



A Berkshire Hathaway Company

Risk – A Reinsurer’s Perspective

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Outline

- **Introductory Remarks**
- **Operating Principles**
- **Risks in Life (Re)insurance**
- **Explicit and Implicit “Choices”**
- **Mitigating the Risks**
- **Some Troublesome Risks / “Choices”**
- **Concluding Remarks and Q&A**



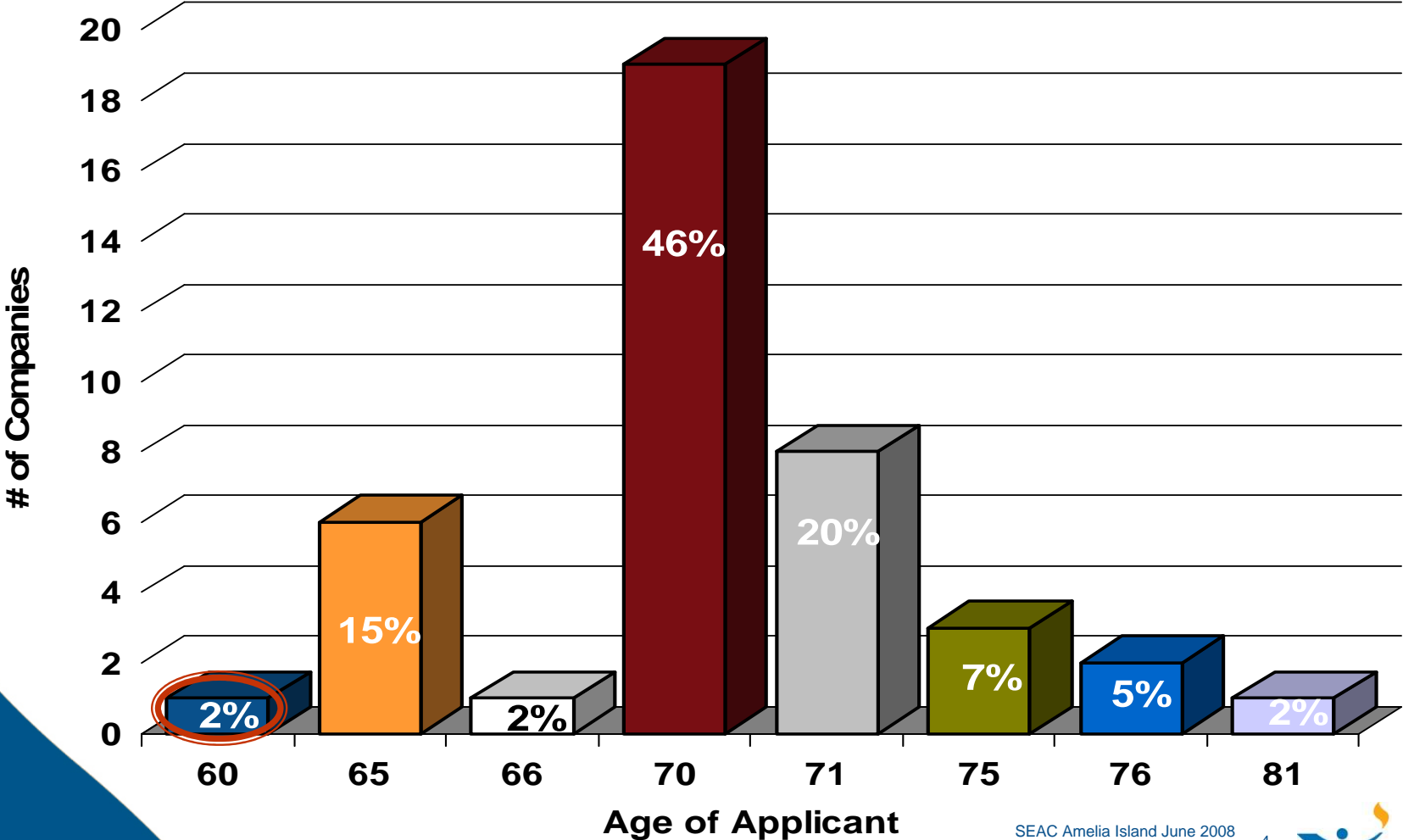
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Who is old?

At what age do you classify an applicant as “elderly”?



