and contribute. Over the years it's really amazing how one person makes a huge difference in our business. We've literally had cases in which if one person hadn't stepped forward to do something and had a key conversation or a key visit to somebody, we would have been almost regulated out of business. I'm not exaggerating about that.

So think about this as a business that I think is worth protecting and worth keeping. I think we all enjoy the business of reinsurance. It's not going to be there forever unless we keep working at it and keep protecting it.

Mr. Christenson: I'm going to discuss the Reinsurance Section itself, which has a very different focus than the two organizations we discussed already. We're not primarily an advocacy organization. We're not out to influence legislation whatever. I will go through the purpose of the Reinsurance Section, what we're currently doing, and the results of a survey that we took in 1997 that went both to reinsurance section members and to nonmembers. I will weave in some of the current initiatives and proposals that we're working on.

The purpose of the Reinsurance Section is to encourage and facilitate the professional development of our members. I think the big focus there is professional development. It's not the advocacy issues. Our purpose is to educate one another. We do this a number of ways. Our focus is development. We do this through activities such as meetings, seminars, research studies, and the generation and dissemination of literature in the field of reinsurance.

The section meetings take place at the SOA meetings in the spring and at the annual meetings. Probably the main focus and the main contact most people have with the Reinsurance Section is at these meetings. We, for example, probably have a 50/50 split between life topics and nonlife topics at this meeting. With an initiative Jeremy Stark started in 1996 we have formed a nonlife working group that has done

very well, and Bob Beale is the spring chairman and has put a focus on nonlife areas.

As far as seminars go, we have done a variety of things, not so much as we did maybe ten years ago, but in one of the spring meetings, we had a teaching session on reinsurance, in which we went through the material that was developed, I believe, by the ACLI, to use with regulators. It was well received. There was so much material, it was tough to get it all done in the time available. One example of a way to teach about reinsurance was a seminar on risk transfer in which we discussed the white paper written by Diane Wallace.

Several years ago, we had a number on financial reinsurance. One of the reasons that our section sometimes doesn't meet needs is that we're too focused on life reinsurance and maybe, more specifically, too focused on financial reinsurance. We're trying to address those things.

There is also the mortality experience study: that is, mortality is an expense too, actually. The study is sponsored by the Reinsurance Section. Both the SOA office through Jack Luff and manufacturers put this study together. It includes large amounts, joint and last, under which you know, both deaths are included. There is also an old age study. I think it's been very useful to do that. Most of the larger reinsurance companies contribute to that.

The Munich American Survey is sponsored by the reinsurance section. The work there is entirely done by Munich American. It, too, gives data for most of the large reinsurers, both in force into production at this group, and Canadian as well.

If there is anywhere you run into the Reinsurance Section most often, it's the reinsurance newsletter beyond the meetings. This is published maybe three or four times a year. Bernie Gobel is the current editor. According to the survey, a large percentage of the section either read it entirely or read the articles that are on their area of interest. A white paper on risk transfer was also sponsored by us and, I mentioned earlier, written by Diane. I think it has contributed to our understanding of that area.

The bulk administration and audit guidelines, again, go back a ways. These are now being updated by the American National Standard Institute working group, which is national standards board, and I think their work is completed. I think these were very helpful back at a period when self-administration was growing quickly, and no one else seemed to be addressing guidelines of any sort for handling that business.

The Woody Award is something that was initiated about five years ago that hasn't produced many results. The idea is to give a small monetary award to the best reinsurance paper presented during a year. We've tried to revitalize that in 1997 through a committee that's chaired by Jim Pilgrim. He has advertised in the reinsurance newsletter and *The Actuary* for articles, but at this point, there's been no response. At least that's available, and perhaps all we need is a better idea on how to promote and use that.

As far as organization interactions with the RAA, we have not had much interaction. One step at a time. But obviously, they've been working with the ACLI through David.

The ACLI work is generally informal. Of course, we have the tax and regulatory session at spring and annual meetings. That's where we attempt to educate on the issues that the ACLI is involved in, and typically, the people that chair those workshops are involved with the ACLI in some way or involved in these issues. Typically it's been informal. We're trying to formalize it a little more; each year there's somebody who's on the ACLI committee on the Reinsurance Section. We have reports regularly on that.

I wanted to spend a little time going through the survey that we did, and what that points to, and perhaps what we should be continuing to emphasize or changing in the future. First, I'll go through statistically who responded. This was sent to the entire reinsurance section membership of 1,800, and we got a 13% response. It was also sent to 2,000 nonmembers, and we got a 19% response.

