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SOCIETY OF ACTUARIES

# REINSURANCE NEWS

NEWSLETTER OF THE REINSURANCE SECTION

## Watch Out For Mortality Shocks!

by Ronald L. Klein

*Editor's Note: This article originally appeared in and is reprinted with the kind permission of* The Review-Worldwide Reinsurance, *an international reinsurance magazine.*

Many articles have been written about improvements in mortality, both in the general population and, particularly, in the context of insured lives. These commentaries tend to point to published mortality studies which make it clearly evident that the rate of mortality is on the decline. One such study was undertaken by the Society of Actuaries, the major U.S.-based professional body for life insurance actuaries. This is an insured-life study performed between 1976 and 1990, using data from major insurance companies in the United States. Figure 1 on page five illustrates the downward mortality trend.

For any actuary reading these figures, it must be hard to resist the temptation to project such encouraging results into the future. After all, this is what actuaries are supposed to do. Using a "Least Squares Estimator"—a mathematical projection tool used by our profession—yields the results shown in Figure 2 on page five.

As mortality continues to improve along the projection period, an interesting phenomenon occurs: in the year 2035, the mortality line hits the x-axis, and immortality kicks in, albeit only for those who had the foresight to purchase life insurance in the United States! Projecting the trend onwards gives us reincarnation and, with it, further confusion: should life insurers seek to recover death benefits from those who come back to life, and with interest? … Back in the real world, clearly no actuary is going to price for immortality (except maybe those who price annuities), but the fact that mortality is improving and—we believe—will continue to do so, is too great to ignore. The question is, will the road be smooth and steady?

In examining trends in mortality, there is a risk that pricing actuaries fail to look closely enough at the variability around the forecasts they make. At Swiss Re, we have looked closely at what we call mortality "shocks."

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## Life Reinsurance Data From The Munich American Survey

by David M. Bruggeman

Munich American's annual survey, which is conducted on behalf of the Statistical Research Committee of the Reinsurance Section, covers Canadian and U.S. ordinary and group life reinsurance new business production and in force. The ordinary numbers are further subdivided into:

(1) Recurring reinsurance[1]: conventional reinsurance covering an insurance policy with an issue date in the year in which it was reinsured,

(2) Portfolio reinsurance: reinsurance covering an insurance policy with an issue date in a year prior to the year in which it was reinsured, or financial reinsurance, and,

(3) Retrocession reinsurance: reinsurance not directly written by the ceding company.

Complete survey results are available from the authors upon request. These results may also be obtained at Munich American's Web site: *www.marclife.com* (look under Research).

### Life Reinsurance Production

The recent reinsurance acquisition activity has played a large role in the life reinsurance production numbers over the last few years. Looking solely at the total number for 2002, we see that a 14.6 percent decrease in production was reported (15.9 percent decrease in the U.S., 4.9 percent increase in Canada). However, the overall numbers are heavily impacted by a couple of recent reinsurance acquisitions—Swiss Re's acquisition of Lincoln Re in 2001 and Employers/ERC's acquisition of AUL in 2002. Excluding these acquisitions from the portfolio category reveals a much different and, we believe, a more accurate picture of the market.

So let's take a look at the results, excluding these two acquisitions. Recurring was the only category in the United States to show an increase, however the solid increase more than made up for the decreases

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# Chairperson's Corner
# Statement 133 Implementation Issue No. B36

by James W. Dallas

> **Transform:** To change the nature, function, or condition of; convert
> (Source: http:// dictionary.reference.com)

What would you name as one of the transforming events for the life reinsurance business in the United States? Several come to my mind: tax law changes, the Model Regulation and the advent of preferred underwriting. Recently, the FASB issued an accounting guidance paper that has the potential to be added to the list of transforming events.

The paper has come out in the form of Implementation Issue B36, Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposure That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor Under Those Instruments. At issue is that the FASB has decided that most funds withheld reinsurance transactions (most notably modified coinsurance and coinsurance with funds withheld) have embedded derivatives that have to have separate, bifurcated accounting under Financial Accounting Standard No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133).

The issue in question comes about through a review of certain reinsurance agreements that came across the SEC's desk. There are two basic questions asked with B36:

- Are the embedded features of a debt instrument that incorporates credit risk exposures that are unrelated or only partially related to the creditworthiness of the obligor under that instrument clearly and closely related to the debt host contract?

- Does a modified coinsurance arrangement, in which funds are withheld by the ceding insurer and a return on those withheld funds is paid based on the ceding company's return on certain of its investments, contain an embedded derivative feature that is not clearly and closely related to the host contract?" (I won't spend time going into the vagaries of FAS 133 at this time…just suffice it to say that for those who deal with FAS 133 accounting issues, much time and effort is expended to first implement, then manage the accounting correctly on an ongoing basis.)

After posing the question above, B36 then goes on to give two examples where questions have been raised that illustrate debt instruments that incorporate credit risk exposures that are unrelated or only partially related to the creditworthiness of the issuer of that instrument. The first example involves credit-linked notes issued by a corporation. The second example involves a modified coinsurance agreement.

Upon its review of the modified coinsurance agreement, the FASB tentatively concluded that, under certain reinsurance agreements in which the ceding company withholds funds that creates an obligation for the ceding company to pay the reinsurer at a later date, the ceding company's payable and the reinsurer's receivable includes an embedded derivative to be bifurcated. The reason for such bifurcation is that the yield on the payable is based on a specified proportion of the ceding company's return on either its general account assets or a specified block of those assets (such as a specific portfolio of the ceding company's investment securities). The risk exposure of the ceding company's general account assets or its securities portfolio is not clearly and closely related to the risk exposure arising from the overall creditworthiness of the ceding company, which is also affected by other factors. Consequently, the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the debt host contract and, accordingly, certain criteria in FAS 133 are met. The effect is that the embedded derivative of the reinsurance agreement should be separated from the debt host contract and accounted for separately.

The Reinsurance Section has recently sent a blast e-mail to our membership notifying you of two articles relating to this topic that are posted on the Reinsurance Section's Web site.

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Both articles give a more detailed explanation of B36 and provide some simple illustrations of possible interpretations of B36. Please refer to those articles for a more in-depth analysis of B36. The articles may be found at: *www.soa.org/sections/rennew.html.*

Some of the highlights, however, include:

- The change in the value of the embedded derivative will emerge through the income statement, not as an adjustment to GAAP equity
- Implementation of the bifurcated accounting should take place for the first quarter beginning after September 15, 2003, which effectively means implementation for quarterly reporting periods that end on 12/31/03. (The original proposed date was the third quarter of 2003)
- At one time, there was reference to interest rate risk, as well as credit risk. The final guidance will apply only to debt instruments that incorporate credit risk exposures
- Though the issue paper does not specifically mention coinsurance agreements, every indication is that pure coinsurance agreements, in which assets transfer to the reinsurer, do not fall under the auspices of this issue paper

## The Effect on the Insurance Industry

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The life insurance industry is currently attempting to come to grips with this pronouncement. The general impression within the industry is that very few companies (other than the one company from which this issue emerged) are in compliance with this standard. Outstanding issues include:

- What is the proper way to calculate, and subsequently, account for the embedded derivative? (The articles on the Reinsurance Section's Web site can provide some insight.)
- Grandfathering questions
  – In general, agreements that were implemented before B36 are not grandfathered. However, there may be opportunities to grandfather certain agreements under the FAS 133 grandfathering provisions, if a company has not lost its election to do so post-implementation of FAS 133
- Clarification that the accounting treatment applies to both the reinsurer and the ceding company

So, any company—either ceding company or reinsurer—that is subject to U.S. GAAP reporting will have to dust off all their existing modco and co/funds withheld agreements to determine if they have to account for those agreements under the new rule. Again, note that this is not just an issue that the reinsurers have to worry about. Both the ceding companies and the reinsurers have to deal with this issue.

