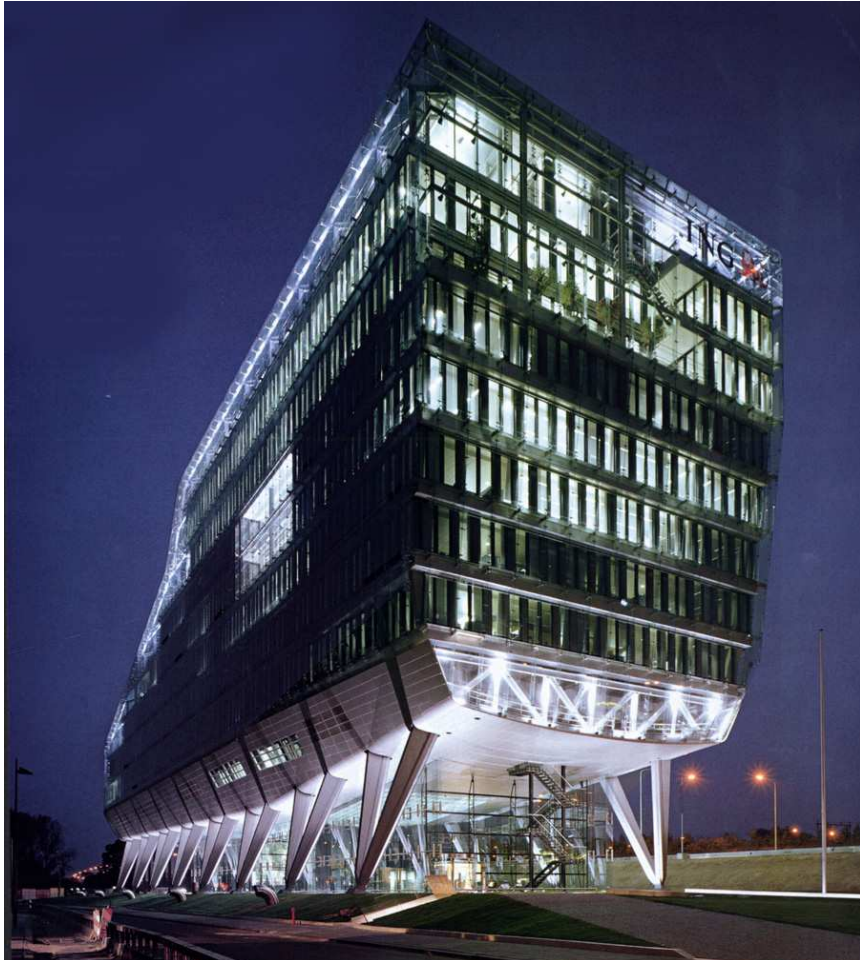


# Southeastern Actuaries Conference



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# Accidental Death Risk Management

Southeastern Actuaries Conference

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# Accidental Death Risk Management



- ◆ Risk Management and Terrorism
- ◆ Catastrophe Protection & Financial Management
- ◆ Concentration Management

## ◆ Risk concentration and Terrorism

- ✓ Initially developed by P&C industry – property risk modeling & later workers' compensation
- ✓ Limited analysis of life & AD&D risk concentration
  - Group Life insurance – large groups, mining, off-shore rigs
  - Personal Accident/Special Risk – target risks, aviation risks

Need to look at why....

## ◆ Life Companies – Group and Individual – got a free pass

- ✓ Ceded risk concentration to the catastrophe reinsurance market.

And why not.....

- It was cheap....\$1,000 per million was not uncommon
- Retentions were low...\$100,000
- Over capacity made cat covers a commodity
- Estimated pre 9/11 capacity was \$1 billion
- Free or unlimited reinstatements
- Limited exclusions – War, Sport Teams and terrorism/NCB covered implicitly
- Generally good security – MGU's, Professional Reinsurers

- ◆ 2003 LOMA Survey on Catastrophe Reinsurance Coverage – 24 group life companies with \$10.7 billion of direct premium
  - ✓ Pre 9/11 – exclusions Terrorism 0    NCB 1
  - ✓ Post 9/11 – Renewals
    - At expiring terms - 1
    - Unable to renew at expiring terms- 13
    - Did not purchase- 8
    - SPRA pool 2

## ◆ Changes in terms, conditions and price

- ✓ Catastrophe deductible increase – LOMA survey reported the mean amount of change (increase) was \$15.5 million
- ✓ Decrease in Coverage – LOMA survey reported the mean amount of change (decrease) was \$90.7 million
- ✓ Limited reinstatements – one at 100% premium
- ✓ 10 fold increase in price & trend to Rate on Line pricing

\$20,000,000 limit @ 10% Rate on Line = \$2,000,000  
10 Year Pay Back

- ◆ Insurers are not passing the costs along to customer
  - ✓ Only 1 company in the LOMA survey excluded terrorism prior to 9/11 and none exclude NCB
  - ✓ No change post 9/11
  - ✓ Reinsurers are passing along costs but competitive pressures are keeping consumer premium at or below pre 9/11 levels



# Catastrophe Protection & Financial Management



- ◆ “It is estimated that \$600 million to \$800 million of claims arose from the group life and accidental death coverage....with catastrophe reinsurance covering over 50% of those claims.”

“Group and Health Coverage in the Wake of September 11”

Public Policy Monograph – December 2002 – American Academy of Actuaries

The report found that catastrophe reinsurance capacity since 9/11 has:

- Increased Deductibles from \$500,000 to \$5 million or more
- Rates increased 500% or more
- Decreased limits on coverage per event \$10-\$25 million
- No quote for companies with a perceived geographic concentration of risk
- Exclusion of Terrorism coverage
- Exclusion of coverage for Nuclear, biological, and chemical events

# Catastrophe Protection & Financial Management



## ◆ Catastrophe Financial Management

- ✓ Traditional Catastrophe Protection
- ✓ Financial Reinsurance – CAT Bonds
- ✓ Pooling of Risk – SPRA
- ✓ Accidental Death Carve – individual and group life
- ✓ No catastrophe protection

Terrorism Risk Insurance Act of 2002 -  
Public Law 107-297

- ✓ Does not include Life & Health insurance

## ◆ Accidental Death Carve Out

### ◆ Group Life Insurance

- ✓ Quota share of the net amount retained per life
  - ✓ No exclusions for Terrorism or NCB
  - ✓ \$20,000,000 per occurrence recovery limit

### ◆ Individual Life Insurance

- ✓ Quota share of the net amount retained per life
  - ✓ No exclusions for Terrorism or NCB
- ✓ Up to \$100,000,000 per occurrence recovery limit

## ◆ Concentration of Risk Survey – May, 2003 – ING Re

Survey conducted by ING Re of 28 US & Canadian group life and health companies

- ✓ 56% - took steps to gather information on risk concentrations
- ✓ When – 66% started in the last 12/24 months
- ✓ Are concentration limits assigned to certain cities or zip codes? 66% said no.
- ✓ What type of risk concentration data:
  - **Lives by street address – 30%**
  - **Employer building location with address & zip code – 23%**
  - **Life volume by street address/building location – 23%**

# Concentration Management



## ◆ Risk Assessment

- ✓ Workplace and residence data – street address, zip code
- ✓ Construction type and age
- ✓ Number of floors

◆ Minimum – query existing group and individual volume by state and postal code

◆ Identify gaps in data availability

◆ Use data mapping tools to identify areas of concentrated exposure