



# REINSURANCE NEWS

NEWSLETTER OF THE REINSURANCE SECTION

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## XXX IMPLICATIONS

by Juliette M. Burden, Gary R. Kelly, Bradley M. Smith

The purpose of this article is twofold. Number one, to estimate the growing level of statutory reserves that are being reinsured offshore, supported by Letters of Credit, as well as by assets held within a trust. Number two, to quantify the redundancy in the reserves due to the conservative nature of the required methodology, combined with the utilization of an outdated mortality table. First, a little background with regard to the actions/reactions of life insurers and insurance regulators to the increasingly competitive term life insurance market.

### Background

Over the past 15 years, insured mortality has improved greatly. For many reasons this improvement in mortality was not recognized on a timely basis by the professional organizations that track it. However, many insurance companies and their reinsurers were able to recognize this improvement, based upon experience emanating from their own blocks of business. Armed with this information, these companies were able to profitably price term insurance products at lower premiums per thousand of coverage. The public became particularly enamored with level term versions (i.e., 5, 10, 15, 20, 30-year level term) in which the premium and the coverage remained level for the initial term. As more and more companies recognized the opportunity presented by offering such coverage, premiums declined and profit margins contracted.

One cost that affects the level of the premiums charged is the cost associated with holding a statutory reserve. It represents a capital cost, as the assets supporting the reserve established will earn the after-tax investment earnings rate, while the desired return on invested capital for a life insurance product is typically higher. Thus, the larger the statutory reserve required, the greater the cost, resulting in a higher premium per thousand, all other things being equal. To minimize this reserve and its consequent cost, insurers issued products such as Term to 100, where level premiums were charged for the initial term period (i.e., 5, 10, 15, 20, 30 years) with substantially higher ART premiums charged thereafter. Most insurers, prior to the adoption of Regulation XXX (discussed later in this article), held reserves equal to the greater of 1/2 cx (i.e., unearned net premium) and a reserve calculated using a unitary premium approach (net premiums calculated to be a level percent of the guaranteed gross premiums). Charging substantially higher gross premiums after the initial level term period had two effects. Given the high premium charged after the initial level term period, most policy-

holders were expected to lapse after the initial level term period. Additionally, the high premiums in the later durations typically resulted in the development of little substantial reserve during the level term period. Consequently, a reserve equal to the unearned net premium was established. Taking these two together meant that insurers were holding an unearned premium type reserve for a coverage that was fundamentally a level term coverage that would theoretically require a larger reserve. This allowed insurers to charge less for their coverage since the capital cost of establishing the reserve was reduced.

This situation prompted an extended debate between the regulators and the industry, which eventually resulted in the adoption of the Valuation of Life Insurance Policies Model Regulation, often referred to as Regulation XXX. The

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# REINSURANCE NEWS

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SOCIETY OF ACTUARIES

## CHAIRPERSON'S CORNER

# XXX—INDIGESTION BY ANOTHER NAME

by Mel Young

How often do you look at the stupid things being done in another industry and shake your head? Airline companies, for example, seem to fall over each other trying to win the “Fool of the Month” award. Don’t you look at the Martha Stewart situation in wonderment? Could such a brilliant lady really do something so stupid? Ditto, the phone companies—laying fiber optic cable networks with enough redundancy to please the most conservative of valuation actuaries, all in the name of market share. The results should have been predictable; WorldCom goes down and an entire industry is in disarray. Mind-boggling isn’t it? Some day, if the story of XXX and AXXX is told, how will it be viewed by outsiders?



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If you can assume the role of an outsider for a moment, what would you think of all the bright people in the life insurance industry responsible for the XXX and AXXX situation? Is our industry pinning its hopes on a regulatory fix? If so, is this a prudent way to run our business? Is our profession and the regulatory community in danger of experiencing a major embarrassment? In our rush for market share, have we forgotten the trust our customers have placed with us and the long-term commitment we have made to them? For all of our sakes, I hope not. The White paper entitled, “XXX Implications,” penned by Burden, Kelly and Smith, and the interview of Brad Smith by John Nigh that appear in this edition of the newsletter hopefully will spur some to action. \*

## REINSURANCE SECTION WEB LIAISON UPDATE

The Reinsurance Section has a new Web Liaison! Richard Jennings, Canada Life Reinsurance, responded to the “Help Wanted” ad in the last newsletter and is ready to hit the ground running. Richard comes to us with a great blend of insurance, reinsurance and Web experience. He has 16 years of insurance industry experience in product development, sales and marketing and currently manages marketing and communications for Canada Life Reinsurance, including the Web site. You can expect to hear more in the future about development of the Reinsurance Section Web site. \*



Richard Jennings

# LIFE REINSURANCE DATA FROM THE MUNICH AMERICAN SURVEY

by David M. Bruggeman

**M**unich 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: 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](http://www.marclife.com) (look under Research).

## Life Reinsurance Production

This past year, 2003, was an active year in the reinsurance industry. Companies were acquired, large blocks of reinsurance were acquired, large blocks of insurance were acquired, some companies put the brakes on writing new business and even more—Whew! Also noteworthy was that the Canadian/U.S. exchange rate changed significantly from 2002 to 2003. Since the exchange rate had such an impact on the Canadian numbers, we will look at Canadian business in terms of \$U.S. and \$Canadian. So let's first take a look at total life reinsurance production. Total U.S. life reinsurance experienced a 0.4 percent decrease in the United States, while total Canadian life reinsurance increased 127.8 percent (\$U.S.) or 86.4 percent (\$Can). Looking further at the Canadian numbers reveals that the majority of the increase can be attributed to group business.

Unfortunately, there was one company that participated in the 2002 survey, but elected not to participate in this year's survey. To maintain consistent totals for comparison purposes to prior year's results, we reviewed publicly available information for this com-

pany and estimated production and in force data to include in the total categories only—this data was not used when calculating a company's market share.

With the exception of retrocession, all categories in the United States showed a decrease. Total U.S. ordinary production, which includes recurring, portfolio and retrocession, was almost exactly the same in 2003 as it was in 2002. U.S. group production dropped 17.9 percent from 2002. Increases in group business and, to some extent, portfolio business were the forces behind the overall increase in Canadian reinsurance production.

Figures 1 and 2 on page 4 are the life reinsurance production results for 2002 and 2003. The Canadian business is showed in \$U.S. and in \$Canadian.

## Recurring Business

By having distinct recurring, portfolio and retrocession categories for individual life, we have tried to remove any double counting of retrocession and block reinsurance from the recurring figures. This allows recurring business to reflect the "true" new business reinsured from direct writers. It also provides us with the most revealing picture of production trends. In the United States, 2003 recurring production practically matched that of 2002 production. A slight decline in production of 0.3 percent was recorded in 2003 versus 2002. The decline in 2003 follows a 13.8 percent increase in recurring new business in 2002. Looking further back in time, a decrease of 3.9 percent was reported in 2001 and increases of 21.6 percent, 19.3 percent and 33.9 percent were experienced in 2000, 1999 and 1998 respectively. Over the last three years, U.S. recurring production has increased a modest 9.0 percent. This is clearly a departure from the double-digit annual growth experienced in the 1990s.

Moving to Canada, it would appear that recurring production just kept rolling along in 2003. A 15.3 percent increase in Canadian recurring production was reported in 2003. However, this figure is based on U.S. dollars and not Canadian dollars. This is especially noteworthy since the exchange rate changed significantly from 2002 to 2003. If we look at Canadian recurring production based on actual Canadian dollars, the 15.3 percent increase becomes a 5.7 percent decrease. Looking from this perspective, the Canadian



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result parallels closely to that of the U.S. result in 2003. It appears that some direct writers have begun to retain more risk via increased quota share percentage or reinsuring on an excess retention basis. This especially impacts the Canadian market where a handful of writers dominate the direct market. Thus, if a top Canadian writer decided to move from a first dollar quota share arrangement to an excess arrangement or decides to increase its quota share percentage, it could have a large impact on the entire Canadian reinsurance market. Prior Canadian results, in \$U.S., show a 21.5 percent increase in 2002 and an increase of 29.4 percent in 2001. In \$Canadian, the percentages would be 19.2 percent in 2002 and 37.9 percent in 2001.

A couple of observations can be gleaned by looking at the individual company results. First, the U.S. and Canadian reinsurance markets are becoming increasingly stratified. Second, the level of the increases and decreases in production has widened dramatically over the years (higher highs and lower lows).

**Stratification.** If we sort the U.S. reinsurers by recurring production, it becomes clear that the companies can be broken down into three distinct groups. The

first group is represented by companies who wrote over \$100 million in recurring new business (Swiss Re, RGA, ING Re, Transamerica and Munich American). These five companies each had market shares of 10 percent or more in 2003 and combined made up 75.3 percent of the total U.S. recurring market. The second group is made up of companies with business written between \$30 billion and \$65 billion. The companies in this tier are Scottish Re, Generali, SCOR, Employers/ERC and Canada Life. This second group accounted for 21.2 percent of the 2003 U.S. recurring market. Adding the first group's market share with the second group's market shares accounts for 96.5 percent of the U.S. recurring market. Finally, the third group is made up of companies with recurring production below \$20 billion. The five companies in this group combine to make up the remaining 3.5 percent in U.S. market share. The difference between these groups is surprisingly clear. There is almost a \$50 billion production gap between the smallest company in the first group and the largest company in the second group and an almost \$15 million gap between the smallest company in the second group and the largest company in the third group.

Stratification is also evident in Canada where just two reinsurers hold the majority of the market share. The top two reinsurers, Munich Re and Swiss Re, are responsible for almost 67 percent of the total Canadian recurring market in 2003. Further, the top four Canadian companies (Munich Re, Swiss Re, ERC-Canada and RGA Re) accounted for 95.5 percent of the 2003 market share.