So, why is this a transforming event? Modco and co/funds withheld agreements are ideal structures to assure that both parties to a reinsurance agreement share in the asset risks equally, and to give the ceding company the ability to maintain control of the asset management. These items are especially important when designing a reinsurance agreement on such products as universal life policies or annuities. Potential ceding insurers and reinsurers who are subject to U.S. GAAP requirements will now be reluctant to enter into funds withheld transactions, due to (i) the complications involved in calculating the embedded derivative, and (ii) the potential swings in GAAP earnings that will show up in the income statement.

The alternative to avoid the embedded derivative accounting will be pure coinsurance, which transfers assets to the reinsurer. However, many ceding companies are unwilling to give up control of the assets that emerge from writing business. Also, the creation of two asset portfolios, on two different companies' books, introduces additional complications when contemplating a reinsurance agreement. Quite often, such issues cannot be overcome.

If you view B36 as an issue that potentially removes certain forms of reinsurance from true consideration as a tool to use to assist companies in their thirst for capital and for their ability to adequately managing risk—even for arrangements that would otherwise be economically sound and viable arrangements for both parties—then you might see this as transformational, as well.

**Figure 1**

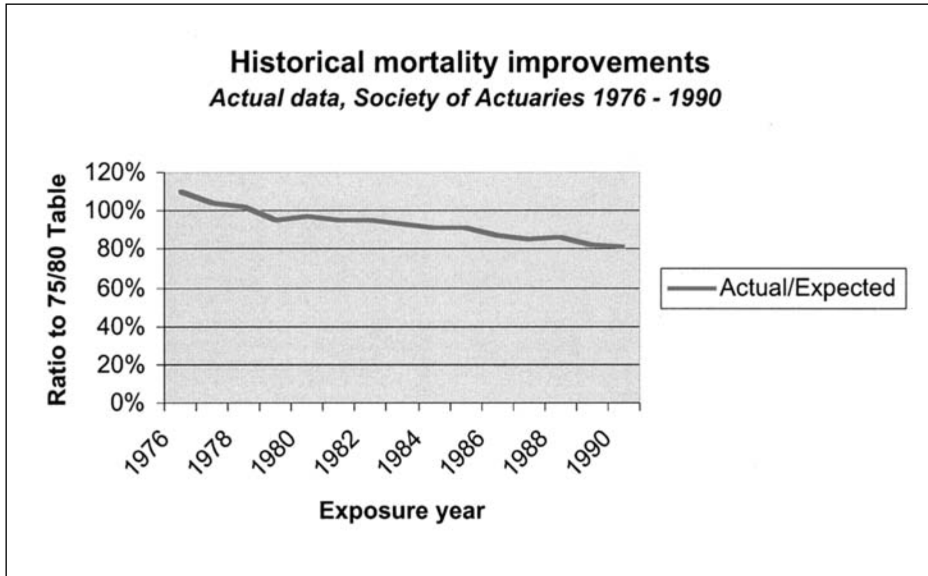
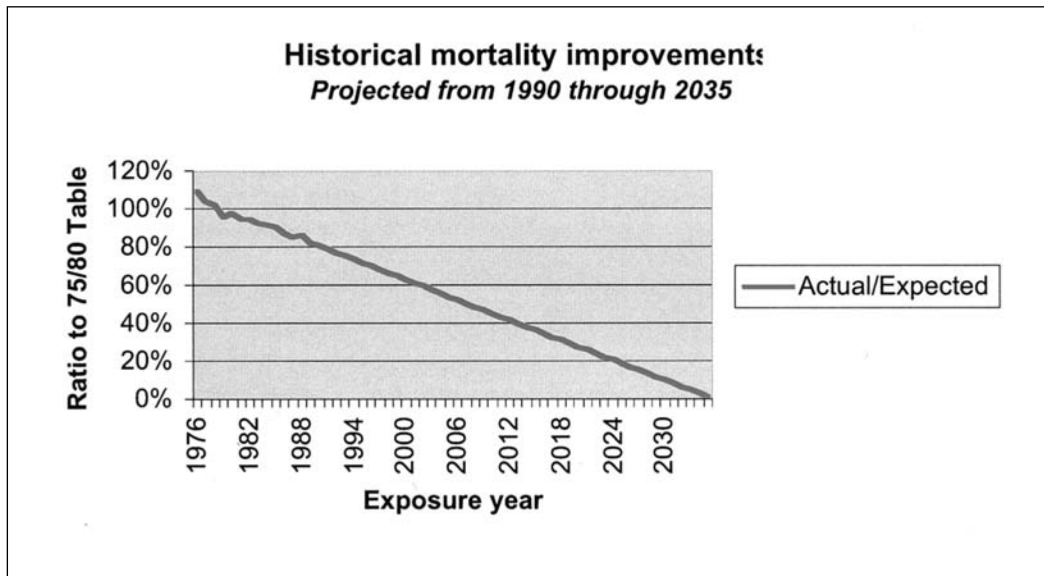



**Figure 2**

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These shocks come in the form of natural disasters such as flooding or earthquakes, man-made occurrences like terrorism and war, or epidemics including flu and AIDS. Counting the deaths caused by shocks around the world produces some quite astounding numbers. While pricing actuaries may fail to pay sufficient regard to these events in the way they price risk, the insurance-buying public seems to be more aware of possible shocks to mortality. Since 11 September, 2001 insurance sales have increased in the U.S.[1] and the U.K.[2] This follows an event that—in terms of lives lost—does not even begin to compare with some of the other tragedies noted in Figure 3, which shows some major mortality shocks during the past century.

In one of our internal studies, we looked at the assumed rates of mortality improvement in the U.S. based upon a report published by Milliman USA, a leading actuarial consulting firm, entitled "Americans Are Getting Healthier." Using these rates of mortality improvement for the U.S. population and mortality data published by the National Center for Health Statistics, we created a model of how many additional lives would be 'saved' as a result of the implied mortality improvement. While an earthquake like the one in India in 1993 could wipe out two or three years' worth of mortality improvements, a major event such as the 1918 flu epidemic (which killed an estimated 675,000 Americans[3]) or a large-scale war