In terms of employers, about half in both members and the nonmembers were with direct companies, which you might expect. Reinsurers are 28% of the respondents, so it seems that a high response overall was from reinsurance companies. Consultants, of course, would be big in the nonmember sampling, since they tend to respond to these kinds of things, I think.

With regards to product specialties, this reflects our focus on life over the last few years. Seventy-five percent of the members were with life and 34% of nonmembers; as far as medical and annuity go, the percentages were very low.

For professional responsibilities, look at how they consider their job in terms of professional, technical, and executive management. The nonmembers are probably higher, and the professional and technical emphasis would probably reflect the high consultant response. We asked the reinsurance section members how many have been involved as a moderator or speaker or in the workshop, and 87% said no, and 13% said yes. One of the things that we asked for was volunteers for potential

sources of speakers and so on. We are attempting to use those to get more people involved.

We also asked respondents to attend seminars sponsored by the reinsurance section. The member attendance is a high percentage. Nonmember numbers are not that high.

Our survey asked if respondents were reading the reinsurance section newsletter. I mentioned earlier that a very high percentage of our members either read it cover to cover, or read it by topic. What I found interesting is two nonmembers read it cover to cover as well as two potential members.

Is the section living up to expectations? Here we'll get into some more specific directions. Yes, and not entirely. I don't think anybody really was very negative about the education process that we attempt to do. There were a number of things that people thought we could expand into. Generally, respondents felt the section is too focused on assumed life reinsurance and not ceded. It is focused on financial reinsurance. I think this reflects these first two at least and reflects the realities as we've discussed a little earlier. Those elected to the reinsurance section council tend to be life reinsurers with the reinsurance company because that's who most people know. They travel around, they visit, and so on. So the same people tend to get involved in everything. I have to flip back a number of years, and I kind of felt the same way when I started; it just seemed like it was tough to get involved. I find in general volunteerism to be quite imperfect. Sometimes people who volunteer are never called. Sometimes when you're called, you just don't have the time to do it then. My advice is, if you want to be involved, volunteer often, volunteer to a number of people, and make sure that people are aware, and that names just don't fall through the cracks. Get to know your peers. Come to SOA meetings and go to sessions sponsored by the Reinsurance Section at the meetings. Get to know people, and get to know the people who might be more involved.

Also, we did one thing that will expand, I think, our focus on the nonceding and the nonlife area. We have had one slot on the Reinsurance Section council designated to nonordinary for several years now. There will be three slots designated for one or the other. We started in 1996 with the nonordinary; the next election will have a slot designated for a ceding company participant, and then we'll just alternate from there. Three people from one of these areas will be involved. I think this will help us keep focused on that.

This year was kind of reflective. We tried very hard to have people in the election from nonordinary and nonceding companies. We had three people from reinsurance companies involved, and all three reinsurers were elected. Again, I

think it reflects whom people know, not so much that they don't want involvement from ceding or nonordinary areas.

I organized the responses we should focus on: nonordinary, nontraditional, industry cooperation, and miscellaneous. First, the nonordinary. This is, by far, the broadest area and because of that probably the most difficult to address. People mentioned things from any kind of medical insurance you can think of, disability insurance, long-term disability, long-term care, and equity-indexed annuities. Just a wide variety of things. Now, most of these are represented, and Michael Lachance is the chairperson of the nonordinary life subcommittee of the Reinsurance Section council. Most of these areas are represented there. But, just with the breadth, you can see the issues. We've hit a number of these, but there are still a number that need to be involved.

Nontraditional derivatives and securitization were mentioned. There's not much that we've set up in these areas, but they could be topics if you had a particular interest in putting a session together, writing an article for the newsletter, or using any other information sources.

In regard to industry cooperation and cooperative information gathering, I think we've done some things in these areas, in terms of mortality and sales and in force. We're going to explore lapse studies for the level-term products with LIMRA over the next six months. We will see if we can coordinate with them, putting together a lapse study, whether it's reinsurance or direct or whatever. The only thing lacking here is some ideas on what might be feasible. I think this is a great idea, and we need to do much more of that.

Finally, the miscellaneous mergers and acquisitions: it kind of goes in and out as the hot topic. GAAP is certainly an interesting area for bulk reporting. I've been writing manager relationships; obviously, there are some power of attorney people out there who are involved, but all these would need people to volunteer.

From the Floor: Frank, the ACLI reinsurance committee has talked about trying to gather the same sort of data from life reinsurers as you have for nonlife. After reviewing your information the reaction we get from potential participants is that they couldn't possibly share things like their results or their expenses. Our managements would never let us do that, and besides, there are big antitrust issues. How did the RAA get past both of those objections and gather the data?