**Higher Highs and Lower Lows.** The level of increases and decreases in production on an individual company basis continues to widen. While the U.S. recur-

Figure 1

U.S. Life Reinsurance New Business Production (\$U.S. Millions)			
	2002	2003	Change
Ordinary Life			
Recurring	1,078,262	1,074,677	-0.3%
Portfolio	204,242	200,708	-1.7%
Retrocession	24,318	31,550	29.7%
Total Ordinary	1,306,822	1,306,935	0.0%
Total Group	31,987	26,261	-17.9%
Total Life	1,388,809	1,333,196	-0.4%

Figure 2

Canadian Life Reinsurance New Business Production (\$U.S. Millions and \$Canadian Millions)						
	\$ U.S.			\$Canadian		
	2002	2003	Change	2002	2003	Change
Ordinary Life						
Recurring	81,478	93,909	15.3%	128,433	121,142	-5.7%
Portfolio	24,122	35,893	48.8%	38,023	46,302	21.8%
Retrocession	2,500	1,668	-33.3%	3,941	2,152	-45.4%
Total Ordinary	108,100	131,470	21.6%	170,397	169,595	-0.5%
Total Group	7,860	132,693	1,588.2%	12,390	171,173	1,281.6%
Total Life	115,960	264,163	127.8%	182,787	340,768	86.4%

ring market was only slightly down in 2003, many companies reported very sizable increases or decreases. Individual company results show four companies reporting increases in excess of \$20 billion. With the acquisition of the Allianz business, RGA reported an increase of \$60.1 billion in U.S. recurring business. Following RGA was Munich American (\$30.0 billion increase), Scottish Re (\$29.0 billion increase) and ING Re (\$24.9 billion increase). Also, Transamerica reported

a \$10.7 billion increase. While these companies enjoyed large increases, there were other companies who reported large decreases in recurring production. Four companies in the United States reported decreases in production in excess of \$15 billion. Annuity and Life Re's recurring production dropped \$53.1 billion while Swiss Re had a \$31.1 billion drop. Finally, Employers/ERC and Generali (BMA) reported decreases of \$24.3 billion and \$15.5 billion respectively.

Figure 3

U.S. Ordinary Recurring Reinsurance (\$U.S. Millions)						
Company	2002			2003		
	Assumed Business	Market Share	Increase in Production	Assumed Business	Market Share	Increase in Production
Allianz	54,749	5.1%	25.3%	ACQ*	ACQ	ACQ
Annuity & Life Re	56,662	5.3%	1.6%	3,530	0.3%	-93.8%
Canada Life	29,360	2.7%	54.4%	31,014	2.9%	5.6%
Employers/ERC	58,483	5.5%	15.9%	34,157	3.2%	-41.6%
ERC-Canada	0	0.0%	0.0%	154	0.0%	100.0%
General & Cologne	14,615	1.4%	-10.0%	13,892	1.3%	-4.9%
Generali (BMA)	74,255	6.9%	90.4%	58,778	5.6%	-20.8%
ING Re	129,340	12.1%	38.2%	154,199	14.6%	19.2%
Munich American Re	80,076	7.5%	-22.8%	110,069	10.4%	37.5%
Optimum Re (US)	1,694	0.2%	30.2%	1,857	0.2%	9.6%
Revios Re (Gerling Global)	24,790	2.3%	-3.5%	17,168	1.6%	-30.7%
RGA	116,491	10.9%	3.3%	176,547*	16.7%	51.6%
SCOR Life Re	21,888	2.0%	648.8%	37,510	3.5%	71.4%
Scottish Re	34,339	3.2%	31.8%	63,366	6.0%	84.5%
Swiss Re	265,491	24.8%	7.7%	234,308	22.2%	-11.7%
Transamerica Re	110,219	10.3%	28.7%	120,900	11.4%	9.7%
<b>TOTALS</b>	<b>1,072,452</b>	<b>100.0%</b>	<b>16.3%</b>	<b>1,057,449</b>	<b>100.0%</b>	<b>-1.4%</b>

Figure 4

\*Allianz Individual Reinsurance Business acquired by RGA

Canada Ordinary Recurring Reinsurance (\$U.S. Millions)						
Company	2002			2003		
	Assumed Business	Market Share	Increase in Production	Assumed Business	Market Share	Increase in Production
Canada Life	521	0.6%	13.0%	618	0.7%	18.6%
ERC-Canada	12,793	15.7%	73.2%	15,284	16.3%	19.5%
General Re Life	18	0.0%	-56.1%	43	0.0%	138.9%
Munich Re (Canada)	25,661	31.5%	22.5%	32,524	34.6%	26.7%
Optimum Re (Canada)	1,750	2.1%	35.7%	2,364	2.5%	35.1%
Revios Re (Gerling Global)	2,347	2.9%	12.1%	1,233	1.3%	-47.5%
RGA Re	10,686	13.1%	34.9%	11,613	12.4%	8.7%
Swiss Re	27,702	34.0%	2.8%	30,230	32.2%	9.1%
<b>TOTALS</b>	<b>81,478</b>	<b>100.0%</b>	<b>21.5%</b>	<b>93,909</b>	<b>100.0%</b>	<b>15.3%</b>

Figure 5

Canada Ordinary Recurring Reinsurance (\$Can. Millions)						
	2002			2003		
Company	Assumed Business	Market Share	Increase in Production	Assumed Business	Market Share	Increase in Production
Canada Life	821	0.6%	10.8%	797	0.7%	-2.9%
ERC-Canada	20,166	15.7%	69.8%	19,716	16.3%	-2.2%
General Re Life	28	0.0%	-56.9%	55	0.0%	95.5%
Munich Re (Canada)	40,449	31.5%	20.1%	41,956	34.6%	3.7%
Optimum Re (Canada)	2,759	2.1%	33.0%	3,050	2.5%	10.6%
Revios Re (Gerling Global)	3,700	2.9%	9.9%	1,591	1.3%	-57.0%
RGA Re	16,844	13.1%	32.3%	14,981	12.4%	-11.1%
Swiss Re	43,666	34.0%	0.9%	38,996	32.2%	-10.7%
TOTALS	128,433	100.0%	19.2%	121,142	100.0%	-5.7%

Totals for Canadian and U.S. recurring ordinary reinsurance assumed in 2002 and 2003, as well as percentage changes are shown in Figures 3 and 4 on page 5 and in Figure 5 above.

### Portfolio and Retrocession Business

Total U.S. portfolio business decreased 1.7 percent in 2003. However, the U.S. number may be a little misleading as the Employers\ERC acquisition of AUL in 2002 had a large impact on the 2002 portfolio total. The fact that the portfolio represented over 15 percent of the total U.S. ordinary production indicates that in-force block deals and financial reinsurance remain popular. Portfolio business experienced an increase in Canada either way you choose to look at it: 48.8 percent (\$U.S.) or 21.8 percent (\$Can).

U.S. retrocession production rose 29.7 percent in 2003. This is welcome news for the retrocession market as it halts the recent skid that occurred over the last few years whereby U.S. retrocession production fell over 67 percent. Reinsurers may have been more motivated to retrocede in 2003 because of a desire to: (1) reduce capital strain and/or (2) share the risk where conditions may have pushed their comfort level—such as higher automatic limits, certain risk selection programs and other treaty conditions outside the norm. Compared to the United States, retrocession business in Canada is a smaller part of the total production and yearly results can be more volatile. In 2003, Canadian retrocession business decreased 33.3 percent (\$U.S.) or 45.4 percent (\$Can).

### Comparison with Direct Market

Estimates from the American Council of Life Insurance (ACLI) show 2003 U.S. ordinary individual life insurance purchases decreased 0.3 percent from 2002 purchases—remarkably the same as the percentage decrease for U.S. recurring business. Since the two markets experienced similar results in 2003, it is not too surprising to see that the percentage-reinsured level remained constant in 2003. The percentage-reinsured level is estimated by comparing the life purchases data from the ACLI to the reinsurance survey recurring production numbers. The 2003 level of 61.4 percent is on par with the 61.5 percent recorded in 2002. In fact, the percentage-reinsured level has remained very stable over the last five years (1999-2003) with percentages ranging from 59 percent to 61 percent. Sustaining such a high reinsured percentage for a five-year period could suggest that the market has reached its percentage-reinsured limit.

Figure 6 on page 7 compares ordinary life new business totals with the recurring life reinsurance totals for the United States.

### Life Insurance In Force

As a result of the 2003 new business production, total life reinsurance in force increased 14.1 percent in 2003. This compares to increases of 16.5 percent in 2002 and 3.6 percent in 2001. The U.S. total life in force increased 9.4 percent and the Canadian market in force grew by 75.9 percent in 2003.

