

# “The Reset Economy”

## A Canadian and U.S. Perspective on the Accident & Health Reinsurance Marketplace

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# Panelists

- **Miranda L. Shriver**
  - Vice President, Guy Carpenter & Company, LLC
- **Francois Dagneau**
  - Senior Vice President, AonBenfield Canada
- **Curt Zepeda**
  - Vice President & Chief Underwriter, RGA Reinsurance Company
- **John Iacono**
  - Vice President, Sutton Reinsurance Underwriters Ltd.

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**Miranda Shriver – Vice President  
Guy Carpenter**

**“The Reset Economy” –  
A Canadian and U.S. perspective on  
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# Guy Carpenter's Perspective

- Who is Guy Carpenter?
  - Corporate Overview
    - Parent is Marsh & McLennan Companies, LLC (MMC)
    - Reinsurance intermediary firm founded in 1921 and headquartered in New York City
    - More than 50 offices worldwide with more than 2,300 colleagues
    - 2009 Revenue \$911M (USD)
    - [www.guycarp.com](http://www.guycarp.com)
  - Life, Accident & Health Expertise
    - 65+ Clients in Total
    - \$150M+ Total Ceded Reinsurance Premium
    - 30+ Life Catastrophe/Personal Accident Clients
    - 10 – 12 of the top 20 programs in the U.S.

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# Catastrophe/Personal Accident

- Catastrophe Coverage
  - Program Example:
    - Covered Business: Individual Life with some Group Life and Group AD&D
    - Inforce Retained Volume: \$13.6B w/ higher volume in CA and low volume in NY
    - Term: 1/1/10 – 1/1/11
    - Retention/Limit: \$47.3M xs \$2.7M, broken out into 5 layers
    - Premium: 90% M&Ds and rates per mean million for each layer
    - MAOL: \$6.0M+
    - Life warranty: 3+ lives
    - Reinstatement: One at additional premium pro-rata as to amount, 100% as to time for each layer
    - Rate on Line: .94%
- Personal Accident Coverage
  - Program Example:
    - Covered Business: Bulk Accidental Death benefit riders attached to Individual Life policies
    - Inforce Retained Volume: \$10.7B
    - Term: 9/1/09 – 9/1/10
    - Retention/Limit: 100% quota share up to \$250,000 per person
    - Premium: Annual rate between \$0.15 - \$0.20 per 1,000 inforce volume
    - Experience Refund: 75% ER after 22% reinsurer expenses

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# Catastrophe Coverage

- Insurer Perspective on Reinsurance
  - Continue to return to reinsurance marketplace following 9/11 pricing
  - SPRA Pool v Reinsurance (Cat, Accidental Death Carve-out, Abnormal Mortality Stop Loss)
  - Expect lower Rates on Line
  - Look for Full Terrorism Coverage (including Nuclear, Chemical & Biological coverage)
  - Keep retentions level with some increases to deploy savings into higher layer coverage
  - Increase analysis of reinsurer financial strength & Enterprise Risk Management
- Reinsurer Perspective on Reinsurance
  - New entrants bringing additional reinsurance capacity
  - Continued need for exposure data
  - Offer competitive pricing (ROLs of 1.5% and lower) but still saw 1/1 rates up 5% - 20%
  - 5% - 20% load for NCB coverage
- Marketplace
  - Dozens of markets, with competitive capacity of \$600M available which is up 20% from last year

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# Personal Accident Coverage

- Insurer Perspective on Reinsurance
  - New entrants globally offering PA type products with direct rates decreasing & demands for larger limits
  - Modeling
  - Retain vs Reinsurance
  - Look for Full Terrorism Coverage (including Nuclear, Chemical & Biological coverage)
  - Increase analysis of reinsurer financial strength & Enterprise Risk Management
- Reinsurer Perspective on Reinsurance
  - New entrants bringing additional reinsurance capacity & more entertaining Per Person XOL coverage
  - Continue to need quality exposure data
  - Pricing remains competitive but still saw 1/1 XOL rates up 5% - 20% and 1/1 QS pricing remaining level
  - More favorable rates to companies with good exposure data, and low frequency/severity claims experience
- Marketplace
  - 10+ markets, typically offering up to \$1M - \$2M of automatic capacity per person

