2012 LIFE REINSURANCE OVERVIEW

Jim Filmore, FSA, MAAA
Vice President & Actuary, Individual Life Pricing
November 20, 2013

Top Global Reinsurance Groups

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>2012 Net Rein Premium Written ($M)</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Munich Re</td>
<td>35,797</td>
<td>19.3%</td>
</tr>
<tr>
<td>2</td>
<td>Swiss Re</td>
<td>25,344</td>
<td>13.7%</td>
</tr>
<tr>
<td>3</td>
<td>Hannover Re</td>
<td>16,346</td>
<td>8.8%</td>
</tr>
<tr>
<td>4</td>
<td>Berkshire Hathaway Re</td>
<td>16,145</td>
<td>8.7%</td>
</tr>
<tr>
<td>5</td>
<td>Lloyd's</td>
<td>11,373</td>
<td>6.1%</td>
</tr>
<tr>
<td>6</td>
<td>SCOR</td>
<td>11,286</td>
<td>6.1%</td>
</tr>
<tr>
<td>7</td>
<td>RGA</td>
<td>7,907</td>
<td>4.3%</td>
</tr>
<tr>
<td>8</td>
<td>Partner Re</td>
<td>4,573</td>
<td>2.5%</td>
</tr>
<tr>
<td>9</td>
<td>Everest Re</td>
<td>4,081</td>
<td>2.1%</td>
</tr>
<tr>
<td>10</td>
<td>MS&amp;AD Holdings</td>
<td>3,446</td>
<td>1.9%</td>
</tr>
<tr>
<td>11+</td>
<td>All other</td>
<td>49,151</td>
<td>26.5%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>185,449</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

2012 News

<table>
<thead>
<tr>
<th>The economy</th>
<th>The reinsurance market</th>
</tr>
</thead>
</table>
| ![Image](image.png) | ▪ Generali announces plans to seek a buyer for its US life reinsurance business.  
▪ Swiss Re sells REALIC to Jackson National  
▪ Aurigen makes move into US market |

US RECURRING
Direct life sales & the U.S. IL cession rate

Direct sales up 2%

+ Recurring down 3%

= Cession rate 26.1%

Direct Sales Source: LIMRA

U.S. Individual Life Cession rate

US ordinary individual life insurance sales (2003-2012)

Source: Munich Re Life Reinsurance Survey
Uses of Reinsurance

- Mortality/morbidity risk transfer
- New risks
- Exiting a line of business
- Capital or reserve relief
- New business financing
- Access to underwriting expertise
- Per life capacity
- Access to services (underwriting manual, etc.)

US Recurring by company

<table>
<thead>
<tr>
<th>Company</th>
<th>2011 Assumed Business</th>
<th>2012 Assumed Business</th>
<th>Change in Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>RGA Re Company</td>
<td>103,108</td>
<td>87,115</td>
<td>-15.5%</td>
</tr>
<tr>
<td>Swiss Re</td>
<td>75,912</td>
<td>81,188</td>
<td>7.0%</td>
</tr>
<tr>
<td>SGOR Global Life (US)</td>
<td>77,505</td>
<td>76,547</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Generali USA Life Re</td>
<td>74,993</td>
<td>63,820</td>
<td>-14.9%</td>
</tr>
<tr>
<td>Munich Re (US)</td>
<td>61,922</td>
<td>62,654</td>
<td>1.2%</td>
</tr>
<tr>
<td>Hannover Life Re</td>
<td>29,275</td>
<td>40,885</td>
<td>39.7%</td>
</tr>
<tr>
<td>General Re Life</td>
<td>12,696</td>
<td>12,961</td>
<td>2.1%</td>
</tr>
<tr>
<td>Canada Life</td>
<td>15,543</td>
<td>8,668</td>
<td>-44.2%</td>
</tr>
<tr>
<td>Wilton Re</td>
<td>4,825</td>
<td>6,684</td>
<td>38.5%</td>
</tr>
<tr>
<td>Optimum Re (US)</td>
<td>5,002</td>
<td>5,124</td>
<td>2.4%</td>
</tr>
<tr>
<td>RGA Re (Canada)</td>
<td>392</td>
<td>37</td>
<td>-90.6%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>461,174</strong></td>
<td><strong>445,683</strong></td>
<td><strong>-3.4%</strong></td>
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Source: Munich Re Life Reinsurance Survey
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Source: Munich Re Life Reinsurance Survey

The top 5 reinsurers made up 83% of the recurring IL reinsurance volume in the U.S. in 2012.
US Recurring by company


Recurring: YRT vs. Coinsurance

The percentage of coinsurance new reinsurance has dropped from 37% in 2009 to 27% in 2012.