The in force survey results for 2002 and 2003 are summarized in Figure 7 on page 7. Please note that some companies were not able to separate out their portfolio in force business and have included it in

Figure 6

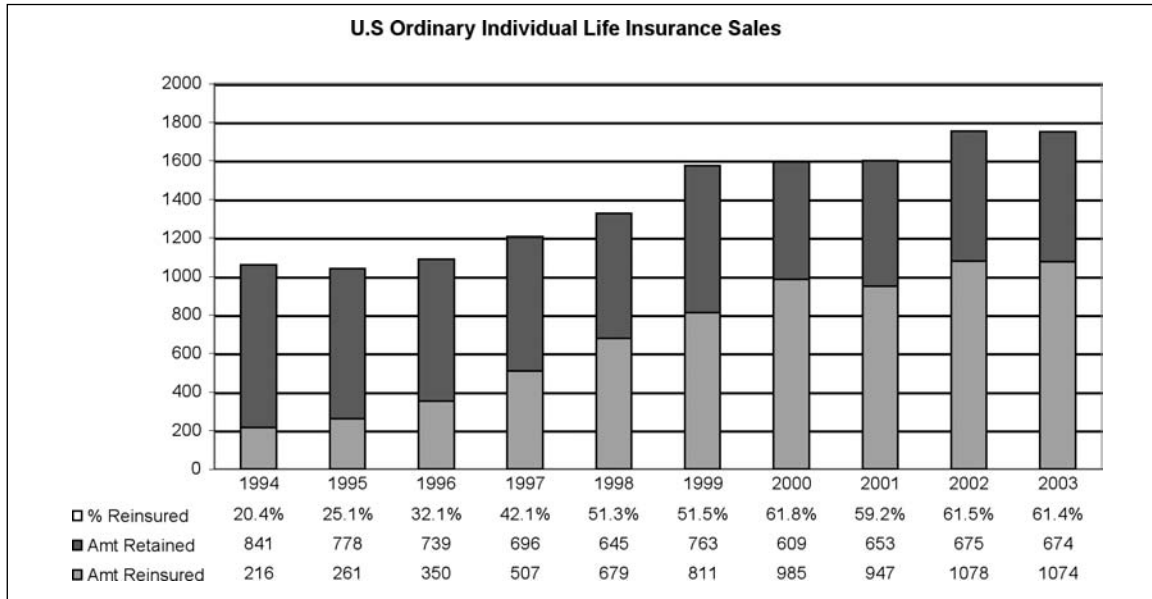


Figure 7

Life Reinsurance In Force (\$U.S.) Millions									
	U.S.			Canadian			Total		
	2002	2003	Change	2002	2003	Change	2002	2003	Change
Ordinary Life									
Recurring	4,356,737	5,059,454	16.1%	344,623	544,488	58.0%	4,701,360	5,603,942	19.2%
Portfolio	591,027	405,950	-31.3%	24,177	433	-98.2%	615,204	406,383	-33.9%
Retrocession	244,374	238,211	-2.5%	14,362	17,989	25.3%	258,736	256,200	-1.0%
Total Ordinary	5,192,138	5,703,615	9.9%	383,162	562,910	46.9%	5,575,300	6,266,525	12.4%
Total Group	165,215	159,557	-3.4%	22,110	149,880	577.9%	187,325	309,437	65.2%
Total Life	5,357,353	5,863,172	9.4%	405,272	712,790	75.9%	5,762,625	6,575,962	14.1%

the recurring category. Thus, the apparent drop in portfolio from 2002 to 2003 may not present an accurate picture of portfolio in force.

## Conclusion

Overall, 2003 was an active and eventful year for the life reinsurance industry. Some reinsurers experienced record increases in new business production, while others experienced large declines. Looking ahead, many of the same issues that dogged the market in 2003 will continue to be present in 2004—only now they may intensify. The new U.S. valuation table did not have much impact in 2003 since it was not adopted in a majority of states, but it is expected to be adopted in 2004. This means that many direct companies will be updating their term portfolios and reinsurance opportunities should be abundant in 2004. Even with the reduction in the level of required reserves

that is expected to come from the use of the new valuation table, term products are still going to require significant capital. This brings up many questions: Will the capital be available? If so, at what cost? If the cost of capital has gone up, how will it be reflected in the reinsurance price? How will direct companies react if the reinsurance price has, in fact, increased because of increasing capital costs? We may find out in 2004 if direct companies are truly “hooked” on reinsurance.

### 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. \**

### XXX Implications from page 1

regulation was adopted by the NAIC in March 1999, and by January 1, 2000, was adopted by 29 states, which had the practical effect of requiring most insurers to hold the increased reserve. Five states adopted the regulation effective sometime during 2000. New York State already had a similar regulation known as Reg 147 which had been adopted in 1995. Once the NAIC adopted XXX in 1999, New York revised Regulation 147 to incorporate methodology comparable to that encompassed in Regulation XXX. Regulation XXX is quite complicated, but its essence required companies issuing the previously described Term to 100 type policies to hold "segmented" reserves (i.e., reserves calculated specifically for the initial level term period).

The adoption of Regulation XXX prior to the completion/adoption of an updated valuation mortality table resulted in a substantial increase in the level of reserves required to be held by the companies (along with the consequent increased cost of holding the reserve). Thus, the companies could increase their pre-

these offshore reinsurance companies are licensed do not require the reinsurance companies to hold the same level of reserves as was required by Regulation XXX. This allowed the reinsurers to pass the savings in reduced capital costs back to the direct writing company, bringing their total costs close to where they would have been had they not had to establish the reserve at all. However, for the direct writing company to take a reserve credit on their statutory balance sheet, the reinsurers had to either place assets equal to the ceded reserve into a trust account or obtain a Letter of Credit (LOC) for an amount equal to the ceded reserve.

### Nature of XXX Reserve

The reserve calculated from the application of the methodology defined in Regulation XXX results in a positive reserve at issue (referred to as a deficiency reserve caused by charging a gross premium less than the net premium), increasing until sometime near the midpoint of the level term period, reducing to zero at the end of the level term period. The consumer's appetite for these products is illustrated in Table A.

The amounts in Table A and in the tables on page 9 represent totals for the top 100 life term writers, comprised of 385 individual life companies. As of December 31, 2002, the term business in force for these term writers represented approximately 98 percent of the total U.S. life industry term in force.

Likewise, the amount of ordinary life (including term) reinsurance ceded by issue year compared to the amount of ordinary life issued is shown in Table B.

As you can see, term represents an increasing percent of the total amount of life insurance issued. Likewise, the amount ceded has increased markedly with the adoption of these reserve requirements.

Finally, Table C shows the amount of term and ordinary life in force as of the end of the year along with the face amount and reserve ceded.

As you can see, the reserve per \$1,000 of face amount has declined as the amount of new term business issued (and presumably ceded) has increased.

### Model

We developed a simplified model (reflecting the high-level nature of industry-wide results available) in an attempt to quantify the level to which the reserve ceded will grow, both for existing business as well as new business to be produced.

The existing business component of the model reflects four years of term issues from 2000 through 2003. The available data only provided issues through 2002. We assumed 2003 issues to be 108

**TABLE A: NEW SALES VOLUME—U.S. TERM BUSINESS (AMOUNTS IN BILLIONS)**

ISSUE YEAR	TERM ISSUED
1997	\$674.5
1998	\$786.3
1999	\$879.4
2000	\$1,000.5
2001	\$974.0
2002	\$1,174.4

Source: Thomson Financial Insurance Solutions U.S. Life Insurance (Life) database, July 2003

miums, reduce the term of the guaranteed period for which premiums were charged or accept lower returns on their level term product offerings. Given the premiums then being charged, it was unlikely that consumers would embrace the concept of higher premiums. Likewise, through their product choices, consumers demonstrated a clear preference for guaranteed (vs. non-guaranteed) premiums. Since accepting lower returns was not an appealing long-term option, an alternative solution emerged.

Many companies reinsured their policies on a coin- insurance basis to reinsurance companies licensed outside the United States (i.e., offshore reinsurance companies), thus ceding the XXX reserve that was established on a direct basis to the reinsurers. The jurisdictions in which



**TABLE B: NEW SALES VOLUME—U.S. ORDINARY LIFE  
(AMOUNTS IN BILLIONS)**

ISSUE YEAR	OL ISSUED <sup>1</sup>	OL CEDED <sup>2</sup>	PERCENT CEDED	TERM ISSUED/OL ISSUED
1997	\$1,217.8	\$506.7	41.6%	55.4%
1998	\$1,343.3	\$679.7	50.6%	58.5%
1999	\$1,455.1	\$810.6	55.7%	61.7%
2000	\$1,677.2	\$985.5	58.8%	59.7%
2001	\$1,520.4	\$947.2	62.3%	64.1%
2002	\$1,687.1	\$1078.3	63.9%	69.4%

Source: <sup>1</sup>Thomson Financial Insurance Solutions U.S. Insurance (Life) database, July 2003

<sup>2</sup>Munich American Reassurance Company, Life Reinsurance Surveys, 1997-2002

**TABLE C: TERM/ORDINARY LIFE—INFORCE/CEDED  
(AMOUNTS IN BILLIONS)**

CALENDAR YEAR	TERM IN FORCE	OL IN FORCE	OL REINS. INFC. CEDED	OL REINS. INFC. RES. CEDED	RESERVE PER \$1000 CEDED
1997	\$4,923.5	\$9,835.7	\$2,852.6	\$26.3	\$9.22
1998	\$5,990.1	\$11,301.2	\$3,865.2	\$34.5	\$8.91
1999	\$7,091.6	\$12,621.7	\$4,659.8	\$35.5	\$7.62
2000	\$8,215.0	\$14,439.3	\$5,822.5	\$42.5	\$7.29
2001	\$9,620.4	\$15,876.0	\$7,186.2	\$50.7	\$7.06
2002	\$11,375.2	\$17,614.3	\$8,673.0	\$59.2	\$6.83

Source: Thomson Financial Insurance Solutions U.S. Insurance (Life) database, July 2003

percent of 2002 issues. Approximately 60 percent of ordinary life business issued is ceded, however we have assumed 80 percent of the model's term business issued is ceded. This is consistent with our assumption that more term than non-term business in the industry is reinsured. Also, based on the tables preceding, assuming 80 percent of the term issued during that period is ceded implies that approximately 30 percent of the non-term issued during that period is ceded. This seems reasonable. However, some of this business is ceded on a YRT basis, which would not result in the XXX reserve being ceded. We assumed that 75 percent of the term business ceded was ceded on a coinsurance basis, which would result in the transfer of the XXX reserve. Thus we assumed that 60 percent (i.e., 75 percent of 80 percent) of the model's term business is ceded on a coinsurance basis.