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# François Dagneau

Senior Vice President

Aon Benfield Canada ULC

## The Canadian perspective...

on the A&H Reinsurance Marketplace

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# Overview of the Canadian Life/PA Cat Market 2010 Renewals

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**AON** BENFIELD

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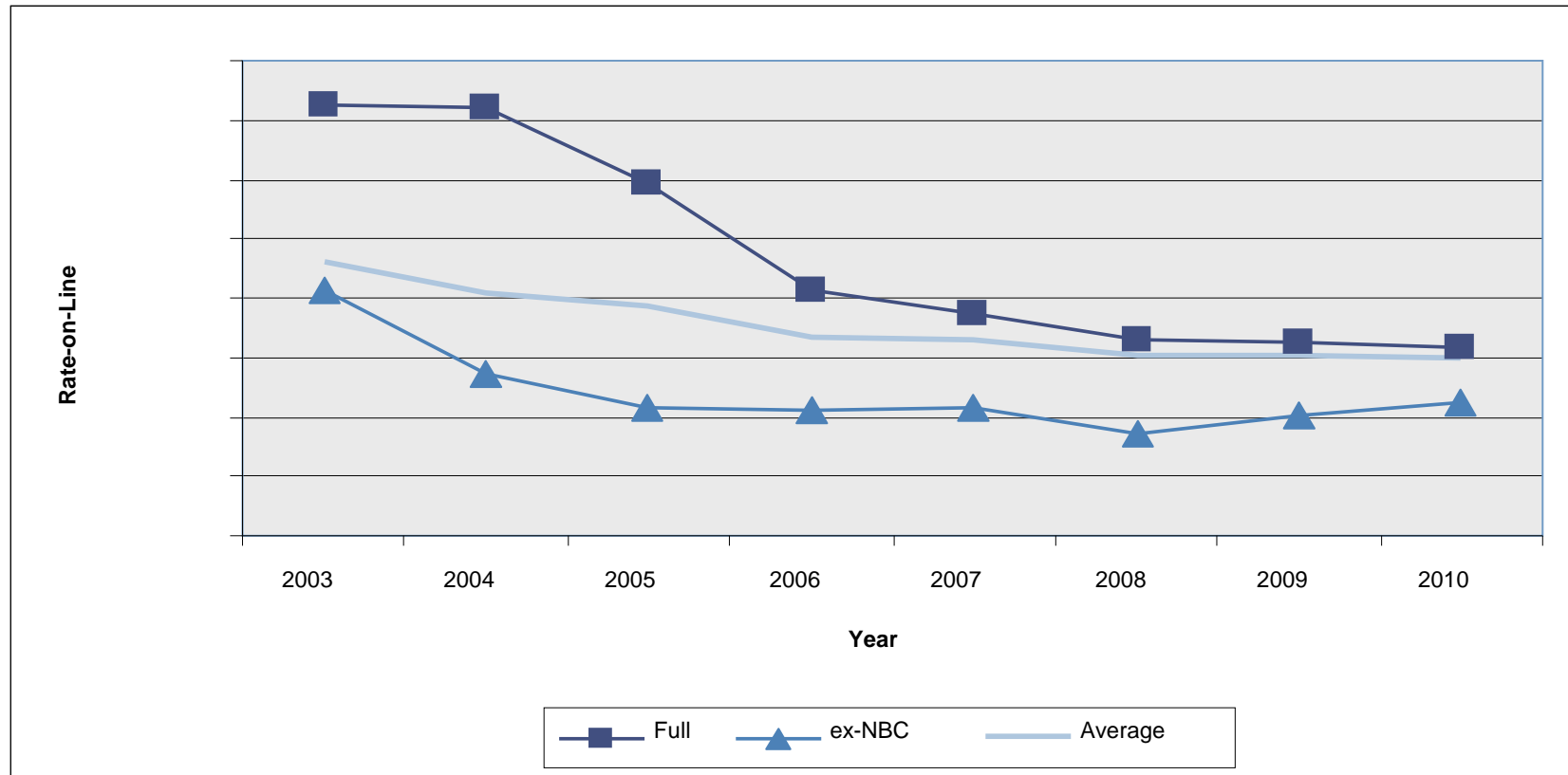
# Historical Rate-on-Line for Canadian Covers