## Figure 3: Negative Mortality Shocks During The Past Century

| Year | Event | Location | Deaths |
|---|---|---|---|
| 1902 | Volcano | Martinique | 40,000 |
| 1908 | Earthquake | Messina | 75,000 |
| 1914 | WWI | Worldwide | 16,000,000 |
| 1918 | Flu Epidemic | Worldwide | 20,000,000 |
| 1919 | Volcano | Kelut | 5,000 |
| 1923 | Earthquake | Kanto | 150,000 |
| 1931 | Flood | China | 3,700,000 |
| 1939 | WW2 | Worldwide | 50,000,000 |
| 1950 | Korean War | Korea | 5,000,000 |
| 1954 | Flood | Iran | 10,000 |
| 1965 | Vietnam War | Vietnam | 3,000,000 |
| 1970 | Earthquake | Peru | 50,000 |
| 1971 | Flood | Vietnam | 100,000 |
| 1976 | Earthquake | Tangshan | 500,000 |
| 1984 | Chemical Plant | Bhopal | 6,500 |
| 1985 | Earthquake | Mexico City | 10,000 |
| 1985 | Volcano | Bogota | 25,000 |
| 1984 | Chemical Plant | Bhopal | 6,500 |
| 1987 | Nuclear Plant | Chemobyl | 8,000 |
| 1988 | Earthquake | Armenia | 25,000 |
| 1990 | Earthquake | Gilan, Iran | 40,000 |
| 1993 | Earthquake | India | 22,000 |
| 1995 | Earthquake | Kobe | 6,500 |
| 2001 | Earthquake | Gujarat | 15,000 |
| 2001 | Terrorism | New York | 3,500 |

1 Life Insurance Marketing and Research Association (LIMRA)

2 Association of British Insurers (ABI)

3 Standford University

could destroy decades worth of improvements. Turning to terrorism, our experience to date in terms of lives lost has not been as devastating as other man made, natural or epidemic losses. However, we researched the possibility of certain nuclear events in major cities, including so-called "dirty bombs," attacks on nuclear power plants and nuclear bombs. The effect on mortality for the worst of these events would be catastrophic and wipe out scores, or even centuries, of mortality improvement.

Finally, there is one further epidemic that is— or at least should be—receiving increasing attention: the growing epidemic of obesity. In America, obesity has been linked to as many as 300,000[4] deaths per year. This is more than 10 percent of all deaths annually, ranking it second only to cigarette smoking as one of the leading causes of preventable death. Indeed, many believe that obesity-related deaths will soon overtake those that come about from smoking. Furthermore, these two killers may be closely linked in that stopping smoking may prompt an increase in obesity. Curbing this epidemic would allow room for vast, and swift, improvements in mortality. Unfortunately, the opposite seems to be occurring. Studies performed in England[5], Canada[6] and the United States.[7] show a dramatic increase of obesity in children. Other countries such as Russia, China, Brazil and Australia are experiencing similar trends[8]. In fact, the report stemming from the U.S. study shows that obesity rates doubled in the past 20 years for children aged between six and 11. This finding, together with a strong correlation between adult obesity and childhood obesity, paints a grim picture of future mortality. An increase in—or even a levelling of—obesity may cause mortality improvements to tail-off, or even evaporate, in the future.

So, where is the good news? To reinforce a point made previously: we firmly believe that mortality will improve in the future. Advances in medicine—such as AIDS vaccines and drugs to control diabetes and high blood pressure; surgical techniques, like robotics; diagnostic capabilities, including prenatal testing; and genetic research, such as markers to identify those at risk, drugs designed to modify genetic disorders and cardiovascular gene therapy—will most likely outweigh any shocks in the long run. In addition, preventative measures such as air bags, workplace safety laws and inoculations could produce positive mortality 'shocks'. Finally, we are currently researching the effects of disease elimination on mortality. What if cancer or heart disease could be cured? Eliminating certain cancers, for example, could have a greater impact on mortality than to simply reduce the deaths caused by those cancers. Consider a woman who, through years of chemotherapy, overcomes cancer but then dies at an early age from pneumonia. Clearly, she does not die of cancer, but the cancer treatment may affect her immune system to such an extent that the cancer certainly has a stake in her death. These, as well as other complicated scenarios, will be included in our research model.

With all the pluses and minuses, how can we lowly pricing actuaries ever dream about taking all of these factors into account? While some may disagree, pricing actuaries should not be called upon to forecast the future, but to ensure that the assumptions we use remain within a certain tolerance level. This means allowing for enough contingencies in pricing to cover reasonable scenarios or, even better, to actually reduce the risk. Clearly, ceding risk to a professional global reinsurance company that has business spread all around the world is one answer. Unlike direct companies concentrating in one market or one geographic region, reinsurers have the advantage of being sufficiently diversified to weather negative mortality shocks and take advantage of the improving trends in mortality. Passing this risk to a reinsurer helps pricing actuaries, and their managers, sleep better at night—and is certainly a safer bet than to price assuming immortality, which could certainly create a few shocks! ✍

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4 U.S. Center for Disease Control

5 British Medical Journal

6 Canadian Medical Journal

7 Center for Disease Control

8 *The Hungry Gene*, Shell

Life Reinsurance Data... • from page 1

## Figure 1: Life Reinsurance New Business Production (U.S. Millions)

Includes Swiss Re's acquisition of Lincoln Re in 2001 (portfolio) and Employers/ERC's acquisition of AUL in 2002 (portfolio)

| | U.S. | | | Canadian | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2001 | 2002 | Change | 2001 | 2002 | Change | 2001 | 2002 | Change |
| Ordinary Life | | | | | | | | | |
| Recurring | 947,169 | 1,078,262 | 13.8% | 67,050 | 81,478 | 21.5% | 1,014,219 | 1,159,740 | 14.3% |
| Portfolio | 569,358 | 204,495 | -64.1% | 36,144 | 24,148 | -33.2% | 605,502 | 228,643 | -62.2% |
| Retrocession | 25,141 | 23,989 | -4.6% | 1,431 | 2,474 | 72.9% | 26,572 | 26,463 | -0.4% |
| Total Ordinary | 1,541,668 | 1,306,746 | -15.2% | 104,625 | 108,100 | 3.3% | 1,646,293 | 1,414,846 | -14.1% |
| Total Group | 48,822 | 30,625 | -37.3% | 5,930 | 7,845 | 32.3% | 54,752 | 38,752 | -29.7% |
| Total Life | 1,590,490 | 1,337,371 | -15.9% | 110,555 | 115,945 | 4.9% | 1,701,045 | 1,453,316 | -14.6% |

## Figure 2: Life Reinsurance New Business Production (U.S. Millions)

Excludes Swiss Re's acquisition of Lincoln Re in 2001 (portfolio) and Employers/ERC's acquisition of AUL in 2002 (portfolio)

| | U.S. | | | Canadian | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2001 | 2002 | Change | 2001 | 2002 | Change | 2001 | 2002 | Change |
| Ordinary Life | | | | | | | | | |
| Recurring | 947,169 | 1,078,262 | 13.8% | 67,050 | 81,478 | 21.5% | 1,014,219 | 1,159,740 | 14.3% |
| Portfolio | 99,265 | 68,210 | -31.3% | 15,228 | 24,148 | 58.6% | 114,493 | 92,358 | -19.3% |
| Retrocession | 25,141 | 23,989 | -4.6% | 1,431 | 2,474 | 72.9% | 26,572 | 26,463 | -0.4% |
| Total Ordinary | 1,071,575 | 1,170,461 | 9.2% | 83,709 | 108,100 | 29.1% | 1,155,284 | 1,278,561 | 10.7% |
| Total Group | 48,822 | 30,625 | -37.3% | 5,930 | 7,845 | 32.3% | 54,752 | 38,752 | -29.7% |
| Total Life | 1,120,397 | 1,201,086 | 7.2% | 89,639 | 115,945 | 29.3% | 1,210,036 | 1,317,031 | 8.8% |

in the other categories. The end result showed a total U.S. life production increase of 7.2 percent in 2002. The picture was even brighter in Canada where every reinsurance category showed tremendous growth. Total Canadian production increased 29.3 percent in 2002. If we exclude the two reinsurance acquisitions mentioned above, the 14.6 percent overall (U.S. and Canada) decrease becomes an 8.8 percent increase.