The model reflects 10, 20 and 30-year level term products for both male and female insureds. There are four risk classes and two issue ages in the model. Premiums reflect the average by issue age, sex and class of current term premiums available in the marketplace for the given level term periods, assuming a policy size of \$500,000. Mortality and lapse assumptions reflect common current term product pricing assumptions.

New business is assumed to be issued from 2004 through 2008, growing at 8 percent each year over the previous year's issued amount. For new business, we constructed two models, calculating XXX reserves utilizing 1980 CSO mortality tables and utilizing 2001 CSO mortality tables. These two models represent the extremes of the possible reserve amounts to be ceded over the next few years.

**TABLE D: PROJECTED REVENUE/FACE AMOUNT—1980 CSO  
(AMOUNTS IN MILLIONS)**

EOY	1980 CSO RESERVES			1980 CSO RESERVES			TOTAL RESERVE	TOTAL IN FORCE	RES. PER \$1,000 IN FORCE
	EXISTING BUSINESS RESERVE	EXISTING BUSINESS IN FORCE	RES. PER \$1,000 IN FORCE	NEW BUSINESS RESERVE	NEW BUSINESS IN FORCE	RES. PER \$1,000 IN FORCE			
2003	17,887	2,137,895	8.37	-	-	-	17,887	2,137,895	8.37
2004	27,235	1,948,314	13.98	902	790,900	1.14	28,137	2,739,214	10.27
2005	34,676	1,778,841	19.49	5,882	1,575,694	3.73	40,558	3,354,535	12.09
2006	40,463	1,632,990	24.78	14,569	2,356,299	6.18	55,031	3,989,289	13.79
2007	44,945	1,508,257	29.80	26,501	3,140,405	8.44	71,446	4,648,662	15.37
2008	48,363	1,400,965	34.52	41,377	3,937,543	10.51	89,740	5,338,508	16.81
2009	50,853	1,307,086	38.91	57,682	3,594,314	16.05	108,535	4,901,400	22.14
2010	52,498	1,142,363	45.96	70,624	3,289,142	21.47	123,122	4,431,505	27.78
2011	53,651	995,304	53.90	80,626	3,025,921	26.65	134,277	4,021,225	33.39
2012	54,351	843,937	64.40	88,306	2,800,819	31.53	142,658	3,644,757	39.14
2013	54,693	695,664	78.62	94,050	2,605,947	36.09	148,743	3,301,611	45.05
2014	54,747	661,000	82.82	98,083	2,316,825	42.34	152,830	2,977,824	51.32
2015	53,827	628,779	85.61	100,937	2,045,536	49.35	154,764	2,674,315	57.87
2016	51,536	598,430	86.12	102,806	1,788,127	57.49	154,342	2,386,557	64.67
2017	47,742	569,505	83.83	103,805	1,539,755	67.42	151,547	2,109,260	71.85
2018	42,242	541,564	78.00	104,045	1,298,039	80.16	146,288	1,839,603	79.52
2019	35,344	514,456	68.70	103,089	1,233,822	83.55	138,433	1,748,278	79.18
2020	28,177	410,639	68.62	99,830	1,173,675	85.06	128,006	1,584,315	80.80
2021	22,132	314,358	70.40	94,071	1,116,782	84.23	116,203	1,431,140	81.20
2022	17,486	207,761	84.17	85,587	1,062,407	80.56	103,073	1,270,167	81.15

### Projected Results

Given the lack of credible data with respect to the amount of reserve credit supported by LOCs/assets in trust at given historical points in time, these numbers should be viewed as very approximate. Specifically, readers of this paper should focus on the first significant digit of the estimate. On this basis the results appear to be consistent with approximations published elsewhere.

Table D presents the projected ceded reserves outstanding at the end of every year, from 2003 through 2022, for both existing business (projected as of December 31, 2003) and new business beginning in 2004 and produced through 2008, assuming all business is reserved utilizing the 1980 CSO Mortality Table.

Likewise, Table E presents the same results assuming that new business sold in 2004 and thereafter is reserved utilizing the 2001 CSO Mortality Table.

As you can see, the ceded reserve for existing business tops out in 2014 at \$55 billion, over three times its current projected level. Likewise, the ceded reserve for the sum of existing business and new business continues to grow through 2014. Obviously, this result is dependent upon the amount of new business issued in 2004 through 2008. The humped back nature of these reserves, along with the consumer's demand for these products, causes the concern with regard to the ability/willingness of the reinsurers and their creditors to support them through LOCs.

By way of comparison, total capital and surplus for the U.S. life insurance industry was \$215.8 billion as of September 30, 2003. Historically, the capital and surplus of the industry grew by 5.2 percent, 1.3 percent and 4.2 percent in 2000, 2001 and 2002 respectively. Clearly, failure of offshore reinsurers to be able to obtain Letters of Credit for the amount of ceded

**TABLE E: PROJECTED REVENUE/FACE AMOUNT—NEW BUSINESS USING 2001 CSO  
(AMOUNTS IN MILLIONS)**

EOY	1980 CSO RESERVES			2001 CSO RESERVES			TOTAL RESERVE	TOTAL IN FORCE	RES. PER \$1,000 IN FORCE
	EXISTING BUSINESS RESERVE	EXISTING BUSINESS IN FORCE	RES. PER \$1,000 IN FORCE	NEW BUSINESS RESERVE	NEW BUSINESS IN FORCE	RES. PER \$1,000 IN FORCE			
2003	17,887	2,137,895	8.37	-	-	-	17,887	2,137,895	8.37
2004	27,235	1,948,314	13.98	538	790,900	0.68	27,773	2,739,214	10.14
2005	34,676	1,778,841	19.49	4,583	1,575,694	2.91	39,258	3,354,535	11.70
2006	40,463	1,632,990	24.78	11,624	2,356,299	4.93	52,086	3,989,289	13.06
2007	44,945	1,508,257	29.80	21,307	3,140,405	6.78	66,252	4,648,662	14.25
2008	48,363	1,400,965	34.52	33,401	3,937,543	8.48	81,763	5,338,508	15.32
2009	50,853	1,307,086	38.91	46,929	3,594,314	13.06	97,781	4,901,400	19.95
2010	52,498	1,142,363	45.96	57,343	3,289,142	17.43	109,842	4,431,505	24.79
2011	53,651	995,304	53.90	65,201	3,025,921	21.55	118,852	4,021,225	29.56
2012	54,351	843,937	64.40	70,877	2,800,819	25.31	125,228	3,644,757	34.36
2013	54,693	695,664	78.62	74,533	2,605,947	28.60	129,227	3,301,611	39.14
2014	54,747	661,000	82.82	76,345	2,316,825	32.95	131,092	2,977,824	44.02
2015	53,827	628,779	85.61	76,929	2,045,536	37.61	130,755	2,674,315	48.89
2016	51,536	598,430	86.12	76,512	1,788,127	42.79	128,048	2,386,557	53.65
2017	47,742	569,505	83.83	75,269	1,539,755	48.88	123,011	2,109,260	58.32
2018	42,242	541,564	78.00	73,418	1,298,039	56.56	115,660	1,839,603	62.87
2019	35,344	514,456	68.70	71,030	1,233,822	57.57	106,373	1,748,278	60.84
2020	28,177	410,639	68.62	67,496	1,173,675	57.51	95,672	1,584,315	60.39
2021	22,132	314,358	70.40	62,795	1,116,782	56.23	84,927	1,431,140	59.34
2022	17,486	207,761	84.17	56,883	1,062,407	53.54	74,369	1,270,167	58.55

reserve has potentially significant ramifications for the U.S. life insurance industry. This issue will not affect individual companies in the industry uniformly, but could adversely affect a company focused on the term market that has utilized offshore reinsurance to fund its XXX reserve development.

### Possible Partial Solution

Companies are making money on these policies. Claims are being paid and there appears to be no question that this will be the case in the future. This crisis is somewhat artificial in nature, created by the adoption of a conservative reserve standard with an outdated mortality table.

The industry must address this issue or risk undermining confidence in the marketplace we serve.

One obvious solution would be to fix the causes of the problem. Specifically, allow companies to post a

revised reserve for existing term business written since December 31, 1999, using the 2001 CSO Mortality Table. Based upon our simplified model, doing so would reduce the reserve held as of December 31, 2003 by 20 percent as shown in Table F.

Likewise, consideration should be given by insurance regulators to allow the required reserves to reflect a conservative estimate of voluntary lapse (i.e., 2 to 5 percent annually). This is accepted practice in many individual health policies and it should be considered for level term policies. Clearly, pricing practices reflect voluntary lapses. Doing so typically reduces the premium required from the consumer for level term policies greater than 10 years in length. Failing to reflect voluntary lapses in the development of reserve factors for these types of policies increases the reserve required and artificially raises the premium paid by consumers.