- Note: Rate-on-Line is the cost of reinsurance per dollar limit purchased
  - A \$10M program placed at 1% rate-on-line would translate into a \$100,000 reinsurance premium



# Historical Rate-on-Line for Canadian Covers

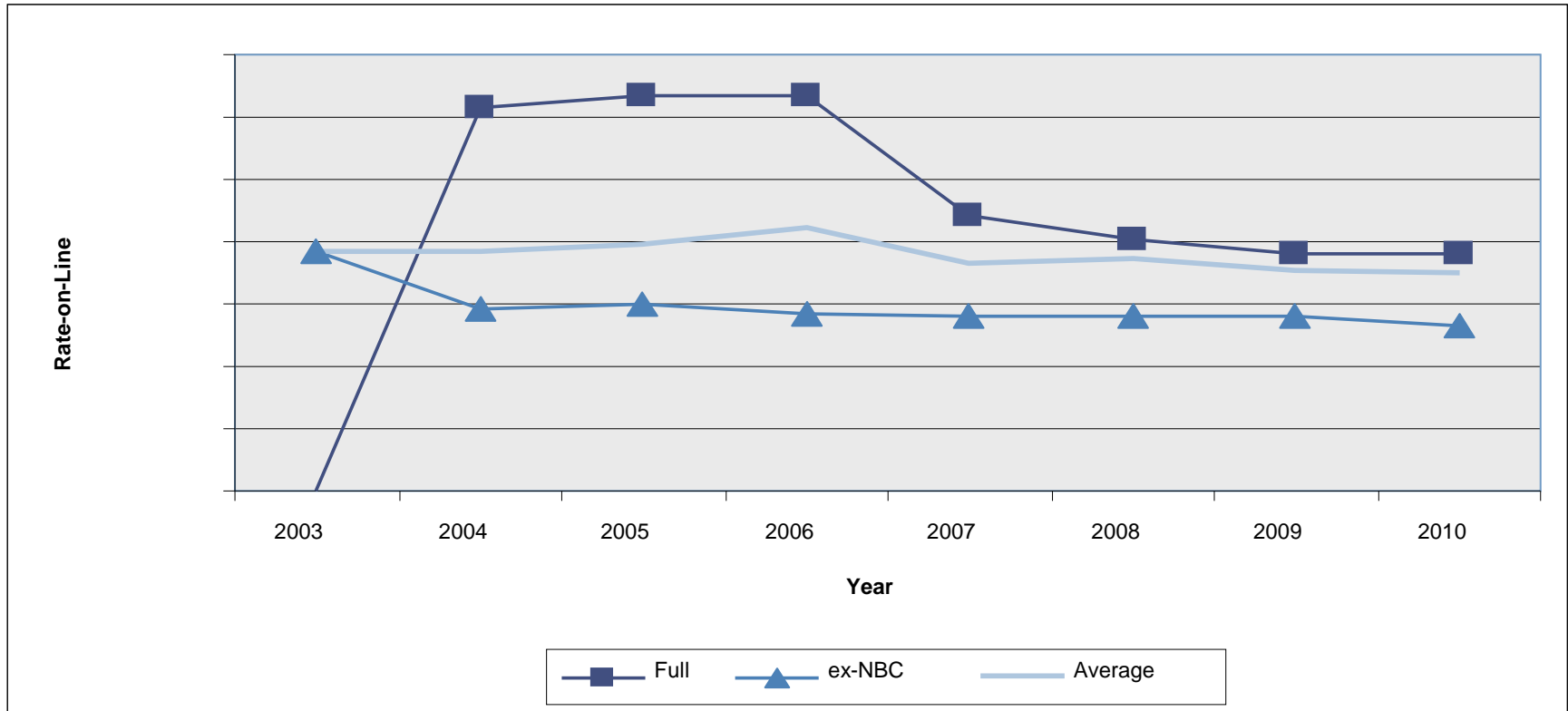
Life and PA Cat





# Historical Rate-on-Line for Canadian Covers

## Travel PA Cat



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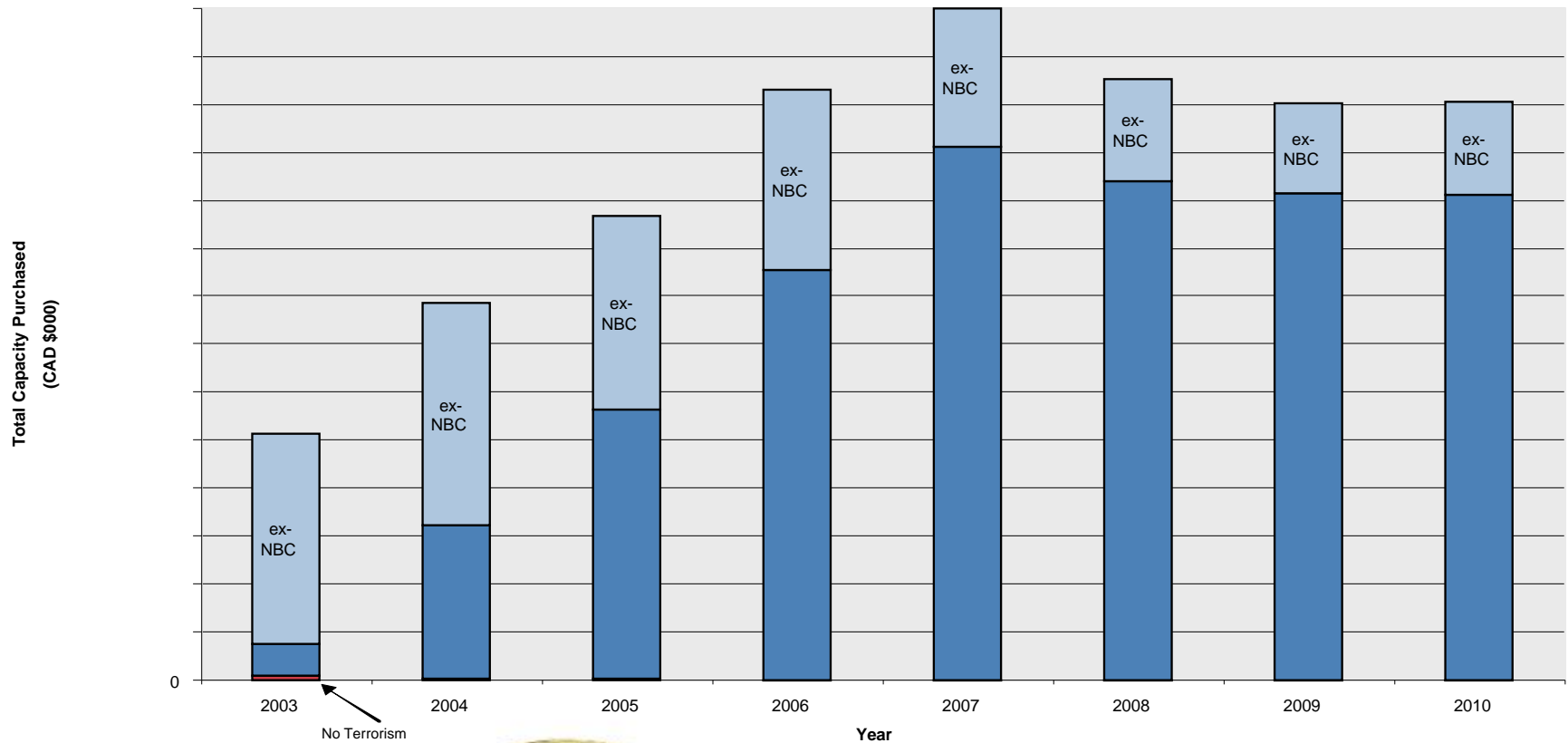