Mr. Nutter: A historical note is that just perhaps, until probably the early 1980s, maybe the late 1970s, a company executive was collecting statistics by calling around in the industry. After the executive passed away, it was viewed as such

valuable information that the suggestion was that the RAA pick it up and take it. So we inherited it, literally. That's how we got started in it. There are no antitrust questions with this sort of thing. I would be shocked if there's a lawyer who would say that past data, premiums collected, losses paid, or historical data can lead to antitrust issues. There's no pricing information in any of that. It's strictly revenues, loss, ratios, and surplus. It's all public information. We can collect it on our own from quarterly statements or annual statements, from the NAIC, or from the state. I can't conceive of what the antitrust issue there is. If anybody would like to talk to our general counsel about that, we'd be glad to share that. I realize you're getting some resistance about contributing data. It is so sought after among our companies. The day we're supposed to release it, we get people calling on the phone, demanding this. The popularity of it is unbelievable, because people want to see where their competitors are on a quarterly basis, and then the annual basis. I realize you have to get over that first hurdle. My guess is that if you can get over that first hurdle, that it would be valuable. Companies find it valuable to be reported in this document, because it is so widely reprinted and redistributed, that to not show up is, in fact, a problem for our company. It suggests the lack of a presence in the marketplace, if you can believe that. That's what we find on the property and casualty side.

From the Floor: American United Life (AUL) doesn't have different companies, so they may avoid some of the information that is available.

Mr. Nutter: We do have companies, departments of companies, and reinsurance departments of companies that do report statistics here. They obviously cannot report separate capital and surplus, and so we leave the line blank. They do report premiums. It really goes back to what I just said, that companies find it a disadvantage not to be listed because their competitors are, and it's used by brokers, and it's reprinted, and that sort of thing. So that has not been a deterrent. We just leave out any line item that a company cannot provide because of their corporate structure.

Mr. Christenson: I would add that AUL has never resisted contributing to these kinds of things. But some have.

Mr. Nutter: There are a number of property and casualty companies, not many, that are affiliated with or are sister companies with life companies. Certainly if there's any value in having our property and casualty executives talk with the life executives about the value of this, or the inherent problems, I bet you could get a one-page antitrust statement that would clear that hurdle in no time. It's not pricing information. It's not the kind of antitrust concern that is being suggested.

From the Floor: The question was an obvious plant in that the people who are resisting are essentially all represented at this session. If they hear what you have to say and hear the value of the data, there's no good reason not to have it, and many good reasons to have it. They could go back to their management and say this is a good thing. The ACLI reinsurance committee supports this. Our friends in the property and casualty industry are doing it; maybe we should rethink this thing.

From the Floor: Le Roy, when you describe nonmember respondents to the survey, are those people who are within the SOA who are not members of the section, or are they people who are non-SOA members?

Mr. Christenson: No, they're members. What we did is, we took every tenth or twelfth name out of the SOA directory, and we sent it to them along with *The Actuary* one month.

From the Floor: I'm hearing something that to me is very positive, that is, a gradual coming together of mutuality of interest between the RAA and the ACLI reinsurance section. I would like to comment that I think that the life reinsurance industry has been substantially behind the curve on being proactive in influencing legislation and attitudes by FASB over the last 20 years. I think from what I'm hearing this has been correcting itself in the last few years. I accept the fact that this is an educational section, a professional development section. The reality is that the body of expertise in this professional development section is such that we cannot afford to abdicate our role in influencing legislation and accounting practices by just saying it's not really our business. We're professional developers. So Frank working with the ACLI gives them input. I know Diane has been working with the NAIC for the last several years, but I don't think we want to lose sight of the fact that possibly some of the regulatory and accounting practices that we have been burdened with have been the result of our default and not being proactive enough in influencing the type of thinking that we need to have come out of these collaborations.

Mr. Christenson: I think that's well put. I think that's very important for us. There is certainly a good deal of crossover at this point. Many of the people who are in this section are also involved in the ACLI. It is important to continue to expand that. Don Preston is now the first full-time ACLI staff person involved in reinsurance. Prior to that, it had been part time. I think that will help dramatically. As a nonfinancial reinsurer, I think the fact that the ACLI is moving into areas that are not just financial reinsurance areas is going to be helpful for people like myself and their involvement, and maybe nonordinary people as well.