2012 New Business

- YRT: 73%
- Coin.: 27%

2012 In Force

- YRT: 48%
- Coin.: 52%
US PORTFOLIO AND RETROCESSION


<table>
<thead>
<tr>
<th>Year</th>
<th>Portfolio ($US Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>213,656</td>
</tr>
<tr>
<td>2004</td>
<td>831,703</td>
</tr>
<tr>
<td>2005</td>
<td>38,747</td>
</tr>
<tr>
<td>2006</td>
<td>101,926</td>
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<tr>
<td>2007</td>
<td>35,058</td>
</tr>
<tr>
<td>2008</td>
<td>256,786</td>
</tr>
<tr>
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<td>776,710</td>
</tr>
<tr>
<td>2010</td>
<td>94,236</td>
</tr>
<tr>
<td>2011</td>
<td>1,041,577</td>
</tr>
<tr>
<td>2012</td>
<td>343,403</td>
</tr>
</tbody>
</table>

Source: Munich RE Life Reinsurance Survey

Portfolio ($US Millions)

Scottish Re acquires ING Re

Hannover acquires ING Re from Scottish Re

Source: Munich Re Life Reinsurance Survey

Portfolio ($US Millions)

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<td>1,041,577</td>
</tr>
<tr>
<td>2012</td>
<td>343,403</td>
</tr>
</tbody>
</table>

U.S. retrocession (2003-2012)

Retrocession ($US Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Retrocession</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>32,614</td>
</tr>
<tr>
<td>2004</td>
<td>31,249</td>
</tr>
<tr>
<td>2005</td>
<td>42,625</td>
</tr>
<tr>
<td>2006</td>
<td>34,159</td>
</tr>
<tr>
<td>2007</td>
<td>29,879</td>
</tr>
<tr>
<td>2008</td>
<td>28,812</td>
</tr>
<tr>
<td>2009</td>
<td>14,817</td>
</tr>
<tr>
<td>2010</td>
<td>7,226</td>
</tr>
<tr>
<td>2011</td>
<td>8,433</td>
</tr>
<tr>
<td>2012</td>
<td>7,465</td>
</tr>
</tbody>
</table>
WHERE ARE THEY NOW?

Quiz Time

How many U.S. individual life reinsurers were there in 1995?
How many can you name?
Thank you!
Any questions?
Authoritative Literature

Statement of Statutory Accounting Principles (SSAP)

SSAP 61
Life, Deposit Type, and A&H Reinsurance
Paragraphs 17 -20

Appendix A-791
Life and Health Reinsurance Agreements

Rules Based
Not very well written
Need to make sure you map out all of the double negatives
Most detailed rules are in the Appendix which is a Q&A format.
Not the same rules for US GAAP / IFRS

What are the impacts of risk transfer?

If risk transfer test fails, deposit accounting; otherwise, insurance accounting

<table>
<thead>
<tr>
<th></th>
<th>Deposit Accounting</th>
<th>Insurance Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve Credit</td>
<td>✗</td>
<td>✓</td>
</tr>
<tr>
<td>RBC Reduction</td>
<td>✗</td>
<td>✓</td>
</tr>
<tr>
<td>Risk Coverage</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
Paths to Risk Transfer
SSAP 61 Rules

YRT
Comply with specified provisions of A-791
Pass

YRT
Failure to comply with specified provisions of A-791
Fail

Non-proportional (Stop loss, Cat)
Payments made timely by the reinsurer
Pass

Non-proportional (Stop loss, Cat)
Reinsurer delay payments to ceding company
Fail

Other (Coinsurance, ModCo, etc)
Complies with all provisions of A-791
Pass

Other (Coinsurance, ModCo, etc)
Failure to comply with all provisions of A-791
Fail

*Assumption reinsurance is excluded from risk transfer rules.