The life reinsurance production results for 2001 and 2002 are shown above—with and without the two acquisitions mentioned earlier.

### Recurring Business

It should be noted that the survey attempts to remove any double counting of retrocession and block reinsurance from the recurring figures. Hence, recurring business represents the "true" new business reinsured from direct writers and usually offers the most revealing picture of

## Figure 3: U.S. Ordinary Recurring Reinsurance (U.S. Millions)

| Company | Assumed Business | 2001 Market Share | Increase In Production | Assumed Business | 2002 Market Share | Increase in Production |
|---|---|---|---|---|---|---|
| Allianz | 43,711 | 4.6% | -4.0% | 54,749 | 5.1% | 25.3% |
| Annuity & Life Re | 55,764 | 5.9% | 72.9% | 56,662 | 5.3% | 1.6% |
| AUL* | 21,750 | 2.3% | -53.7% | ACQ | ACQ | ACQ |
| BMA | 39,003 | 4.1% | 18.2% | 74,2555 | 6.9% | 90.4% |
| Canada Life | 39,003 | 4.1% | 65.7% | 29,360 | 2.7% | 54.4% |
| Employers/ERC | 50,448 | 5.3% | -41.7% | 58,483 | 5.4% | 15.9% |
| General & Cologne | 16,231 | 1.7% | -20.1 | 14,615 | 1.4% | -10.0% |
| Gerling Global | 25,691 | 2.7% | -18.2% | 24,790 | 2.3% | -3.5% |
| Hannover Life Re | 3,155 | 0.3% | -50.6% | 5,810 | 0.5% | 84.2% |
| ING Re | 93,584 | 9.9% | 8.8% | 129,340 | 12.0% | 38.2% |
| Munich American Re | 103.679 | 10.9% | -13.5% | 80,076 | 7.4% | -22.8% |
| Optimum Re (U.S.) | 1,301 | 0.1% | 21.7% | 1,694 | 0.3% | 30.2% |
| RGA | 112,746 | 11.9% | -5.6% | 116,491 | 10.8% | 3.3% |
| SCOR Life Re | 2,923 | 0.3% | 246.3% | 21,888 | 2.0% | 648.8% |
| Scottish Re | 26,045 | 2.7% | 100.0% | 34,339 | 3.2% | 31.8% |
| Swiss Re | 246,466 | 26.0% | -4.7% | 265,491 | 24.6% | 7.7% |
| Transamerica Re | 85,662 | 9.0% | 6.1% | 110,219 | 10.2% | 28.7% |
| **TOTALS** | **947,169** | **100.0%** | **-3.9%** | **1,078,262** | **100.0%** | **13.8%** |

## Figure 4: Canada Ordinary Recurring Reinsurance (U.S. Millions)

| Company | Assumed Business | 2001 Market Share | Increase In Production | Assumed Business | 2002 Market Share | Increase in Production |
|---|---|---|---|---|---|---|
| Canada Life | 461 | 0.7% | 100.0% | 521 | 0.6% | 100.0% |
| General & Cologne | 41 | 0.1% | 583.3% | 18 | 0.0% | -56.1% |
| ERC-Canada | 7,386 | 11.0% | 94.6% | 12,793 | 15.7% | 73.2% |
| Gerling Global | 2,094 | 3.1% | 34.1% | 2,347 | 2.9% | 12.1% |
| ING Re | 1 | 0.0% | -50.0% | 0 | 0.0% | -100.0% |
| Munich Re (CAN) | 20,950 | 31.2% | 26.2% | 25,661 | 31.5% | 22.55 |
| Optimum Re (CAN) | 1,290 | 1.9% | -6.7% | 1,750 | 2.1% | 35.7% |
| RGA (CAN) | 7,919 | 11.8% | -6.2% | 10,686 | 13.1% | 34.9% |
| Swiss re | 26,910 | 40.1% | 35.3% | 27,702 | 34.0% | 2.9% |
| **TOTALS** | **67,050** | **100.0%** | **29.4%** | **81,478** | **100.0%** | **21.5%** |

* AUL acquired by Employers/ERC in 2002

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production trends. The U.S. market rebounded quickly from 2001's decrease in production (3.9 percent) by recording a 13.8 percent increase in recurring new business in 2002. The decrease in 2001 marked the first time since 1989 that recurring business decreased in the U.S. Prior to 2001, increases of 21.6 percent, 19.3 percent and 33.9 percent were recorded in 2000, 1999 and 1998 respectively.

Canadian recurring business continues to grow at a rapid pace. A 21.5 percent growth rate was recorded in 2002. This follows increases of 14.2 percent in 2001 and 41.7 percent in 2000. Canadian direct writers may have been later in coming to the market with first-dollar quota share arrangements than their U.S. counterparts, but it appears that Canadian reinsurers are now seeing the full impact of the emergence of quota share arrangements. It is now believed that the percentage of direct sales reinsured in Canada has reached or possibly even exceeded the U.S. percentage.

Individual company results reveal two companies reporting increases in excess of $30 billion and one company reporting an increase in excess of $20 billion. ING Re reported an increase of $35.8 billion in U.S. and Canadian recurring business. ING Re was followed closely by BMA, who posted a $35.3 billion increase. Meanwhile, Transamerica Re reported an impressive $24.6 billion increase. Other companies reporting incremental increases in excess of $10 billion in 2002 include: Swiss Re ($19.8), Allianz ($11.0), and Canada Life ($10.4). Also, if we add ERC's U.S. and Canadian operations together, the result is a $13.4 billion increase in recurring production for 2002.

Totals for Canadian and U.S. recurring ordinary reinsurance assumed in 2001 and 2002, as well as percentage changes are shown on page eight.

## Portfolio and Retrocession Business

Total portfolio business decreased over 62.2 percent in 2002. However, as noted earlier, this figure is heavily influenced by Swiss Re's acquisition of Lincoln Re in 2001 and Employers/ERC's acquisition of AUL in 2002. If the portfolio business attributed to these reinsurance deals is extracted, we see that portfolio business decreased 19.3 percent. This continues the decreasing trend in portfolio business we have seen over recent years. It is clear that fewer and fewer in-force block opportunities are being offered to reinsurers.

Meanwhile, retrocession production in 2002 remained very close to 2001 levels. While a small decrease of 0.4 percent was reported for retrocession, this could be viewed as a positive sign because, prior to 2002, retrocession production fell over 67 percent in a two-year period. Much of the fall in production can be attributed to a couple of factors: (1) increasing retention limits of reinsurers, and (2) the rise of quota share business. As reinsurers business grew as a result of first-dollar quota share business, retrocessionaires did not benefit from this since much of the business remained within the reinsurer's retention. In addition, first-dollar quota share arrangements are not as common in the retrocession market as they are in the reinsurance market. Thus, the majority of the retrocession business being written today is still on an excess retention basis. So while reinsurers were writing more business, they were also retaining more.