**TABLE F: PROJECTED RESERVE FOR EXISTING BUSINESS: 1980 CSO VS. 2001 CSO  
(AMOUNTS IN MILLIONS)**

EOY	1980 CSO RESERVES		2001 CSO RESERVES		AMOUNT REDUCTION	PERCENT REDUCTION
	EXISTING BUSINESS RESERVE	RES. PER \$1,000 INFC.	EXISTING BUSINESS RESERVE	RES. PER \$1,000 INFC.		
2003	17,887	8.37	14,374	6.72	3,513	20%
2004	27,235	13.98	22,156	11.37	5,079	19%
2005	34,676	19.49	28,195	15.85	6,481	19%
2006	40,463	24.78	32,840	20.11	7,622	19%
2007	44,945	29.80	36,293	24.06	8,652	19%
2008	48,363	34.52	38,671	27.60	9,692	20%
2009	50,853	38.91	40,021	30.62	10,832	21%
2010	52,498	45.96	40,454	35.41	12,045	23%
2011	53,651	53.90	40,383	40.57	13,268	25%
2012	54,351	64.40	39,874	47.25	14,478	27%
2013	54,693	78.62	39,093	56.20	15,600	29%
2014	54,747	82.82	38,107	57.65	16,640	30%
2015	53,827	85.61	36,539	58.11	17,287	32%
2016	51,536	86.12	34,372	57.44	17,163	33%
2017	47,742	83.83	31,578	55.45	16,164	34%
2018	42,242	78.00	28,118	51.92	14,125	33%
2019	35,344	68.70	23,977	46.61	11,366	32%
2020	28,177	68.62	19,536	47.58	8,640	31%
2021	22,132	70.40	15,745	50.09	6,387	29%
2022	17,486	84.17	12,769	61.46	4,717	27%

Again using our simplified model, reflecting a lapse rate of 4 percent reduces the reserve held as of December 31, 2003 by 16 percent over the corresponding reserve calculated using 2001 CSO mortality. The total reduction in reserve over the current 1980 CSO reserve as of December 31, 2003 is 33 percent. Table G shows the restated existing and new business reserve utilizing 2001 CSO mortality and a 4 percent lapse rate. From a theoretical actuarial basis, reflecting lapses is consistent with the concept of setting reserves based upon asset adequacy analysis/cash flow testing.

Notwithstanding the reflection of more current levels of mortality in the 2001 CSO Table, this table is nonetheless out of step with respect to the underwriting classes being utilized today. This results in unnecessarily high reserves being held for the preferred underwriting classes, where a significant amount of the business is being sold.

Reserves should be set on a *reasonably* conservative basis, not an *overly* conservative one, reflecting the fact the companies hold required levels of surplus necessary

to support the business, thereby adding another level of assurance that claims will be paid/obligations will be met in the future. Pricing of the products should then reflect the cost of a reasonable amount of capital necessary to support the business giving consumers assurance that funds will be available to pay claims when received.

## Conclusions

Even if the regulatory requirement to hold reserves using the current methodology and valuation basis is liberalized as described earlier, it is clear that the level of reserves reinsured offshore will nonetheless grow to a substantial amount. Exacerbating this growth is the level of reserves required and likewise being reinsured offshore on lapse-protected (i.e., having secondary guarantees) universal life policies. Additionally, since much of the reinsurance is initially placed with onshore reinsurers, and subsequently retroceded to offshore reinsurers, there is a concentration of this risk within a few reinsurance companies. At current levels many of these companies have reinsurance ceded

**TABLE G: PROJECTED RESERVE/FACE AMOUNT—2001 CSO RESERVES WITH 4% LAPSE RATE (AMOUNTS IN MILLIONS)**

EOY	EXISTING BUSINESS RESERVE	RES. PER \$1,000 IN FORCE	NEW BUSINESS RESERVE	RES. PER \$1,000 IN FORCE	TOTAL RESERVE	RES. PER \$1,000 IN FORCE	TOTAL RESERVE W/O LAPSE	PERCENT REDUCTION
2003	12,033	5.63	-	-	12,033	5.63	14,374	16%
2004	18,489	9.49	534	0.68	19,023	6.94	22,694	16%
2005	23,641	13.29	3,911	2.48	27,552	8.21	32,777	16%
2006	27,745	16.99	9,760	4.14	37,505	9.40	44,464	16%
2007	30,927	20.50	17,836	5.68	48,763	10.49	57,600	15%
2008	33,236	23.72	27,993	7.11	61,229	11.47	72,071	15%
2009	34,666	26.52	39,330	10.94	73,996	15.10	86,949	15%
2010	35,293	30.89	48,320	14.69	83,613	18.87	97,797	15%
2011	35,502	35.67	55,352	18.29	90,854	22.59	105,584	14%
2012	35,342	41.88	60,660	21.66	96,002	26.34	110,750	13%
2013	34,969	50.27	64,293	24.67	99,262	30.06	113,627	13%
2014	34,421	52.07	66,346	28.64	100,767	33.84	114,452	12%
2015	33,304	52.97	67,369	32.93	100,673	37.64	113,468	11%
2016	31,578	52.77	67,541	37.77	99,119	41.53	110,885	11%
2017	29,189	51.25	67,002	43.51	96,191	45.60	106,847	10%
2018	26,073	48.14	65,946	50.80	92,019	50.02	101,536	9%
2019	22,184	43.12	64,395	52.19	86,579	49.52	95,007	9%
2020	17,962	43.74	61,701	52.57	79,663	50.28	87,032	8%
2021	14,352	45.65	57,799	51.76	72,151	50.42	78,540	8%
2022	11,558	55.63	52,594	49.50	64,152	50.51	69,652	8%

reserve credits that are multiples of their statutory capital and surplus. To the extent that reinsurers are unable or unwilling to support this level of reserves with Letters of Credit or through the placing of assets in trust, the direct writers' reinsurance reserve credit is jeopardized, creating instability with regard to their statutory financial results. The potential for rating agency downgrades could accelerate concern about a direct writer's financial condition, even prior to a Letter of Credit non-renewal.

Any instability created by this situation has the potential to give the actuarial profession a "black eye," as it is our perception that the issue is not appreciated or possibly even recognized at the CEO level of the life insurance industry. Likewise, the regulatory community has to accept some responsibility for establishing an overly conservative reserve requirement, thereby driving the insurance industry to a remedy that has resulted in its current predicament.

At least one direct writer of this business has addressed the issue through securitization as a substitute

for offshore reinsurance. While this may be a viable solution for some, securitization has its costs and necessitates a minimum size in order to be feasible.

When it comes to safety, some believe that too much is never enough. However, there is a cost associated with providing safety in the form of requiring excessive capital to support the business. If investors in a capitalistic society cannot earn a reasonable return on that capital reflecting the risk undertaken, then capital will flee that industry, eliminating its ultimate safety net (i.e., the ability to access the capital markets). Alternatively, the cost of tying up this capital will be reflected in the pricing of products, resulting in artificially high prices being paid by consumers, negatively affecting the demand for the products offered by the industry. A reasonable balance must be reached. In this instance it appears that excessive conservatism in establishing required reserves has resulted in a response by the industry that has the potential to add instability to individual companies' financial results. \*



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# Axxx REGULATION: AN INTERVIEW WITH BRADLEY M. SMITH OF MILLIMAN INC.

by John O. Nigh

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An article, titled “XXX Implications,” authored by Juliette M. Burden, Gary R. Kelly and Bradley M. Smith, appears in this issue of the Reinsurance Section Newsletter. In my role as a member of the Reinsurance Section Council, I sat down with one of the authors, Brad Smith, to interview him on contracts subject to Axxx regulation. While there are many similarities in the issues that both regulations present, there are many significant differences. Both, however, are of extreme importance to direct writers and reinsurers alike. Any questions concerning this interview can be directed to either my or Brad’s attention by telephone or e-mail.

**JN: Brad, in your article, “XXX implications,” you discuss potential reserve redundancies due to the requirement that a mortality table be used that is not truly reflective of current mortality on newly issued business as well as the constraints of not being able to use lapse assumptions in setting reserves. With respect to Axxx, which primarily involves universal life contracts that have similar types of issues that contracts subject to XXX have plus others such as secondary guarantees, do you think that there are similar reserve redundancy issues? If so, does this exacerbate your concern as to the potential impact that this might have on the instability of the life insurance industry?**

**BS:** John, first let me emphasize that the opinions expressed in the article, as well as this interview are my own, and are not necessarily held by my partners in Milliman.

Application of Axxx to universal life products with secondary guarantees suffers some of the same problems that application of XXX to level term products suffers. Specifically, conservative methodology and mortality assumptions that are out of step with the underwriting classifications currently being used today can result in the establishment of overly redundant reserves, although it is unclear that the same level of redundancy is created by application of Axxx for universal life contracts with secondary guarantees as is created by the application of XXX to level term prod-

ucts. One response taken by some companies is to reinsure the policies through offshore reinsurance companies. Clearly, the popularity of these products has the potential to exacerbate even further the problems outlined in our article.

**JN: It seems as though the industry is overreliant on the use of letters of credit to solve the capital issues caused by both XXX and Axxx, which is, at best, a short-term solution for a long-term problem. While one company has used securitization to solve its XXX reserve redundancy problem, do you think that companies really understand the long-term impact of using a short-term solution or is the industry seemingly hoping that the regulators will solve the problems for them?**

**BS:** I do not believe that many companies, particularly at the senior officer level, with the possible exception of the senior actuarial officers, understand the potential magnitude of the issue. That is one of the reasons we wrote the article. Unfortunately, it may take nonrenewal of a letter of credit and consequent technical statutory insolvency/impairment of an individual company before the issue is seriously addressed by the industry.

**JN: In an ideal world, that is, a world independent of any regulatory constraints, what do you think would be the best approach to establishing a framework for setting reserves for secondary guarantees included in universal life and other contracts?**

**BS:** I think the dual approach used to establish statutory reserves today—that is the greater of formula-driven reserves and sufficiency tested reserves by an appointed actuary—is flawed. Unfortunately, formula-driven reserve methods are rigid, difficult to adapt to new circumstances and, in many cases, provide a “safe harbor” that can be manipulated by those inclined to do so. I believe that the products offered by the life insurance industry no longer lend themselves to formula-driven reserves. Consequently, I favor an approach that would require sufficiency test-

ing by the actuary/actuaries responsible. Such an approach would address the issue of funding long-term liabilities with short-term instruments such as letters of credit. Additionally, a methodology to calculate tax reserves consistent with this approach would have to be developed and adopted by the federal government.

This approach has support in the current revisions to RBC calculations for variable annuities with contractual guarantees. For these products, RBC levels are equivalent to “total asset” levels and are determined using stochastic modeling methods. Reserves are defined as an allocation of the total asset requirement to the liability side of the balance sheet. Movement within the actuarial profession is toward less formulaic methods with more emphasis on quantifying the low-probability, high-impact risks.