Provisions of A-791 (Summarized)

A-791, paragraph 2:
“No insurer shall, for reinsurance ceded, reduce any liability or establish any asset in any statutory financial statement if, by the terms of the reinsurance agreement, in substance or effect, any of the following conditions exist:"

Translation:
If anything in the following list is true, then you fail risk transfer (paragraph 2, sections a – k). Paragraphs 4-5 require you to affirmatively apply those provisions.

Even though paragraph 1 says A-791 does not apply to YRT, SSAP 61 pulls in certain elements of A-791.
## Provisions of A-791 (Summarized)

### Fail risk transfer if any of the following exist from paragraph 2:

<table>
<thead>
<tr>
<th>YRT</th>
<th>Other</th>
<th>Paragraph</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td>✓</td>
<td>2a</td>
<td>Renewal expense allowances are not enough to cover future administrative expenses</td>
</tr>
<tr>
<td>✓</td>
<td>✓</td>
<td>2b</td>
<td>Ceding insurer can be deprived of surplus/assets at the reinsurer’s option (insolvency provisions, conversion from modco to co, etc).</td>
</tr>
<tr>
<td>✓</td>
<td>✓</td>
<td>2c</td>
<td>Ceding insurer is required to reimburse the reinsurer for negative experience under the contract. Exceptions: netting losses against gains for experience refunds and payments upon voluntary recapture. Exception to the exception: cannot force recapture by excessive increases in premiums.</td>
</tr>
<tr>
<td>✓</td>
<td>✓</td>
<td>2d</td>
<td>The ceding insurer must, at scheduled points in time terminate or recapture the contract.</td>
</tr>
</tbody>
</table>

## Provisions of A-791 (Summarized, cont.)

### Fail risk transfer if any of the following exist from paragraph 2:

<table>
<thead>
<tr>
<th>YRT</th>
<th>Other</th>
<th>Paragraph</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td>✓</td>
<td>2e</td>
<td>The reinsurance agreement has the possibility of payments from the ceding company that exceed the direct premiums charged.</td>
</tr>
<tr>
<td>✓</td>
<td></td>
<td>2f</td>
<td>The treaty does not transfer all of the significant risks inherent in the business being reinsured. Table of product types and risks provided (morbidity, mortality, lapse, credit quality, reinvestment, disintermediation)</td>
</tr>
<tr>
<td>✓</td>
<td></td>
<td>2g</td>
<td>The assets are not transferred or are not put in a segregated account when credit quality, reinvestment, and disintermediation risk are required to be transferred.</td>
</tr>
<tr>
<td>✓</td>
<td>✓</td>
<td>2h</td>
<td>Settlements are made less frequently than quarterly</td>
</tr>
</tbody>
</table>
### Provisions of A-791 (Summarized, cont.)

Fail risk transfer if any of the following exist from paragraph 2:

<table>
<thead>
<tr>
<th>YRT</th>
<th>Other</th>
<th>Paragraph</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td>✓</td>
<td>2i</td>
<td>The ceding company must make warranties not reasonably related to the business being reinsured</td>
</tr>
<tr>
<td>✓</td>
<td>✓</td>
<td>2j</td>
<td>The ceding company must make warranties about the future performance of the business being reinsured.</td>
</tr>
<tr>
<td>✓</td>
<td>✓</td>
<td>2k</td>
<td>The ceding company gets surplus aid even though the net effect of the transaction is that the ceding company’s risk remains the same.</td>
</tr>
</tbody>
</table>

### Must comply with paragraphs 4-5 to pass risk transfer:

<table>
<thead>
<tr>
<th>YRT</th>
<th>Other</th>
<th>Paragraph</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td></td>
<td>3</td>
<td>&lt;&lt;Accounting guidance, not risk transfer guidance&gt;&gt;</td>
</tr>
<tr>
<td>✓</td>
<td></td>
<td>4</td>
<td>Letter of intent (or signed treaty) must be in place before the as-of date of the financial statement in order to take credit for the reinsurance</td>
</tr>
<tr>
<td>✓</td>
<td></td>
<td>5</td>
<td>Treaty must be signed within 90 days after the execution of a letter of intent</td>
</tr>
</tbody>
</table>
THANK YOU FOR YOUR ATTENTION