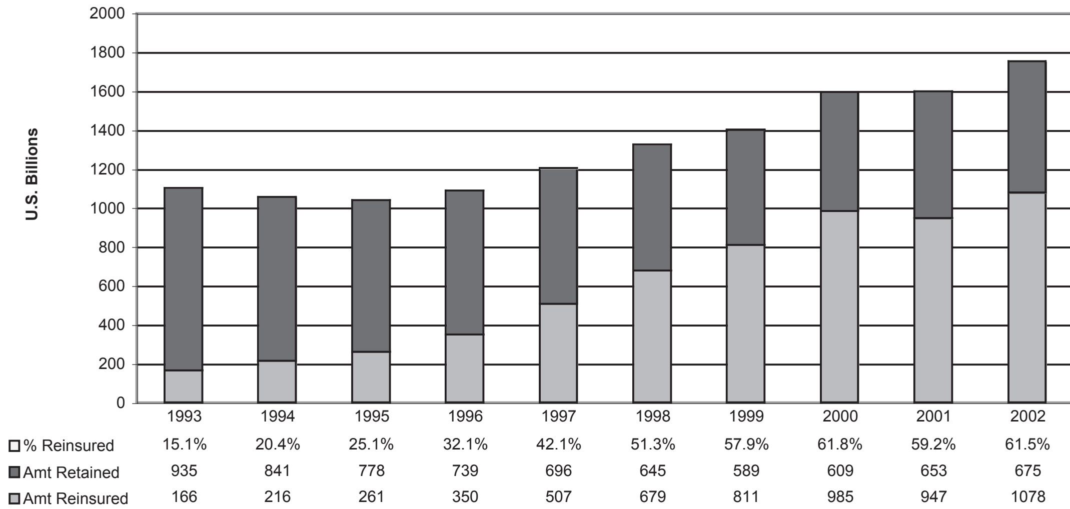
## Comparison With Direct Market

Preliminary estimates from the American Council of Life Insurance (ACLI) show 2002 U.S ordinary individual life insurance purchases increased 9.5 percent from 2001 purchases. Looking back over the last 10 years, we see that life insurance purchases remained stable until 1998 when they began to steadily rise. From 1997 to 2002, life sales have increased an astounding 45 percent. Reinsurers have definitely benefited from this growth.

One statistic that is often used to measure the state of the reinsurance market is the percentage-reinsured level. This can be estimated by comparing the life purchases data from the ACLI to the reinsurance survey recurring production numbers. The 2002 level of 61.5 percent is a slight increase from 2001. Actually, the results from the last four years (1999-2002) show a very stable percentage-reinsured level (upper 50 percent to low 60 percent range). There is now no doubt that the percentage-reinsured level has hit a plateau. The big question is has it reached its limit?

The graph above compares ordinary life new

## Figure 5: U.S. Ordinary Recurring Reinsurance (U.S. Millions)




## Figure 6: Life Reinsurance In Force (U.S. Millions)

Includes Swiss Re's acquisition of Lincoln Re in 2001 (portfolio) and Employers/ERC's acquisition of AUL in 2002 (portfolio)

| | U.S. | | | Canadian | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2001 | 2002 | Change | 2001 | 2002 | Change | 2001 | 2002 | Change |
| Ordinary Life | | | | | | | | | |
| Recurring | 3,341,378 | 4,356,737 | 30.4% | 246,295 | 344,926 | 40.0% | 3,587,673 | 4,701,663 | 31.1% |
| Portfolio | 883,803 | 596,572 | -32.5% | 36,856 | 26,061 | -29.3% | 920,659 | 622,633 | -32.4% |
| Retrocession | 245,771 | 238,714 | -2.9% | 10,844 | 11,836 | 9.1% | 256,615 | 250,550 | -2.4% |
| Total Ordinary | 4,470,952 | 5,192,023 | 16.1% | 293,995 | 382,823 | 30.2% | 4,764,847 | 5,574,846 | 17.0% |
| Total Group | 148,513 | 149,399 | 0.6% | 16,722 | 21,436 | 28.2% | 165,235 | 170,835 | 3.4% |
| Total Life | 4,619,465 | 5,341,422 | 15.6% | 310,717 | 404,259 | 30.1% | 4,930,182 | 5,745,681 | 16.5% |

business totals with the recurring life reinsurance totals for the United States.

## Life Reinsurance In Force

Not surprisingly, the increase in new business production resulted in an increase in in-force as well. Total life reinsurance in force business increased 16.5 percent in 2001. If the portfolio business from the two reinsurer acquisitions is excluded, the increase jumps up to 26.4 percent. This compares to increases of 3.6 percent in 2001 and 21.6 percent in 2000. The U.S. total life in force increased 15.6 percent (25.4 percent excluding the two reinsurer acquisitions) and the Canadian market in force grew by 30.1 percent (39.5 percent excluding the reinsurer acquisitions) in 2002.

The in-force survey results for 2001 and 2002 are summarized above.

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Life Reinsurance Data... • from page 11

## Figure 7: Life Reinsurance In Force (U.S. Millions)

Excludes Swiss Re's acquisition of Lincoln Re in 2001 (portfolio) and Employers/ERC's acquisition of AUL in 2002 (portfolio)

| | U.S. | | | Canadian | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2001 | 2002 | Change | 2001 | 2002 | Change | 2001 | 2002 | Change |
| Ordinary Life | | | | | | | | | |
| Recurring | 3,341,378 | 4,356,737 | 30.4% | 246,295 | 344,926 | 40.0% | 3,587,673 | 4,701,663 | 31.1% |
| Portfolio | 413,710 | 460,287 | 11.3% | 15,940 | 26,061 | 63.5% | 429,650 | 486,348 | 13.2% |
| Retrocession | 245,771 | 238,714 | -2.9% | 10,844 | 11,836 | 9.1% | 256,615 | 250,550 | -2.4% |
| Total Ordinary | 4,000,859 | 5,055,738 | 26.4% | 273,079 | 382,823 | 40.2% | 4,273,938 | 5,438,561 | 27.2% |
| Total Group | 148,513 | 149,399 | 0.6% | 16,722 | 21,436 | 28.2% | 165,235 | 170,835 | 3.4% |
| Total Life | 4,149,372 | 5,205,137 | 25.4% | 289,801 | 404,259 | 39.5% | 4,439,173 | 5,609,396 | 26.4% |

## Conclusion

The good news is that reinsurance recurring production rebounded from the slight dip in 2001. Perhaps 2001's drop in production will just be an anomaly. Nevertheless, the 2002 results show that the reinsurance market remains strong and healthy. In addition, the direct market is producing very respectable increases in life sales and it is expected that this trend will continue in the near future.

Once again, consolidation in the reinsurance industry was a significant factor in 2002. Over the past few years, the consolidation effort has radically changed the make-up of the market and it does not appear to be slowing down. There are rumors of more acquisition activity in 2003 and many in the industry predict the reinsurance market to consolidate even further over the next few years. As a product of all of the consolidation, the top five life reinsurers in the U.S. accounted for 65 percent of the new life recurring business in 2002. In Canada, the top two reinsurers to accounted for 65 percent of the new business production in 2002. To give an idea of the degree of consolidation, the number of companies participating in the survey has dropped by 30 percent since 1996 (from 33 to 23).

What's in store for the future? By the end of this year, the introduction of the new valuation table should have provided ample quote opportunities for reinsurers as direct writers begin to update their term portfolios. With consolidation reducing the number of reinsurers in the marketplace, a number of questions arise: (1) Will reinsurance pricing remain as competitive as it has been in the past? (2) How will direct companies react if they are unable to secure satisfactory reinsurance terms? Will they raise retention limits or even move to excess retention arrangements? (3) Will the cost and availability of LOC's become a factor for reinsurers who use them to address the reserve strain on term products? and finally, (4) Which reinsurers will benefit the most from the increased quote activity?