**JN: From a pricing perspective, are companies using overly aggressive lapse rates and/or interest rates in pricing universal life contracts with secondary guarantees?**

**BS:** I cannot comment on whether companies *are* using overly aggressive lapse rates/interest rates in pricing universal life contracts with secondary guarantees. However, if you attempt to reverse engineer some of the products in the marketplace today, one way you can justify the premiums being charged while still projecting a profit for the issuing company is through the use of lapse rate and interest rate assumptions that on the surface look somewhat aggressive. There have been few non-asset related life insurance company failures/impairments in recent years. It is instructive to review the ones that have occurred. Certainly the problems caused at Mid-Continent Life in the late 1990s were driven by a product portfolio that was underpriced due to the assumption of overly high lapse rates in the later durations as well as optimistic long-term interest rate assumptions. Similar problems with high-duration lapse rates/long-term interest rates have resulted in the underpricing of term-to-100 policies offered in Canada and long term care products offered in the United States. As far as I am concerned, the potential for underestimating the level of premium required for these policies is a much more critical issue than is the level of reserves required. Of course, under-reserving can lead to underpricing.

**JN: How can companies truly know what lapse rates to use and what sources are available to them to assist them in establishing lapse rates?**

**BS:** History tells us that policyholders generally recognize and will utilize coverages/options in contracts that work to their benefit. Many times this impairs the policy’s profitability. While companies can’t know unequivocally what their lapse rates will be, the examples discussed here would lead me to price assuming very low lapse rates for lapse supported products including universal life contracts with secondary guarantees or, alternatively, to confirm through sensitivity testing and communication with management that the company can tolerate the financial consequences of very low ultimate lapse rates.

Conceptually, I think the use of shadow accounts to reflect varying premium payment patterns of policyholders in universal life products with secondary guarantees is a helpful product feature.

**JN: What is your view of using shadow account product structures to otherwise reduce the reserves required under AXXX?**

**BS:** Conceptually, I think the use of shadow accounts to reflect varying premium payment patterns of policyholders in universal life products with secondary guarantees is a helpful product feature. Specifically, the use of a shadow account rather than a minimum premium payment requirement allows policyholders to meet a minimum funding requirement unrelated but economically similar to a minimum premium payment requirement. However, the use of a shadow account that uses a load structure unrelated to the underlying policy, the primary purpose of which is to manipulate the statutory reserve requirements, is inappropriate and has the potential to cause problems for both the industry and the actuarial profession.

**JN: In your article, you talk about the instability that redundant reserves requirements and the associated short-term solutions may cause. Is there an argument that we should work together with our life insurance regulators to arrive at a more reasonable approach to establishing reserves that would**

**mitigate, if not eliminate, the potential instability that might result as a consequence of the AXXX and XXX requirements and the solutions currently being utilized?**

**BS:** Absolutely. The introduction to the article outlines how we got to the place that we are with regard to XXX reserving for term products. In my mind, it is the result of a “push/shove” approach to the establishment of reserves by both the regulators and the industry. As the article details, this has led us to the potentially unstable position of funding long-term obligations with short-term instruments. The two groups must work in concert to establish reserves reflective of the true economic liability associated with the coverage offered, while providing sufficient, but not excessive, margin for adverse deviation. If agreement on such realistic reserve levels can be reached, I strongly believe that the industry and the actuarial profession will price its products appropriately, reflecting a realistic level of reserves/capital necessary to support the benefits offered in their products.

**JN:** Brad, thank you very much for your insights and comments. I feel compelled to offer a few of my own, and I must emphasize that they are my own opinions. You correctly point out that senior management may not know the magnitude of the issue for their company in the context of short-term solutions that may not survive as long as the underlying contracts. There are, however, other issues that actuaries must tackle, particularly those who are senior officers for their companies. **The first is to be completely open and communicate the facts, as it is usually the actuary who understands the problems. The communication should address available structures, prudent pricing, adequate reserving and potential risks. The second is to proactively reach out to the regulators to begin the process of moving away from formula-driven reserve standards to standards and methodologies that truly reflect the economic obligations of the contracts. Until both of these occur, the push/pull between actuaries and management and between companies and regulators will continue, which simply is not in our collective best interests. \***

## JOIN US AT THE 2004 ANNUAL MEETING AT THE NEW YORK MARRIOTT MARQUIS, OCTOBER 24-27!

by *Larry Carson*



Larry Carson, FSA, MAAA, is vice president and actuary at RGA Reinsurance Company in Chesterfield, Mo. He can be reached at [lcarson@rgare.com](mailto:lcarson@rgare.com).

**T**his year’s Annual Meeting promises to be a great one, and the Reinsurance Section is planning five sessions that will be lively and informative. We’ll start off bright and early on Monday morning with the Reinsurance Breakfast, featuring Hot Topics led by the chairs of the RAA Life Reinsurance Committee and the ACLI Reinsurance Committee. This session is a “must-attend” to find out what’s going on in our business.

Next up is a teaching session focusing on the nuts and bolts of Implementation Issue B36, covering embedded derivatives in funds-withheld and modco agreements. Industry experts will help you understand the theoretical and practical issues raised by this pronouncement.

On Monday afternoon, we’re bringing back the ever-popular mock reinsurance arbitration, entitled “Reinsurance on the Rocks.” In this role-playing session, you’ll get to see an arbitration in process, vote on the outcome and compare your vote to those of actual

arbitrators. Table shaving, underwriting exceptions, claims contestability and aggressive reinsurance pricing will make this case a nail-biter to the very end!

On Tuesday morning, we’re cosponsoring two sessions with the Investment Section. The first session will focus on issues of capital and reinsurance: where has the capital gone, and where is it going to come from next? Panelists will discuss what has happened and what some potential solutions are to the reinsurance capital crunch. The follow-up session will focus specifically on one of the potential solutions—securitization.

Finally, on Wednesday morning, we’ll examine consolidation in the life reinsurance industry from the ceding company’s perspective. This panel discussion, cosponsored with the Smaller Insurance Company Section, will cover the effects of consolidation on ceding company pricing, underwriting and other aspects of business management. \*



# AN INTRODUCTION TO THE REINSURANCE ASSOCIATION OF AMERICA

by Cynthia J. Lamar and Bradley L. Kading

If you have an interest in the latest developments in state laws affecting reinsurance, or are concerned about federal activity with regard to terrorism or asbestos or need timely and reliable data on the U.S. reinsurance market you should know about the work of the Reinsurance Association of America (RAA). The RAA is a nonprofit trade association of reinsurers established in 1968. The association is headquartered in Washington, D.C.

The primary purpose of the RAA is to advance the interests of the U.S. property and casualty reinsurance industry through effective government relations with state and federal lawmakers and regulatory agencies and representation before judicial bodies. In addition, the RAA aims to build understanding of reinsurance regulatory issues and the reinsurance business among the media and other external audiences and to serve the needs of its members by providing information and assistance. **In recent years the RAA has opened opportunities for affiliate participation in the organization to life reinsurers, reinsurance brokers and offshore reinsurers who take great interest in the work of the association.**

The RAA engages in a variety of activities that serve its members and affiliates by representing their collective interests, as well as providing information and analysis to audiences outside the industry.

- **Legislation and Regulation**—The RAA is an active advocate for reinsurance interests before state regulators and legislators who directly regulate the insurance business. At the federal level, the RAA is active on insurance regulatory issues and other subjects such as terrorism risk insurance and asbestos funding initiatives.
- **Legal agenda**—The RAA serves as a resource for its members and affiliates on analysis of reinsurance statutes and case law nationwide. It represents its members' interests by litigating on their behalf and serving as amicus curiae on issues of importance to the reinsurance industry. The RAA publishes articles to further the development of reinsurance law in the United States.

- **Reinsurance Statistical Data**—The RAA provides aggregate data, including quarterly statistics on industry underwriting results, analysis of annual statement data on the reinsurance market, an underwriting review of premiums and losses, analysis of U.S. premiums ceded to alien jurisdictions and biennial studies on historical loss development. Many of the RAA reports and data products are available to the public.
- **Education**—Seminars on reinsurance for state insurance departments and for public audiences are held around the country each year. In addition, the RAA conducts conferences for members and affiliates covering reinsurance legal developments, tax, claims, accounting and environmental issues. The current slate of educational programs that are open to the public includes: Catastrophe Modeling, ReBasics, ReContracts, ReClaims and ReFinance.
- **Publications**—Numerous publications developed by the RAA provide industry data and help explain the complexities of laws and regulations affecting the reinsurance business.

## RAA Reinsurance Advocacy: Legislation and Regulation

The RAA represents its members before state legislators and regulators in the United States and, increasingly, in international forums. The RAA is the country's leading association of reinsurers and as a result is the reinsurer's voice before policy makers. The RAA's work accrues to the benefit of ceding and assuming insurers alike, since its objective is maintenance of a regulatory environment that is conducive to the utilization of reinsurance. Although the RAA works on all issues affecting reinsurance, our work broadly falls into three categories: credit for reinsurance, receivership and access to private reinsurance markets.

## Credit for Reinsurance

Some version of the NAIC's model credit for reinsurance law or regulation has now been adopted in



Cynthia Lamar is vice president and assistant general counsel at the RAA.



Bradley Kading is senior vice president and director of state relations of the association.

every state. The movement toward standardization of these laws is due to the coordinated effort of state insurance departments and the RAA. Prior to the NAIC accreditation program, the state credit for reinsurance laws were a hodge-podge. Since these provisions establish the framework for the accounting of reinsurance, the RAA worked to ensure that the model law and regulation were in good form and then focused on working with legislators and regulators to win state adoption of the models. Uniformity in this area will ensure consistency in granting of credit for reinsurance and ensure that insurance companies domiciled in various states will not be disadvantaged because competitors are able

An example of the RAA's work on receivership law is the progress we've made in recent years to ensure recognition of cut through clauses in reinsurance contracts.

to get credit for reinsurance on a different basis than they can. To date some 22 states have incorporated the key features of the most up-to-date version of the NAIC model—the 1996 edition. Work continues.