LIFE INSURER OWNED CAPTIVES

Paige Freeman, SVP & General Counsel
Life insurer owned captives

  - Vermont, South Carolina, Delaware and Hawaii
  - "Bermuda-style financial wizardry"
  - "Shadow insurance industry"
  - "Like shadow banking system that contributed to the financial crisis"
- Concerns of certain U.S. state regulators over captive transactions
  - Avoidance of statutory accounting requirements
  - Lack of disclosure
  - Unfunded liabilities or use of questionable assets to fund liabilities
    - "Conditional" letters of credit
    - "Naked" parental guarantees

Regulatory reactions – National Association of Insurance Commissioners (NAIC)

- Late 2011 - formation of Captives and Special Purpose Vehicles Subgroup
  - Developed white paper on captives
    - Accounting Considerations
    - Confidentiality
    - Access to Alternative Markets
    - International Association of Insurance Supervisors (IAIS) Principles, Standards and Guidance
    - Credit for Reinsurance Model Enhancements
    - Disclosure and Transparency
    - Financial Analysis Handbook Guidance
Regulatory reactions – New York Department of Financial Services (NYDFS)

- Investigation of New York domestic insurance companies – July 2012
  - $48 billion in “Shadow Insurance” at New York-based insurers and their affiliates
  - Inconsistent, spotty, and incomplete disclosures – in particular, failure to disclose parental guarantees
  - Reserves diverted, artificially rosy capital buffers
  - Weak transparency, regulatory blind spots
  - Regulatory race to the bottom – states outside of New York allow “hollow assets,” “naked parental guarantees,” and “conditional letters of credit”

- Called for investigations by the Federal Insurance Office (FIO), Office of Financial Research, the NAIC and other state insurance commissioners, and an immediate national moratorium on approving shadow insurance transactions

Regulatory reactions - NAIC

- NAIC white paper
  - Adopted by the Captives Subgroup in June of 2013 and E Committee in July of 2013

- E Committee adopted new charges concerning captives for the Financial Analysis Working Group (FAWG)
  - Perform analytical reviews of transactions (occurring on or after a date as determined by the NAIC membership) by nationally significant US life insurers to reinsure XXX and/or AXXX reserves with affiliated captives, special purpose vehicles (SPVs), or any other US entities that are subject to different solvency regulatory requirements than the ceding life insurers, to preserve the effectiveness and uniformity of the solvency regulatory system.
  - For such transactions entered into and approved prior to this date and still in place, collect specified data in order to provide regulatory insight into the prevalence and significance of these transactions throughout the industry.
  - Provide recommendations to the domiciliary state regulator to address company specific concerns and to the PBR Implementation (EX) Task Force to address issues and concerns regarding the solvency regulatory system.
Regulatory reactions - NAIC

- NAIC PBR implementation plan
  - The NAIC needs to further assess the solvency implications of life insurer-owned captive insurers and other alternative mechanisms in the context of PBR. The solution for captives and SPVs within the context of PBR will be largely based on Captives report as adopted by the E Committee and referred to the PBR Implementation (EX) Task Force. The Task Force will create a Working Group to concentrate on this issue and propose the way forward.

- Captives (EX) Working Group of the PBR Implementation (EX) Task Force
  - Address any remaining XXX and AXXX problems without encouraging formation of significant legal structures utilizing captives to cede business.
  - Address confidentiality of information.
  - Recommend enhancement to the Financial Analysis Handbook Guidance to allow for a consistent approach for states’ review and on-going analysis of transactions involving captives and SPVs.

- Blanks Working Group
  - Changes to Schedule S
    - Separate disclosure of authorized and unauthorized affiliate captives
    - Definition of “captive”
    - Adopted and required for 2013 Annual Statement Reporting

- FAWG
  - Issued survey to all states – responses requested by the end of September
    - Information regarding domestic insurers and their use of captive structures
    - Information concerning the guidelines and procedures the domiciliary state utilized in review those captive structures
Regulatory reactions - NAIC

- **PBR Implementation Task Force**
    - Tasked with developing new framework for the regulation of captives
    - Initial Report provided to the PBR Implementation Task Force on September 13, 2013
    - Proposing a “Measuring Stick” approach
      - Bright line determination between economic and non-economic reserves
        - Economic reserves – hard assets (“Primary Assets”)
        - Non-economic reserves – soft assets (“Other Assets”)
      - “Actuarial Standard” – methodology used to calculate the economic reserve