Over 25 Years in Reinsurance Pricing

I'VE SEEN THEM COME

- **Scottish**
- **Wilton Re**
- **XL Re**
- **ACE**



Over 25 Years in Reinsurance Pricing

I'VE SEEN THEM GO

- Hudson Re
- M&G
- General Re (Life of America)
- Lincoln National
- Security Benefit
- Resources Life
- CNA
- Allianz
- Gerling Global
- Crown
- ERC
- AUL
- Frankona
- Security Life of Denver
- NRG
- Annuity & Life Re
- Phoenix
- CIGNA
- Urbaine
- Republic National



Cologne Life Re to Gen Re LifeHealth

- **1967** Cologne Life reinsurance incorporated in VA
- **1976** Merged with Cologne Re America Corp, CT
- **1994** Gen Re Corp. purchases controlling share of KR (Germany)
- **1998** Berkshire Hathaway purchases Gen Re Corp.
- **1999** General & Cologne Life Re of America
- **2003** General Re Life Corporation (branded Gen Re LifeHealth)



Gen Re LifeHealth Operating Principles

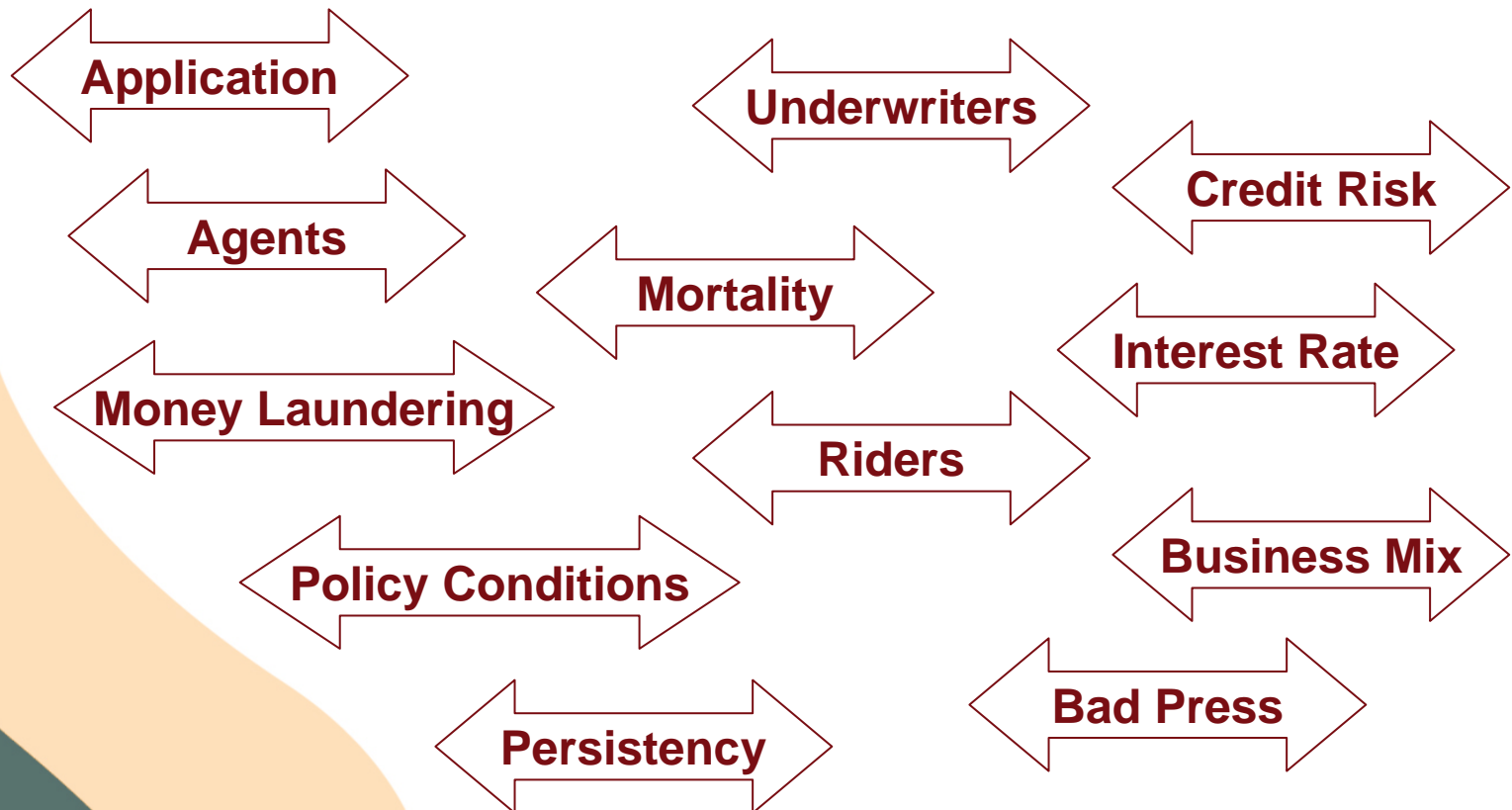
- **Maintain underwriting and pricing discipline by accepting prudent risk at appropriate prices and treaty terms.**
- **Use sound actuarial practices in pricing new deals.**
- **Use all relevant information in selecting pricing assumptions. This includes credible experience provided by the company, industry experience data, product characteristics, underwriting rules and guidelines, and product and sales information from the company.**
- **Provide reinsurance quotes to only those ceding companies that satisfy our deal underwriting guidelines and which have provided sufficient information and data, such that we can evaluate all the embedded risks of the deal and place a proper prices on the deal with a high degree of confidence.**