Mr. Nutter: If I could supplement that and reinforce what you said, by way of process, the way that we often deal with things, and take the NAIC as an example. The RAA is well staffed, but the staff tends to be lawyers, advocates, and not necessarily people with technical expertise in the field. Thus, we would go to an NAIC meeting, and part of our role would be making certain that people from the companies who have an expertise on a particular issue are there to help us work the NAIC on an issue, or we just encourage company people to routinely participate in the NAIC. It could be FASB developments or any other forum in which someone is going to adopt something or consider something that's going to affect how you do business. We found a partnership, if you will, between the companies in which the technical expertise of these people whom I referenced in our various committees really comes together with the staff to coordinate some sort of a campaign. If the NAIC is going to adopt RBC, we would make certain that actuaries from our companies are participating in the deliberations of the NAIC committee, together with staff. It really is incumbent upon people who are involved in areas that are affecting what they do to participate in that way.

From the Floor: Yes, but the nature of your association is such, that you actually aren't proactive catalysts to help these things. I don't know that we, as a life insurance industry, have reached that point yet. I think that there is a message in what we're saying: that the ACLI has to accept the obligation, affecting your members and the business of its members, by at least trying to replicate the type of proactivity you would have by calling on you and the companies to support the ACLI Reinsurance Section in communicating what I think your message is. It's so important, but it has gotten lost in the shuffle by default. The actuarial profession got themselves run over by the accountants and GAAP. I think this *Financial Accounting Standard (FAS) 113* pronouncement that came out a couple of years ago is a travesty, in respect to a total lack of understanding as to how it affected the life insurance businesses. We have to be up front in making sure that the vested interests of our industry are protected, and we just can't lay back and hope somebody else does it, or it just doesn't get done. We can't push it away.

Mr. Nutter: Yes, you really can't play defense. What we do either for our long-term campaign or even in the short term is to adopt goals and objectives to say what it is that we want. Take credit for reinsurance. What is the model we want adopted? Now let's target priority states and go out and change the law or change the regulation. We do that year in and year out as a way to have an affirmative program. You have to play defense in this business, because people throw things at you that you didn't anticipate. But you're better off to set goals and objectives for things for which you would like and go out and either change the environment or create the environment. An example, Lee mentioned that I had been with the RAA twice. When I came back to the RAA the second time, the big issue was setoff, that

there were a number of states and liquidators who were denying setoff rights to reinsurers. That was 1991. It was a big fight at the NAIC; many of states were considering the adoption issues. What we did is change the law in every state where we didn't like the law. Now there are no states that have a setoff statute that is unacceptable to us, even though we could improve some of them. So you can do that. You can have a campaign, have an objective, and work at it over time, but you need company people involved in that sort of effort. There are too many states to deal with, and the NAIC is not necessarily going to be your salvation for those things.

From the Floor: I agree with everything he said, but I would also point out two things. One is that the ACLI is, I think, making a concerted effort to devote more resources and attention to reinsurance. Good things are happening. But also, there's a challenge at the ACLI that all of us can help overcome. The ACLI is made up, of course, not only of reinsurance company members, but also primarily direct-line company, primary companies. Often there is an incorrect perception that when something is good for reinsurance, it's going to be bad for ceding companies. When there's a vote, there are more ceding companies in the ACLI than there are reinsurance companies. I think that it's important for all of us to want to take the time and great effort to educate people from all sorts of companies why reinsurance matters are important; how they influence all of us and how our interests are most often aligned. If we can do that and create some cooperation among ceding companies, then reinsurance will go a long way toward helping the ACLI represent reinsurance better.

Mr. Atkinson: I think I heard two opposing things. When I was talking, I made a plea for volunteers, and it seems like we always have the same people stepping forward on key issues that we rely on. Then I saw the survey and the complaint was it's always the same people involved. I think what we have here is a failure to communicate. There must be a better way to let people know that it's just not a matter of who you know, as to whether you get a chance to impact things. The doors are open and so is the attitude of everyone I run into. We're begging for your help. We want your help, and if you're interested in something, call whomever. Now maybe that's the problem. Maybe you don't know who to call. Maybe we can do a better job of getting that out to you, that is, who is involved with different issues. Do you have an idea how we can improve that, so that we get volunteers better connected with the efforts?

From the Floor: I'd like to make a comment on the volunteers. I think that much of the problem is that very few ceding companies have a person who devotes full time or a good portion of their time to reinsurance activities. Consequently, they're not willing to volunteer for reinsurance-related work. I think there has to be a more

proactive effort to really seek out ceding companies and encourage them to volunteer, rather than sitting back and waiting for them to volunteer. The other thing that I think is going on in the industry as a whole is that people have more and more work, and less time to volunteer. They have support from their companies for their volunteer efforts, just because of the workload. Some people are well intentioned, but they're finding that it's just more difficult to devote the time.

Mr. Christenson: I agree. There are many of realities that affect all of us.