Rector’s Framework

- **Alternative A – via Reinsurance:**
  - Ceding company determines the statutory XXX or AXXX reserve
  - Ceding company cedes business to an assuming company with approval of the ceding company’s domestic regulator and the assuming company’s domestic regulator
  - To receive full reserve credit, the ceding company must receive collateral consisting of (i) “Primary Assets” in the amount determined pursuant to the “Actuarial Standard” and (ii) “Other Assets” for the difference between the statutory reserves and the reserve determined by the “Actuarial Standard”

Rector’s Framework

- **Alternative B – at Direct Insurer Level:**
  - Direct insurer determines the statutory XXX or AXXX reserve
  - Direct insurer also identifies two categories of assets supporting the statutory reserves for the business: (i) “Primary Assets” in the amount determined pursuant to the “Actuarial Standard” and (ii) “Other Assets” for the difference between the statutory reserves and the reserve determined by the “Actuarial Standard”
  - Direct insurer’s domiciliary regulator approves the arrangement

---

Rector’s Framework: “Issues to be considered”²

1. **Methodology for determining the “Actuarial Standard”**
   - **Goals:**
     - “Set criteria so all insurers/regulators would reach substantially the same result regarding what portion of an insurer’s statutory reserve must be supported by Primary Assets and what portion may be supported by Other Assets”
     - “Select an Actuarial Standard that achieves consensus acceptance by all (or at least most) regulators and insurers.”
   - **Possible methodologies**
     - AG 38, Section 8D.a.
     - VM 20
     - Other Approaches

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Rector’s Framework: “Issues to be considered”²

2. Primary Assets
3. Other Assets
4. Capital and Surplus
5. Effective Date of Framework
6. Disclosure Requirements and Examination Procedures
7. “Codification” of Framework
8. Legal and Statutory Accounting Treatment to Implement Alternative B
9. Framework Applicability to Reinsurance Ceded to Accredited/Admitted, Certified and Unaffiliated Reinsurers
10. Requirements for Frequency of Recalculation of Economic Reserves
11. Examination Coordination
12. Guidelines for Auditor and Actuarial Oversight
13. Tax Impact


Rector’s Framework – Next Steps

- Feedback from the PBR Implementation Task Force to Rector
- Rector – Report of Pros and Cons of Approaches to PBR Implementation Task Force in November
- Rector – Final Recommendation for Framework in February of 2014
ACLI Activities

- **PBR Deputies Subgroup**
  - Consideration of methodology for “Actuarial Standard”
    - Solvency Test
      - Cash flow model demonstrating that “Primary Assets” are adequate to meet the captive’s obligations at the 95th percentile
        - Test the assets backing both the reserves and capital for adequacy
        - Modeling performed similarly to cash flow testing for asset adequacy analysis
        - After tax and after reinsurance
  - Technical Team of Captive Subgroup of Reinsurance Committee
    - Determination of Primary Assets and Other Assets
      - Primary Assets – Cash, Securities listed by the SVO of NAIC, certain LOCs
      - Other Assets – Any assets allowed by domestic regulator which are not Primary Assets
    - Effective Date
Underwriting red flags

- Home address is a P.O. box, mail drop or agent’s address.
- Premium submitted on agent’s personal check, agency check, counter check or money order.
- “Clean sheeted” application.
- Applicant lives in a different state from the agent.
- Questionable beneficiary/owner relationship (niece, uncle, nephew, cousin).
- Identifiers cannot be verified (date of birth, address, SSN).
- Agent submit an increased number of applications.
- Applicant’s address is inconsistent with employment/income.
- Policy applied within company’s underwriting requirement threshold.
- Broker listed as beneficiary.
- Alterations of information that is material on the application.

- Has lived at current address less than six months.
- No home telephone number, but possess a mobile/ pager.
- Unable to provide driver’s license.
- Pays minimum amount on UL products.
- Insured is never available for inspection report.
- Unemployed or self-employed in transient occupation.
- Systemic fraud is often agent driven. Monitor agents with death claims, rescissions, clean sheeting, all “good risks”, and all or most “non-smokers”. Monitor if persistency is poor. Consider terminating the agent.
Post-issue red flags

- Request for change of address to P.O. box immediately after issue.
- Owner/beneficiary changes made in proximity to contestable period ending.
- Numerous changes of beneficiaries and addresses.
- Returned mail with no known address.
- Agent handles all transactions and is adamant that company not contact insured directly.
- Handwriting in recent request does not match handwriting in file.
- Increase in benefit or indication of multiple policies.
- Multiple duplicate policy requests.