Accepting Prudent Risk at Appropriate Prices and Treaty Terms

Risk Identification:

There are a variety of factors to consider when selling (reinsuring) a life insurance product.



In a reinsurance transaction we look at much more than just “technical” risk

Insurance Risk	Risk of loss due to adverse experience in the reinsured portfolio, due to mortality, morbidity, lapse, investment risk or expense risk.
Credit Risk	Risk of additional loss due to credit events of the ceding company
Financing / Treasury Risk	Risk of loss due to adverse experience in financing elements of a transaction (e.g. interest rate, currency, liquidity)
Operational Risk	Risk of loss due to failure to manage transaction as anticipated in underwriting
Reputation Risk	Risk of reputational damage due to either type of business written or to counterparty
Regulatory Risk	Changes in regulatory / tax or other reporting requirements that impact on earnings recognition, capital requirements or taxation.
Documentation & Legal Risk	Failure of the contract wording to fully cover the conditions anticipate and/or failure of structural mitigants

... and it should not be much different in (primary) insurance



Even when looking at Insurance Risks only, one has to look closely to identify all risks

- **One party to a contract may have the one-sided right to change the contract during its term where the other party has fixed its terms and conditions at the outset.**
- **Too often the risk associated with the “ choice” is neglected**



Types of “Choices” Embedded in Reinsurance Deals

Explicit ones

- are covered in the contract.

Implicit ones

- are not expressly covered in the contract but the other party has choices over actions to take and which can have differing influences on the results under the contract.

Both the cedent & the policyholder

- may exercise “choices” that influence the financial results



Examples of Cedent “Choices” Embedded in Reinsurance Deals

- **Retention changes and recapture**
- **Facultative placements**
- **Policy Continuations**
- **Treaty termination**
- **Underwriting**
- **Claims**
- **Changes to policy**
- **Ratings Triggers**



Examples of Policyholder “Choices”

- **Lapses and surrenders**
- **Conversions and policy exchanges**
- **Extended maturity**
- **Reinstatements**
- **GIO, COLA**
- **Changes to policy**
- **Reporting of first deaths on joint last to die coverage**
- **Acceleration Benefits**
- **Disability**
- **Life settlements**



Mitigating the Risks from Embedded “Choices”

- **Identify the risk.**
- **Don't ignore the risk.**
- **Underwrite and price for the risk.**
- **Set the contract to exclude or limit the risk.**
- **Transfer the risk.**



Examples of Risks / Embedded “Choices” Where the Reinsurers May Have Dropped the Ball

- Lapse risk during the 1980 term wars
- Recapture of first dollar quota share deals
- Self administration (bordereau)
- Extended Maturity Option
- Table shaving (formal vs. informal)
- Term conversions
- Rates for older ages
- Lapse supported products
- Facultative shopping



Examples Where the Reinsurer Was on the Ball

- **Cognitive function testing for older ages**
- **Critical Illness**
- **Pricing with mortality improvement**
- **Preferred risk underwriting**



Recommendation for Underwriting (and Panel Discussions)

Don't go last!!!