The RAA has also worked along with the U.S. primary industry to maintain the collateral required under present credit for reinsurance models. While some non-U.S. reinsurers have lobbied hard for the reduction of the amount of collateral required to support the U.S. reinsurance obligations of unlicensed and unauthorized reinsurers, the RAA has advocated for maintaining the financial security provided by the present system. U.S. reinsurers believe that, unless and until U.S. regulators and ceding companies can rely on comparable accounting bases and regulatory systems and can be assured that amounts due can be collected under foreign legal systems, full funding of U.S. reinsurance obligations is essential.

### Receivership Law

An example of the RAA's work on receivership law is the progress we've made in recent years to ensure recognition of cut-through clauses in reinsurance contracts. The RAA is not an advocate for the use of cut-through clauses, but our work ensures that if they exist, the contract provisions must be recognized by receivers to ensure that the beneficiaries of the cut-through agreement get paid and that rein-

surers are not in jeopardy of paying twice (to the receivership estate and to the cut-through beneficiary). Another example is the work the RAA has done to clarify state laws in relation to insolvency clauses. Insolvency clauses are required as a condition of credit for reinsurance, but state law often does not recognize or sometimes contradicts the common ingredients of such a clause, including the right to receive notice of a claim, the right to defend against a claim and the legal basis on which the reinsurance claim must be made under the contract. To date, the RAA has won modifications of these laws in 34 states.

The RAA focuses on all aspects of receivership law. The paramount goal of this effort is to ensure that contracts freely entered into by the now-insolvent insurer are enforced as intended by the receiver that has stepped into the shoes of the insolvent. If receivership law were to lead to the rewriting of contract provisions or to substantively changing the reinsurer's obligations, the effect likely would be to damage the reinsurance market for insurers domiciled in the state with the adverse law. Insurers domiciled in those states would likely be put at a competitive disadvantage when buying reinsurance vis-a-vis their competitors domiciled in states without such adverse receivership laws.

An example of the potential threat was the effort in the mid-1990s by receivers to try to estimate the IBNR of insolvent ceding insurers and compel reinsurers to pay reinsurance recoveries on the basis of that estimated IBNR. Such legislation was defeated in about a dozen states as the RAA fought to ensure that reinsurers' liabilities would be governed by reinsurance contract provisions. The RAA noted that receivers had a self-interest in inflating estimated IBNR so that a greater reinsurance recovery would be achieved. Further, the RAA insisted that the contract provisions govern how reinsurance claims are evaluated and paid and that reinsurers could not be retroactively bound to pay estimates for future liabilities when the contracts never contemplated such a payment pattern. Nor should the reinsurer be forced to pay based on predictions of events that may never occur. The RAA cited the wide variability in asbestos and environmental estimated liabilities as examples of the great fluctuations that can take place over time in the estimation of IBNR. The RAA has pointed out that the historically appropriate uses of IBNR are self-correcting over time



endorsing any of the pending proposals; rather, the association is committed to working with the proponents of such legislation to ensure adoption of an appropriate regulatory scheme for the reinsurance market. In the meantime, we believe there could be a role for the federal government to play in such areas as prohibiting states from applying their laws on an extraterritorial basis and encouraging reforms in protecting rights of interested parties in insurance receiverships.

The RAA has adopted a policy favoring national regulation for reinsurers. The policy would not abandon state regulation, but would provide for a sole regulator for reinsurers, whether that regulator



is at the state or federal government level. We think that reforms and efficiencies can be achieved by the states acting to enact federally adopted standards. Under this proposal, federal preemption would ensure that a reinsurer domiciled in a state that enacts the federal standards is free from insurance regulation by all other states. The plan would provide that an optional federal charter system for reinsurers would take effect as a backup should an insufficient number of states adopt the federal standards. Finally, the plan would benefit from the expertise embodied in state insurance solvency regulations by incorporating important NAIC model acts within both the federal standards and the optional federal charter regulatory schemes.

An important federal issue dealt with this year was the proposal to develop an asbestos trust fund for payment of claimants. The RAA participated actively in negotiations on this legislative proposal. The RAA believes that an acceptable program for asbestos reform must achieve certain fundamental principles—there must be certainty and finality associated with

any asbestos funding proposal and any resolution must be accomplished at a reasonable economic cost.

Finally, the RAA is very active in industry-wide efforts to work toward extension of the Terrorism Risk Insurance Act. Terrorism risk remains uninsurable in the traditional sense in that the frequency and severity of losses are unpredictable, thus the capacity that reinsurers are able to allocate to potential losses is limited. A federal backstop is essential to provide the capacity that remains unavailable in the private market. We support legislative and research efforts aimed at preventing the serious market disruptions that would result absent a federal backstop for terrorism losses.

## Legal Agenda

The RAA's legal staff advances reinsurers' interests through direct litigation and through participation as *amicus curiae* in state and federal courts. All of the issues that are the subjects of our legislative advocacy efforts are also potential topics for advocacy in the courts. In recent years the RAA has litigated setoff rights and claim estimation/acceleration issues in conjunction with the Mission receivership in California. This year the RAA acted as the primary litigant in an effort to prevent the imposition of claim estimation and acceleration in the Integrity receivership case in New Jersey. That litigation, which has been underway for eight years, may continue at least a few more years as the issues are expected to go on to appeal. Recent cases where the RAA has intervened as *amicus curiae* covered subjects such as protection of arbitration rights, interpretation of the follow the fortunes doctrine, defense against policyholder direct actions against reinsurers, support of setoff rights and determination of the appropriate limits of state authority under the McCarran-Ferguson Act, among others.

## Reinsurance Information: Statistical Data

### Industry Financial Results

The RAA is widely known for its signature quarterly report on the underwriting results of the U.S. reinsurance industry. This report is comprised of a spreadsheet containing underwriting information that includes premiums written and earned; policyholders' surplus; loss, expense and combined ratios; and several other categories of statistical information. The reports are the

only reinsurance underwriting statistics collected and made publicly available on a quarterly basis.

The *Reinsurance Underwriting Review (RUR)* has been published by the RAA since 1980. This report summarizes the underwriting and operating results of the nation's major property/casualty reinsurers, providing timely and comprehensive information on the U.S. reinsurance market. The newly expanded edition of the RUR contains additional tables and analytics on reinsurance recoverables, reserve and leverage ratios and invested assets. The new tables go beyond the traditional income statement review and include data from the balance sheet and Schedule F. The upcoming edition of the RUR reflects the 2003 experience of 50 organizations, including both individual companies and groups, whose data are reported in the appendices.

The contents of the RUR are based on data assembled by the National Association of Insurance Commissioners and on data received from the companies themselves, complementing the RAA's Quarterly Reinsurance Underwriting Report with additional information from a broader group of reinsurers. The booklet contains historical data on combined ratios and net income, and is a unique source of financial information for the U.S. reinsurance market.

### Market Share Studies

In addition to providing quality reports on reinsurers' financial results, the RAA also produces three market share studies that provide further insight into the industry. The P&C Market Share Report presents market share data for the top 50 U.S. P&C groups. It is a useful tool for market analysis of the U.S. primary industry and provides detailed line of business information in an easily accessible format.

Each line of business (e.g. fire, homeowners', etc.) is organized as a chapter in this report. The chapters begin with a presentation of five-year summary analytics on the percentage of premiums ceded, pure loss ratios and trends for direct, assumed, ceded and net premiums written. Each chapter includes a separate page for direct, affiliated assumed, nonaffiliated assumed, affiliated ceded, nonaffiliated ceded and net premiums written for the largest groups in each respective line of business. Each chapter also contains net pure loss ratios by line of business for each of the top 50 P&C groups. The companion Reinsurance Market Share Report presents the same detailed, line of business market share data for the top 50 U.S. rein-

surers. This report is an excellent tool for market analysis of the U.S. reinsurance industry.

The Alien Market Report has been published by the RAA since 1990 and analyzes the U.S. premiums ceded to and recoverables from more than 3,300 reinsurers in over 100 jurisdictions outside the United States. In addition, the report ranks jurisdictions with the largest participation in the United States for both affiliated and unaffiliated reinsurance business and provides historical market share trends of U.S. reinsurance companies versus alien reinsurers.

### Loss Development Studies

The RAA produces two widely referenced loss developments studies that have become standard tools for many actuaries who have a stake in the reinsurance industry. The Historical Loss Development Study has been produced by the RAA since 1969 to reinforce awareness of historical loss development pat-

The RAA produces two widely referenced loss developments studies that have become standard tools for many actuaries who have a stake in the reinsurance industry.

terns in companies writing casualty excess reinsurance business and in primary companies writing high-deductible or umbrella insurance. This 230-page book contains over 40 years of loss development data compiled from 23 companies and is full of insightful analysis of attachment points, ranges of variation, comparative treaty and facultative data and the impact of mass torts on loss development. Comprehensive data is presented in the study for the major lines of insurance, including automobile liability, general liability, workers compensation and medical malpractice. The study also includes a comparison of reinsurer and primary insurer historical loss development. The 2003 edition also includes an exhibit on discounted vs. undiscounted development of workers compensation and presents analysis of the ratio of asbestos and environmental and other mass tort losses compared to total general liability emergence by accident year.