Claims red lags

- A claim submitted soon after the policy was issued or immediately after the contestable period expires.
- Documentation that appears to have alterations (death certificate, accident report, and some medical records).
- Beneficiary might be reluctant to submit final or original death certificate.
- Beneficiary calls repeatedly about status of claim, assertive behavior, threatens or files DOI complaint.
- Beneficiary is either vague or detailed about the circumstances surrounding death of the insured.
- Beneficiary provides all information you would need to make a claim decision in initial paperwork.
- Beneficiary does not provide documentation after repeated requests.
- Medical history inconsistent with cause of death.
Claims red flags

- Cause of death rarely a result of any unusual circumstances (motor vehicle accidents, gunshot wounds, homicides, suicides or illegal acts) to avoid additional investigation.
- Documents are contradictory or otherwise not in good order (police report, witness statements, medical records).
- Social Security number does not match Death Master record.
- Deceased description may contradict other records (SSN, date of birth, physical description, cross referenced address and phone number).
- Pressure for payment by attorney.
- May have a large funeral assignment. They have their own cooperating funeral homes.
- Since fraud participants provide information to funeral homes, the same false identifiers used on life insurance application can be used on the death certificate.
- Obituary can rarely be found.

Underwriting best practices

- Review the insured’s name, especially relative’s names listed as beneficiary, owner or payer.
- Review listed occupation.
- Compare date of birth on all forms associated with the application and policy transactions.
- Compare and verify social security number provided on all forms and policy transactions.
- Run a credit report. If nothing comes back, the personal identifiers are incorrect.
- Designate one/two persons in Underwriting/Claims to become the “expert” in fraud identification.
- Educate the Policy Owner Service area on the red flags relating to changes in address, payor, beneficiary, reinstatements, etc.
- Pay close attention to IAI (Insurance Activity Index) from MIB.
- Review changes made after issue.
- Pay attention to the relationship listed (niece, nephew or cousin).
Underwriting best practices (cont.)

- Pay attention to a clean sheet application. No physician or one visited for a “cold” or “flu shot”.
- Watch for a clean family history. If parents are dead, they lived to be quite elderly and died of “natural causes”.
- Review glucose reading. It will be low (between 2-60) because of old blood sample.
- Be alert if all physical data allow for a preferred rating - e.g., good blood pressure/pulse/clean urine/proper weight vs. height ratio/ good EKGs. Is this elderly applicant the “cream” of their age group?
- Look. No one will ever be a smoker.
- Compare signatures. Signature might be forged as alleged applicant is often nowhere near the insurance application.

Reinstatement best practices

- Closely scrutinize applications for reinstatement
- Obtain positive identification.
- Arrange to meet the individuals.
- If a Paramed is appropriate, require paramedic examination to be completed by an examiner selected by the company. Give paramedic examiner the following instructions:
  - Require a photocopy of identification.
  - Require a photo of the person being examined.
  - Compare information on the first examination with the second examination.
  - Deny reinstatement if the information is not the same.
  - Deny the reinstatement if any personal identifiers cannot be verified.
Claims best practices

- Review the insured’s name and beneficiary relationships.
- Review listed occupation.
- Compare date of birth on all forms associated with the application and policy transactions.
- Compare and verify Social Security Number provided on all forms and policy transactions. Validate number against death index - when it was issued, which state, to whom, date of birth in connection to the number, and if date of death listed.
- Review post issue changes of beneficiary/ownership. Is relationship listed as niece, nephew or cousin?
- Compare signatures on claim and file documentation. Engage a handwriting expert.

Claims best practices (con’t.)