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## DISCLAIMER:

Munich American Reassurance Company prepared the survey on behalf of the Society of Actuaries Reinsurance Section as a service to Section members. The contributing companies provide the numbers in response to the survey. These numbers are not audited and Munich American, the Society of Actuaries and the Reinsurance Section take no responsibility for the accuracy of the figures.

# Reinsurance Section Lineup For The Annual Meeting

by Mel Young

We are living in Dicksonian times! Therefore, it should be no surprise that the section's program at the October 26-29 Annual Meeting in Orlando promises to be very interesting. The topics for the five sessions we are sponsoring run the gamut, or gauntlet if you will, from long-term care to the capital crunch to XXX to underwriting and regulatory developments.

Capping off our effort will be a session entitled "Famous Reinsurance Disasters," which unfortunately will contain topics with which each of us are all too familiar. In putting this session together we actually had trouble limiting ourselves to three! We trust you will agree that three doozies were chosen:

- Select & Ultimate Term—The first term war
- Guaranteed Minimum Death Benefit Reinsurance—After the bubble burst
- Unicover et. al.—Redefining the word "special" in special risk

In the continuing saga of Regulation XXX, "Emerging Developments in XXX Reserves" promises to be another informative and timely session. This session will cover product design, conventional reinsurance and non-conventional solutions. Since the industry is facing an XXX reserve problem that concerns how many zeros lie between $1 and billions, this has to be one of the more important sessions you will attend.

Having covered disasters of the past, it perhaps is appropriate that we also discuss a potential disaster for the future. In addition to the ever-present pressures for expanded automatic and jumbo limits, reinsurers today are constantly bombarded with requests for more aggressive table shaving programs and virtual obliteration of preferred underwriting standards. A session entitled "The Underwriting Revolution—Actuarial Pricing For Underwriting and Medical Advances: What Does the Future Hold?" will address mechanisms which will hopefully prove successful in helping us accommodate these pressures and still maintain profitability.

As usual the section will be hosting a hot breakfast in conjunction with its business meeting on Tuesday morning. The breakfast will be buffet style with a side order of hot tax and regulatory issues, including FAS 133. FAS 133 could very well be one of the most important items we discuss at the meeting.

In summary, we trust you will find plenty of reasons to attend the sessions rather than go for a walk in the park with Goofy.

A summary of all the Reinsurance Section-sponsored sessions is as follows:

- "Famous Reinsurance Disasters" (16 OF [PD]) Monday 10:30 a.m. – Noon
- "Emerging Developments in XXX Reserves" (29 PD[PD]) Monday 2:00 p.m. – 3:30 p.m.
- "Reinsurance Section Hot Breakfast" (47 SM/BG) Tuesday 7:30 a.m.
- "Cutting-Edge Reinsurance Developments" (63 OF[PD]) Tuesday 8:30 a.m. – 10:00 a.m.
- "Actuarial Pricing For Underwriting and Medical Advances: What Does the Future Hold?" (83 PD[PD]) Tuesday 2:30 p.m. – 4:00 p.m. ✍

*Mel Young, FSA, MAAA, is executive vice president and vice chairman for RGA Reinsurance Company located in Norwalk, Conn. He may be reached at* myoung @rgare.com.

# Reinsurance Regulations—Organizations That Influence the Regulations

by Timothy J. Tongson and Elvina Richardson

Ever wonder how reinsurance regulations are established, or which organizations influence their development?

This article provides an overview of the key organizations that have a direct and indirect impact on reinsurance regulations and suggested contacts.

Reinsurance regulations are developed and enacted like other forms of insurance regulation. At the state level, insurance departments are responsible for implementing the laws created by state legislatures. At the federal level, Congress creates laws and funding to implement policy through a number of agencies, such as the Securities and Exchange Commission and the Internal Revenue Service.

However, there are significantly fewer reinsurance regulations compared to general insurance regulations. This difference stems from the primary purpose of insurance regulation, which is to protect insurance consumers who may be unknowledgeable or unsophisticated with regard to the business of insurance. Reinsurance, on the other hand, which is often referred to as "insurance for insurance companies," is between two parties who are knowledgeable about the business of insurance.

Historically, when it comes to reinsurance regulations, the primary areas of concern have been:

- Establishing licensing and accreditation standards for reinsurers
- Defining what constitutes appropriate risk transfer
- Defining acceptable criteria for reinsurance reserve credits taken by the ceding company
- Defining acceptable forms of security for reserve credits taken with non-accredited reinsurers
- Evaluating the fairness of acquisitions, demutualizations and mergers to policyholders
- Accounting and financial reporting for reinsurance related transactions (statutory, GAAP and tax)
- Mandating certain treaty clauses (e.g. insolvency), in some cases

Reinsurance regulations may be influenced directly before becoming law through individual efforts or, more often, through the efforts of industry trade associations. Once a law has been passed, there may be an opportunity to influence the application of the law by communicating the specific area of concern or issue to the appropriate committee or by seeking the assistance of one of the industry trade associations or professional groups.

Listed below are the primary organizations that have a significant impact on influencing reinsurance regulations.

## National Association of Insurance Commissioners (NAIC)

The NAIC promulgates model laws and regulations for voluntary use by states. There are various committees and task forces within the NAIC that are involved in regulations affecting

reinsurance. The primary committees and task forces include:

- Life Insurance and Annuities (A) Committee
- Health Insurance and Managed Care (B) Committee
- Financial Condition (E) Committee
- Accounting Practices and Procedures (E) Task Force
- Emerging Accounting Issues (E) Task Force
- Insolvency (E) Task Force
- Financial Regulations Standards and Accreditation (F) Committee
- Reinsurance (G) Task Force
- Life and Health Actuarial Task Force

The mission and charges of the various committees and task forces can be located on the NAIC Web site at *www.naic.org\committee_activities\index.htm.*

## Financial Accounting Standards Board (FASB)

The FASB is the designated organization in the private sector for establishing standards of financial accounting and reporting. The Securities and Exchange Commission recognizes the FASB as a private sector authority on these topics. To add a topic to the FASB's Technical Agenda, the board first receives input from the constituency and then evaluates the proposed topic against a number of factors to determine if it should be added to the board's Technical Agenda.

Similar to the NAIC, no specific committees are identified as having responsibility for life and health reinsurance matters. More information about the FASB can be found on their Web site at *www.fasb.org.*

## The Securities and Exchange Commission (SEC)

The primary mission of the SEC is to protect investors and maintain the integrity of the securities market. To achieve this, the SEC requires public companies to disclose meaningful financial and other information to the public. The SEC, working closely with the Office of the Chief Accountant, monitors the activities of the accounting profession that result in the formulation of generally accepted accounting principles (GAAP). The SEC has statutory authority to establish financial accounting and reporting standards for publicly held companies under the Securities Exchange Act of 1934. While the SEC generally looks to the FASB as an authority regarding financial accounting and reporting standards, it has on occasion let the FASB know what position it prefers on an issue.