The RAA also publishes a catastrophe loss development study that presents aggregated reinsurer loss development data from 13 extreme events including the 2001 World Trade Center tragedy, major earthquakes, hurricanes and firestorms. Twenty reinsurers

contributed data to the study that was published for the first time in December 2002. World Trade Center reinsurer loss development is broken out by line of business, including: property, aviation, liability, workers compensation and life, personal accident and accidental death and disability.

## Reinsurance Information: Legal Resources

### Compendium of Reinsurance Laws and Regulations

The *RAA Compendium of Laws and Regulations* is written by reinsurance experts and contains 22 charts summarizing the laws and regulations of 51 U.S. jurisdictions. The publication covers key reinsurance topics, including: Allowance/Estimation of Claims, Arbitration Laws, Bulk Reinsurance, Campaign Finance Laws, Capital/Surplus Requirements, Contract Clause Requirements, Credit for Reinsurance Laws, Credit for Reinsurance Regulations, Cut-Throughs, Extraordinary Dividend Laws, Filing Requirements, Fraud, Fronting, Holding Company Act, Holocaust, Intermediary Model Act, Lobbyist Registration and Reporting, Mirror Image Reserving, Pre-Answer Security, Record Retention Requirements, Setoffs, Standard Fire Policy and Title Reinsurance.

### Digest of Reinsurance Case Laws

Since our legal system is based upon precedent, legal research is motivated by the necessity of determining what various courts within a given jurisdiction have held in the past when confronted with a set of

facts and questions of law similar to those adjudicated earlier. To meet this need, the RAA publishes its *Digest of Reinsurance Caselaw*, a major reference work that consists of a comprehensive collection of U.S. reinsurance case law indexed, cross-referenced and summarized for optimal ease-of-use. The digest is organized by topic areas to provide an effective and efficient tool a practitioner can use to uncover a particular case among the numerous cases in the 51 jurisdictions in the United States. Prior to its development no single, up-to-date, reinsurance-specific, U.S.-based case law digest existed.

### Reinsurance Contract Clauses—Case Law Annotations

Disputes often arise over the terms of reinsurance contracts, allowing the courts numerous opportunities to examine and interpret examples of reinsurance contract clause language. The *RAA Reinsurance Contract Clauses—Case Law Annotations* provides an index of these cases, organized by clause type, which is the most effective and efficient tool a practitioner can use to quickly discover interpretations of contract clause language throughout the United States. This exhaustive reference work is designed to give reinsurance executives, attorneys and contract writers easy access to court decisions by providing specific contract language extracted from the decision and the court's interpretation of that language.

For more information about the RAA, please visit [www.reinsurance.org](http://www.reinsurance.org). \*

## Share Your Actuarial Wisdom

Do you have valuable career-related insight that you can offer to entry- to mid-level actuarial job seekers?

Submit your article for publication on the SOA/Monster.com Job Link Web site (<http://soa.monster.com/>)! Article ideas include profiles of nontraditional actuarial roles, secrets of success in the actuarial marketplace, topics related to personal development and more!

For more information, contact Glenda Maki at 847.706.3564, [gmaki@soa.org](mailto:gmaki@soa.org). \*



# ON ASOP NO. 11

by Donald D. Solow

In June 2003, the Actuarial Standards Board released an exposure draft to revise ASOP No. 11, *The Treatment of Reinsurance Transactions Reflecting Life or Health Insurance Risks in Financial Statements*. Section 3.5, *Additional Liabilities*, states, in part, "...if the reinsurer has the right to raise reinsurance premiums on in-force business without a corresponding right by the ceding entity to raise policyholder premiums or terminate the reinsurance, an additional current liability may be indicated." The same language appeared in the original ASOP of July 1989. Unfortunately, the ASOP provides no further guidance on when an additional current liability is indicated. Furthermore, the linking of (a) the possible need for an additional current liability to (b) the right of the insurer to raise premiums or terminate the reinsurance, may be inappropriate.

In considering if and when an additional ceding company current liability is indicated, the actuary may find it useful to analyze the rate guarantee language (if any) in the reinsurance agreement. Generally, the rate guarantee language will fall into one of the following three categories:

1. Rates are guaranteed by the reinsurer.
2. Rates can be raised by the reinsurer at its discretion, perhaps up to a limit.
3. Rates can be raised by the reinsurer if certain conditions exist or are met.

If reinsurance rates are guaranteed by the reinsurer, then an additional ceding company current liability is not indicated. Presumably, the current (guaranteed) rates have been used by the ceding company's actuary in computing net reserves, deferred acquisition cost assets and other balance sheet items.

If reinsurance rates can be raised by the reinsurer at its discretion, then an additional ceding company current liability may be needed. For example, a yearly renewable term reinsurance agreement may contain a schedule of current rates and a schedule of guaranteed maximum rates. (In many cases, the guaranteed maximum rates are based on the valuation mortality table.) In determining whether an additional current liability is indicated, the ceding company's actuary may wish to assess both the intention of the reinsurer to raise rates as well as the intention of the ceding

company to pass any such rate increase along to its policyholders by modifying non-guaranteed policy elements. In assessing the intentions of the reinsurer, the ceding company's actuary will likely take into account the reinsurer's earnings from the block of business reinsured. This can be coupled with the actuary's understanding of the reinsurer's position regarding rate increases. For example, if a block of business has been profitable for the reinsurer, the actuary may determine that rates are highly unlikely to be raised, and so no additional current liability will be established for the ceding company. Conversely, if a block of business has not been profitable for the reinsurer, the actuary will need to assess the likelihood of a rate increase and the amount of such an increase. If the ceding company has the right, *but not the intention*, to pass rate increases along to the policyholders by modifying non-guaranteed policy elements, an additional liability may be indicated. Reliance on the right to change non-guaranteed policy elements in response to an increase in reinsurance rates may not justify the failure to establish an additional liability if the ceding company has no intention of passing along such increases to its customers.

If reinsurance rates can be raised provided certain conditions exist, and if such conditions currently exist, then the ceding company's actuary may wish to assess the likelihood of the rates being increased. If reinsurance rates can be increased only if certain conditions are met, the actuary may wish to assess the likelihood of such conditions occurring, and to assess the likelihood of rates being raised in response to such conditions being met. Again, an additional liability may be necessary, even if the ceding company has the right to change non-guaranteed policy elements, because the ceding company may not have the intention of changing the policy elements.

In implementing ASOP No. 11, then, the ceding company's actuary must first determine if the right to raise reinsurance rates exists. This is accomplished by careful reading of the reinsurance agreement. If the right exists, the likelihood of a rate increase should be considered, taking into account the particular facts and circumstances. Finally, the actuary should also take into account the ceding company's *intention* to pass rate increases along to its policyholders, not just its right to do so. \*

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# A NEW LOOK FOR WWW.SOA.ORG

by Jen Abbatacola

**W**elcome to the newly redesigned SOA Web site! Notice the remarkable aesthetic improvements and how easy it is to navigate our site. Some of the notable changes include:

- **Improved navigation**—Looking for information specific to your area of practice? Click on the areas of practice tab on the home page to locate seminars, publications, research projects and other content specific to your area. Seeking other information? For a comprehensive look at all seminars, publications, research projects etc., simply click on the appropriate headings at the top of the home page.
- **Site-wide search**—The site-wide search is another great way to find information. Available throughout the site, this tool enables you to quickly find content from any area with the click of a button.
- **Quick searches**—Save time by searching the membership directory and online library directly from the home page.
- **Improved discussion forums**—Visit the new discussion forums and discover how easy and effective it is to communicate online with other users.
- **Online library**—Find documents for all SOA publications, including special interest section newsletters, *The Actuary*, *North American Actuarial Journal* and others through the improved library search. You now have the option of searching publications by author and date range. Take advantage of the new browse feature and peruse any issue of any publication in the library.

- **New Joblink**—The SOA has partnered with Monster.com, one of the most recognized names in Internet job searches, to create a career site that offers more job postings, enhanced features and career-related content.
- **Printer-friendly pages**—Printing important documents is much easier with pages that enable users to print documents in an easy-to-read format.

We've also reorganized the SOA-produced research by topic of interest. Topics of specific interest to Reinsurance Section members can be found at <http://www.soa.org/ccm/content/?categoryID=333003>.

Now accessible from the home page, the improved Library Search feature adds to the enhanced functionality of the new site and provides the capability to search by author and/or date range (including month/year). Holding the control key allows you to search multiple publications at the same time. The Browse feature works just like Windows Explorer to help locate exactly what you are looking for.

Use Quick Search for site-wide searches or search the SOA Membership Directory for detailed information on colleagues.

We hope the changes to *www.soa.org* make your searches easier and more effective and your overall user experience a better one. To let us know what you think of our "new look," send us an e-mail at [com-ments@soa.org](mailto:com-ments@soa.org). ✨

## REMEMBER TO VOTE IN THE SECTION COUNCIL ELECTION!!

Voting for the new members of the section councils is taking place July 12 through August 13. The candidates for the Reinsurance Section Council are:

Craig M. Baldwin, Transamerica Reinsurance, Charlotte, NC  
J.J. Lane Carroll, Swiss Re Life & Health America, Inc., Fort Wayne, IN  
Lawrence S. Carson, Financial Markets Div., RGA Reinsurance Co., Chesterfield, MO  
Alex Cowley, Lehman Brothers, Lehman Risk Advisors and Lehman Re, New York, NY  
Steven D. Lash, Ernst & Young LLP, New York, NY  
Robert B. Lau, Reinsurance Solutions, Revios Reinsurance, Toronto, Ontario  
Graham W.G. Mackay, Milliman, Inc., Chicago, IL  
Stephen M. Maher, Risk Capital Strategies, LLC, Avon, CT  
Mark Richard Troutman, Summit Reinsurance Services, Inc., Fort Wayne, IN

*(Vote for up to 3 candidates)*

*Note: Stephen M. Maher and Mark Richard Troutman are the candidates for the reserved Health seat.*