- Search for online obituary.
- Validate the license number of the Medical Examiner, Funeral Director, physicians, and attorney with the State’s Office of Professions.
- Validate death certificate number with the Registrar’s office.
- Verify the address listed on the application, claim forms, and other documents. Is the address an empty lot, a highway, a trailer park or a business?
- Validate all family relationships and date of birth vs. insured’s age on death certificate.
- Keep your claim documentation in a subjective, discoverable manner.
Insurance Contracts Projects – A Quick Refresher

- Joint project by IASB and FASB
- IASB Exposure Draft and corresponding FASB Exposure Draft released June 2013
  - Several updates from 2010 versions
  - Some differences between FASB and IASB frameworks (discussed later)
  - Current fulfilment value
    - Building Block approach to valuation
    - Modified approach for short duration contracts
### The Building Block Approach

<table>
<thead>
<tr>
<th>IASB Approach</th>
<th>FASB Approach</th>
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<tbody>
<tr>
<td>- Expected future cash flows</td>
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<td>- Time value of money</td>
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<tr>
<td>- Risk margin</td>
<td>- Margin</td>
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<tr>
<td>- Contractual service margin</td>
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- **Expected future cash flows** - Unbiased estimate of future cash flows that will arise as the insurer fulfills the contract
- **Time value of money** - Discount at current market rates
- **Differing approach on margins**

### Future Cash Flows

- All cash flows based on current estimates
- Only cash flows within the contract boundary are relevant
- Model reflects expected value (mean)
  - No need to identify and quantify all possible scenarios (stochastic)
- Allowable acquisition costs are included in determination of margins
Discount Rates

- Discount rates based on characteristics of the liability
  - For cash flows with no dependence on asset returns (e.g., term insurance), implication is that discount rate is independent of assets held or investment strategy
  - Method for developing the discount rates is not prescribed
    - Expectation is that entity will “maximize” use of observable market data in determination
    - Discussion includes either “top-down” or “bottom-up” approaches
      - Expectation is that entity will be consistent in application

Margins - IASB

- Risk margin objective
  - “The risk adjustment shall be the compensation the insurer requires for bearing the uncertainty inherent in the cash flows that arise as the insurer fulfils the insurance contract.”
- No prescription of methods for estimating the risk adjustment
  - However, need to disclose confidence level
  - Limited general guidance
- Risk margin remeasured to current estimate each reporting period
Margins - IASB

- Contractual service margin objective:
  - reflects the remaining unearned profit for coverage and services (if positive)
- Contractual service margin calibrated to ensure no gain at issue
- Current proposal shows CSM movement:
  - Released in a “systematic way that best reflects the remaining transfer of services”
  - Accretes interest through time
  - Is unlocked for changes in cash flow estimates
  - Is not unlocked for changes in risk margin or discount rates

Margins - FASB

- Single margin representing unearned profit at issue
- Margin calibrated to ensure no gain at issue
- Current proposal shows margin movement:
  - Released “as the entity satisfies its performance obligation”
  - Accretes interest through time
  - Is not unlocked
IASB vs. FASB Valuation at Issue

- FASB Margin likely to be larger than IASB margins
- Driven by likely difference in acquisition cost definition
- Key issue for earnings will be runoff patterns

Treatment of ceded reinsurance

- Reinsurance accounting completely separate from direct view
  - Consistent with current GAAP guidance
- Reinsurance asset set up consistent with direct liability
- FASB requires the same model (BBA/PAA) be used for ceded reinsurance as used for direct portion
- In most cases, no gain or loss on entry into reinsurance contract
  - IASB defers through contractual service margin
  - FASB defers gains through margins, and treats losses as a component of the cost of reinsurance
- Very little guidance on calculation of IFRS risk adjustment on ceded business
- Explicit consideration of nonperformance risk of reinsurer
Reinsurance presentation

- Reinsurance assets/liabilities need to be shown separately on balance sheet
- Current income statement proposal:
  - Reinsurance amounts shown separately (i.e., not netted off direct amounts)
  - Ceding commissions netted against ceded premiums
  - Experience refunds netted against ceded claims

Potential reinsurance issues

- Treatment of YRT reinsurance (BBA/PAA)
- Risk transfer definition (definition of insurance)
- Treatment of modified coinsurance
Transition/Adoption

- Retrospective adoption of the standard
  - Estimates of margins where direct calculation is not practicable
  - Adjustment to equity for transition effect
  - One-time option to redesignate assets
- Current timeline calls for final standards in 2014
  - First year publication for YE 2018
  - However, in most cases three year history is required for comparability