Contact information: *www.sec.gov*

## Internal Revenue Service (IRS)

The IRS administers the tax laws enacted by Congress and enforces taxation of all entities within the United States, including all life and health insurers, reinsurers, captive insurers and offshore insurers that operate in the United States. The IRS provides various forms of guidance including:

- Regulations – these are issued by the IRS and Treasury Department to provide guidance for new legislation and to address issues that arise with respect to existing Internal Revenue Code.
- Revenue Ruling – these are official interpretations by the IRS of the Internal Revenue Code related to statutes and regulations. It is the IRS's conclusion on how the law is applied to a specific set of facts.
- Revenue Procedure – this is an official statement of a procedure that affects the rights of taxpayers under the Internal Revenue Code related to statutes and regulations.
- Private Letter Ruling – this is a written statement issued to a taxpayer that interprets and implies tax laws to the taxpayer's specific set of facts.
- Technical Advice Memorandum – this is guidance furnished by the Office of Chief Council in response to technical or

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Reinsurance Regulations... • from page 15

procedural questions that develop during a proceeding.

Contact information: *www.irs.gov*

Various nongovernmental organizations are involved in the formulation of reinsurance regulations. The following lists some of the significant organizations in this area.

## American Academy of Actuaries (AAA)

The AAA is the public policy organization for actuaries practicing in the United States. Life and health reinsurance matters are generally addressed by one of the following practice councils.

- Financial Reporting Council – Vice President, Pat Teufel; Academy contact, Ethan Sonnichsen (*Sonnichsen@actuary.org* )
- Life Practice Council – Vice President, Steve Preston; Academy contact, Steve English (*English@actuary.org* )
- Health Practice Council – Vice President, Jan Carstens; Academy contact, Holly Kwiatkowski (*Kwiatowski@actuary.org* )

## American Council of Life Insurance (ACLI)

The ACLI Reinsurance Committee is organized to protect and advance the interests of ACLI member companies that engage in the business of buying and selling reinsurance. The current chairperson of the Reinsurance Committee is Cozy Simon. The ACLI contact is Don Preston. Member companies may also access the ACLI Web site to obtain more detailed information at *www.acli.com*.

## Reinsurance Association of America (RAA)

The RAA is the primary U.S. trade association of property-casualty reinsurers and reinsurance brokers. The primary purpose of the RAA is to advance the interest of the U.S. property/casualy reinsurance industry through effective government relations with state and federal regulatory agencies, legislators and other elected or appointed officials.

Life reinsurers can become affiliate members of the RAA and pursue their agendas through the RAA Life Reinsurance Committee. The current committee chairperson is Denis Loring of RGA. Additional information on the RAA can obtained from the RAA Web site, *www.reinsurance.org*.

## Society of Actuaries (SOA)

The SOA is an educational, research, and professional organization for actuaries in the United States and Canada. Various SOA Section Councils are engaged in education and research on regulatory matters. The Reinsurance Section Council is the primary SOA section that addresses reinsurance-related topics. The current chairperson of the Reinsurance Section Council is Jim Dallas (*jim.dallas@tillinghast.com*) and the SOA contact is Lois Chinnock (*lchinnock@soa.org*).

Other organizations indirectly impact or influence reinsurance regulations. Perhaps the most significant of which are insurance rating agencies. Rating agencies, by rating the financial strength of insurance companies, can influence an insurer's financial management, cost of capital, use of reinsurance and position in the insurance and reinsurance markets.

Actuaries are actively involved in influencing reinsurance regulations. They do this as volunteers and employees of companies and regulatory agencies, performing research, participating on industry committees and enforcing regulations.

More information about the reinsurance regulatory process, the organizations that influence regulations and the role that actuaries play in the process can be obtained by accessing the above Web sites, or through a review of various actuarial literature, such as "U.S. GAAP for Life Insurers," "Life, Health and Annuity Reinsurance" by Tiller and Fagerberg, and the "Role of the Actuary Under Federal Insurance Regulation" Monograph by the American Academy of Actuaries. ✍

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# What Do Cedants Really Want From Reinsurers?
## (A mostly qualitative response.)

by Rick Flaspöhler

*Editor's Note: The Flaspöhler Research Group has been conducting the biennial survey of life company attitudes about reinsurance and reinsurers since 1993. The results of these surveys are used by major life reinsurers to develop marketing and service strategies. The following article is based on input received from reinsurance buyers in these surveys—especially the 2003 survey completed in March 2003.*

I have to admit one thing right up front. I'm a closet logophile. When asked to write this article I kept this fact a secret, fearing, perhaps, the SOA would have a by-law somewhere disallowing serious contributions from one of my ilk.

Don't get me wrong—I love numbers too, almost as much as words. In fact, after receiving my undergraduate degree in Journalism I proceeded to obtain an MBA with an emphasis in statistics. During the course of my MBA studies, and throughout my career as a researcher, I've grown to embrace the stability, the crispness and the manageability of numbers.

But every time I look at numbers I find myself wanting more. I want to understand what is behind, below, above and interwoven with the numbers. I want to enjoy the story, and for this I need words.

Words provide resonance. Words provide depth. Words provide a perspective impossible to convey with numbers. (Let's not forget, even Einstein said that what we see depends on our perspective.)

### Are Cedants Hard To Please?

Let's start with a quantifiable fact. Between 1996 and 2003 the proportion of cedants indicating that they were "Very Satisfied" with the reinsurers they used dropped from 67 percent to 46 percent. Wow!

(For those of us automatically resorting to what we know best, all statistics quoted herein are based on sample sizes of over 250 individuals identified as reinsurance decision-makers by major reinsurance companies. Sample includes both underwriters and actuaries.)

This really begs the question, "What happened?"

For those who always believed "price" was the most important factor in a relationship with a reinsurer please note that this drop in satisfaction came during a period of time when reinsurance pricing dropped dramatically. Arguably, the period from 1995 to 2001 (when satisfaction ratings dropped most severely—from 67 percent to 50 percent) saw the most significant price/rate drop in life reinsurance rates in history.

Although we examined the question of what happened? from many different perspectives, (quantitative and qualitative) one assumption provided us with a meaningful springboard from which to examine this issue—namely, customers become less satisfied when they want something that is not being provided by a vendor.

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In the following paragraphs we'll examine the verbatim responses provided by cedants when asked, "What do you really want from your reinsurers?"

As one would expect, many cedants used the term "price" or "cost" in their response to the question, "What do you really want from your reinsurers?" Examples are as follows:

- "Competitive price, strength."
- "Competitive price, strong facultative outlet for both rating and capacity, and ease of administration."

- "Competitive prices and a reasonable business partnership."
- "Competitive pricing, partnership mentality, mortality knowledge, knowledge of industry trends."
- "Competitive quotes, support for financial reinsurance as necessary, thorough under writing and claims audits, capacity for large cases."
- "Competitive rates, strong customer service and fast responses on high-visibility cases."
- "Liberal and responsive underwriting and competitive pricing. Recognize that business decisions are not the root of all evil. We want it all!"

It is important to note that "price" or "cost" was rarely mentioned without a modifier—competitive, reasonable, fair, etc.

In the overwhelming majority of instances, price was one item on a list of many other factors:

"1) Low prices

2) Timely response to new quotes and new programs.

3) Facultative capacity and support for large cases

4) Push back on retros who are limiting what the reinsurers are able to do for the ceding companies. Retros seem to have some outdated policies.

5) There needs be more access to reinsurers during December instead of everyone taking off on vacation.

6) Honest feedback regarding the ceding company/reinsurer communication process. Something other than "the customer's always right" attitude.

7) Stop supporting "table-shaving programs."

8) No more acquisitions."

Another example of "price/cost:" being part of a larger list is:

1) Competitive costs

2) Aggressive underwriting on fac business

3) Fast turnaround time—two-day average

4) Knowledgeable underwriters who can respond to questions.

For those ready for a quantitative "fix," I serve these calculations.

Price was mentioned by 55 percent of all respondents to the survey. However, 93 percent of "price" mentions were qualified by adjectives such as "competitive" or "reasonable."

Only 7 percent of price answers were qualified with the terms "low" or "aggressive."

Also notable was that 75 percent of the actuaries who completed the survey mentioned "price." Of course, the notable item is that one in four actuaries did not include "price/cost" anywhere in their response.

## If Not Price—Then What?

At this point the reader is likely wondering about the content of all the responses that address a subject other than price. And there were many of these.

In fact, over 95 percent of responses address a subject beside or in addition to price/rates!

Some of the better responses include:
"Best offer available on facultative cases. (Also dinner and a vodka gimlet on occasion)!"

"O.K. That one should probably be put in the price/rate category. But, I loved the honesty."

Another typical response is:

"Everything: competitive price, capacity, facultative underwriting support, knowledgeable marketing reps, professionalism, good service, comfort that they know what they are doing and aren't using a crystal ball to price. And stability —not just financial stability, but commitment to maintaining a reinsurance presence for the long term. Understand P&C. Lastly, no arrogance. XXXX Re seems to be developing an attitude; i.e. … if you want to do business with us, you will give us your first born." The quotes that follow provide a good overview of how most cedants responded to the question, "What do you really want from your reinsurers?"

A) "First, best available rates, best real input on what we as a company can do to improve our quotes (not what we want to hear). We want to know where we stand. Consideration and support for special programs to be established outside of the treaty (at an appropriate cost if needed.) Sound underwriting manual with valid up-to-date research."

B) "Good, hassle-free service. Good rates—doesn't have to be the best, but must be competitive. Timely and helpful advice—accessible actuaries, underwriters and admininstrative personnel when needed and sometimes good advice/information even when not requested. Good facultative under writing quotes."

C) "Partners who will help my business grow, which in turn will help make their business grow."

"They can do that by supporting efforts which I need for growth, as well as recommending options to help my growth. Examples of these ways are providing mortality expertise, capital solutions and sharing risk in new areas where I may not have the expertise to do it alone. Another example would be to keep direct companies on track by performing comprehensive underwriting audits and acting upon them. Reward good, penalize bad."

"They can also do this by doing things that hurt my business. Examples of this are providing reinsurance quotes, that based on a constant percent of 75-80 tables, result in very low tail mortality. Also, not doing regular reinsurance audits."

D) "Relationships. Business partners. Obviously good rates and time service. But we have many creative opportunities presented to us requiring creative under writing solutions. I need to be able to pick up the phone and talk to a senior/chief underwriter and get assistance with coming up with a creative solution, if possible."

## What Can We Conclude?

When dealing with words instead of numbers, our conclusions take on a tenor very different from those we arrive at using numbers.

The few cedant thoughts we've examined in this short article provide us with a valuable

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perspective with which we can better understand both ceding company satisfaction and needs.

Although we've only examined a few of the tens of thousands of words provided by cedants in their efforts to communicate what they really want from reinsurers, we can reasonably conclude:

1. Competitive price/rates are important. Consistency in price/rates is important. The only time "lowest" price is important is when the cedant perceives the reinsurer as being equal on all factors other than price (security, underwriters, easy to deal with, etc.)

2. Relationships are at *least* as important as price. Most cedants responded to the "what do you really want" question with answers including *relationship* references such as "partner," "assistance," "input" and "professionalism."

Sure, there are cedants who really make reinsurance decisions entirely on lowest price, but our studies show that only 7-10 percent of cedants fall into this category.

There is a perception among most cedants that relationships have deteriorated over the past 10 years. There is a feeling among cedants that they are being taken for granted. There is a feeling that many reinsurance reps don't have the knowledge/background needed to assist cedants in today's very difficult insurance marketplace.

There is a feeling among many cedants that they spent the last three or four years listening to reinsurers talk about their own plans concerning *internal* issues such as restructuring, acquisition and surplus management.

And there is a strong feeling among cedants that few reinsurers are taking the time to really *listen* to the needs of cedants.

The answer for reinsurers is really quite simply stated (although, perhaps, difficult to achieve.) Shift the focus back to the cedant. Listen. Understand. Participate in solving the cedant's challenges.

Invest in the relationship. (But, always remember that price/rates are important—especially if you are not perceived as offering more/better services/benefits in other areas.)

Perhaps the perspective can best be illustrated by the following cedant response (one of my all time favorites because of its disarming frankness):

> "My pricing actuaries and underwriters want the lowest possible reinsurance rates for YRT, the highest possible ceding allowances for coinsurance, the largest automatic lines, the highest possible (preferably no) jumbo limits, the most easygoing underwriters for fac and NO hassles. Also some free consulting services from time to time.
>
> *(Whew! There I've said it and fulfilled my obligations to my employer.)*
>
> Speaking for myself, I would like:
>
> (1) Some confidence that my reinsurers knew what they were doing. I so admired the old Lincoln who would look at a flaky deal, say it was flaky and walk away from it while other reinsurers were standing in line for the same deal. I don't trust the rating agencies, so it's important to me that the reinsurer's people know what they are doing so their company won't go belly-up.
>
> (2) I don't plan to need advice from my reinsurers (supposedly I've got enough geniuses in my own company), but it happens from time to time that I do. I would like to get good advice or a quick thought. ✍

*Rick Flaspöhler is the President of Flaspöhler Research Group located in Kansas City, MO. He can be reached at* rflaspolher@frsurveys.com.

# You don't have to be a member of the Society of Actuaries to join the Reinsurance Section!

Membership is only $10.00 annually and entitles you to:

- *Reinsurance Section News*, the Section newsletter, crammed with topical articles and the latest info on SOA activities
- Invitations to participate in section social/networking events
- Mailing/e-mail communications announcing upcoming research, projects, continuing education events and other activities

Participation in the Reinsurance Section is no longer limited solely to members of the Society of Actuaries! The section is now welcoming other actuaries and interested persons to participate in its activities. Applicants with interests in reinsurance areas relevant to the actuarial profession will be accepted for correspondent status. If you are interested in being considered for correspondent status, please complete the form below and submit it with a check for the processing fee. For those persons who are accepted, the processing fee will be applied to first-year section dues. Processing fees for applicants who are not accepted will not be returned.

## Reinsurance Section Membership Application

Mail application and nonrefundable processing fee (by check payable to the Society of Actuaries) to:

Society of Actuaries
Attn: Lois Chinnock, Reinsurance Section Staff Liaison
475 N. Martingale Road, Suite 600
Schaumburg, IL 60173-2226

**_____ YES! Enclosed is my $10.00 processing fee. I would like to be considered for correspondent status in the Reinsurance Section.**

Name ______________________________________________

Organization ____________________ Current Position ____________________

Reinsurance Involvement ______________________________________________

I am a member of the following organizations: ______________________________

Mailing Address ______________________________________________

City ____________________ State/Province ____________________

Country ____________________ Zip/Postal Code ____________________

Phone __________ E-Mail address __________ Fax ____________________