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# Terrorism Capacity for Cdn Life & PA Cat Covers

- Aon Re Canada clients



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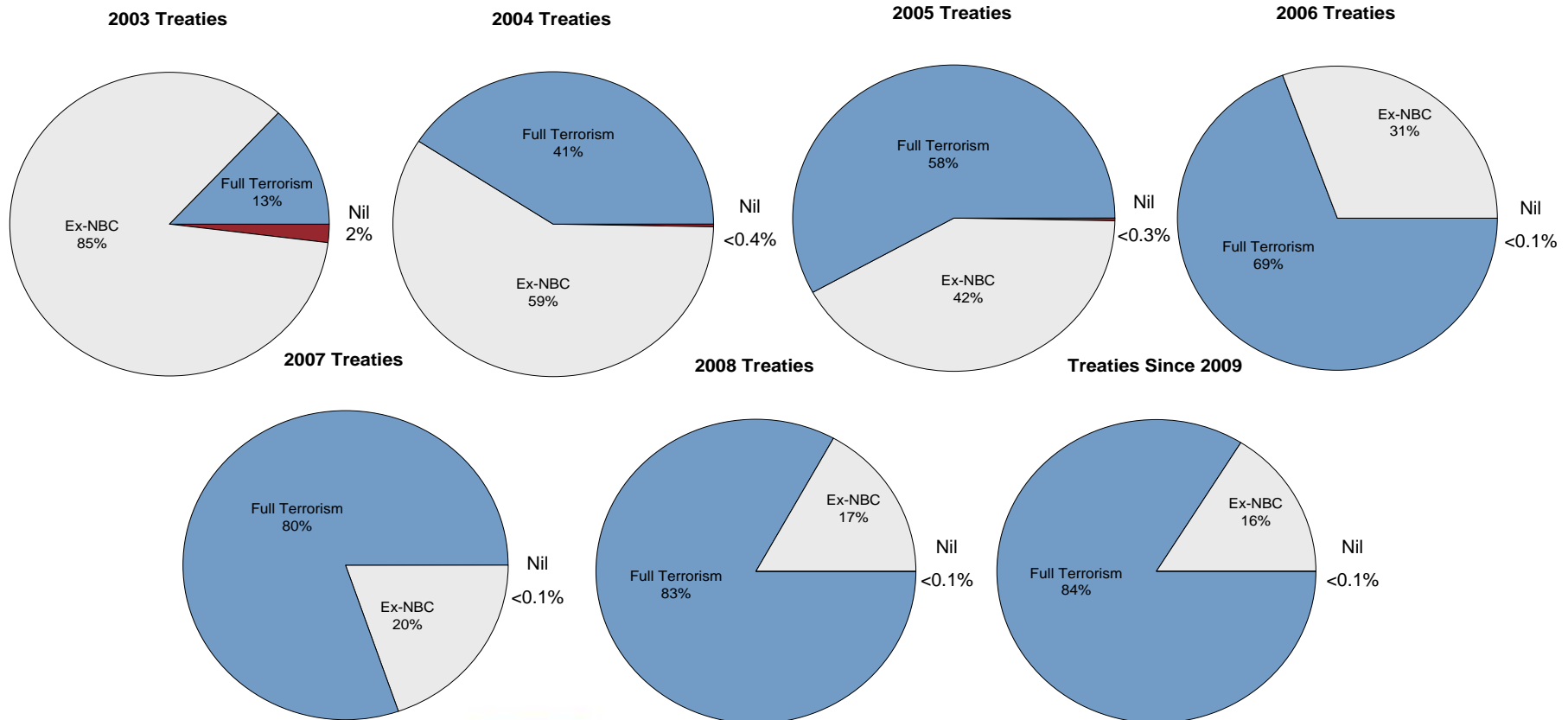


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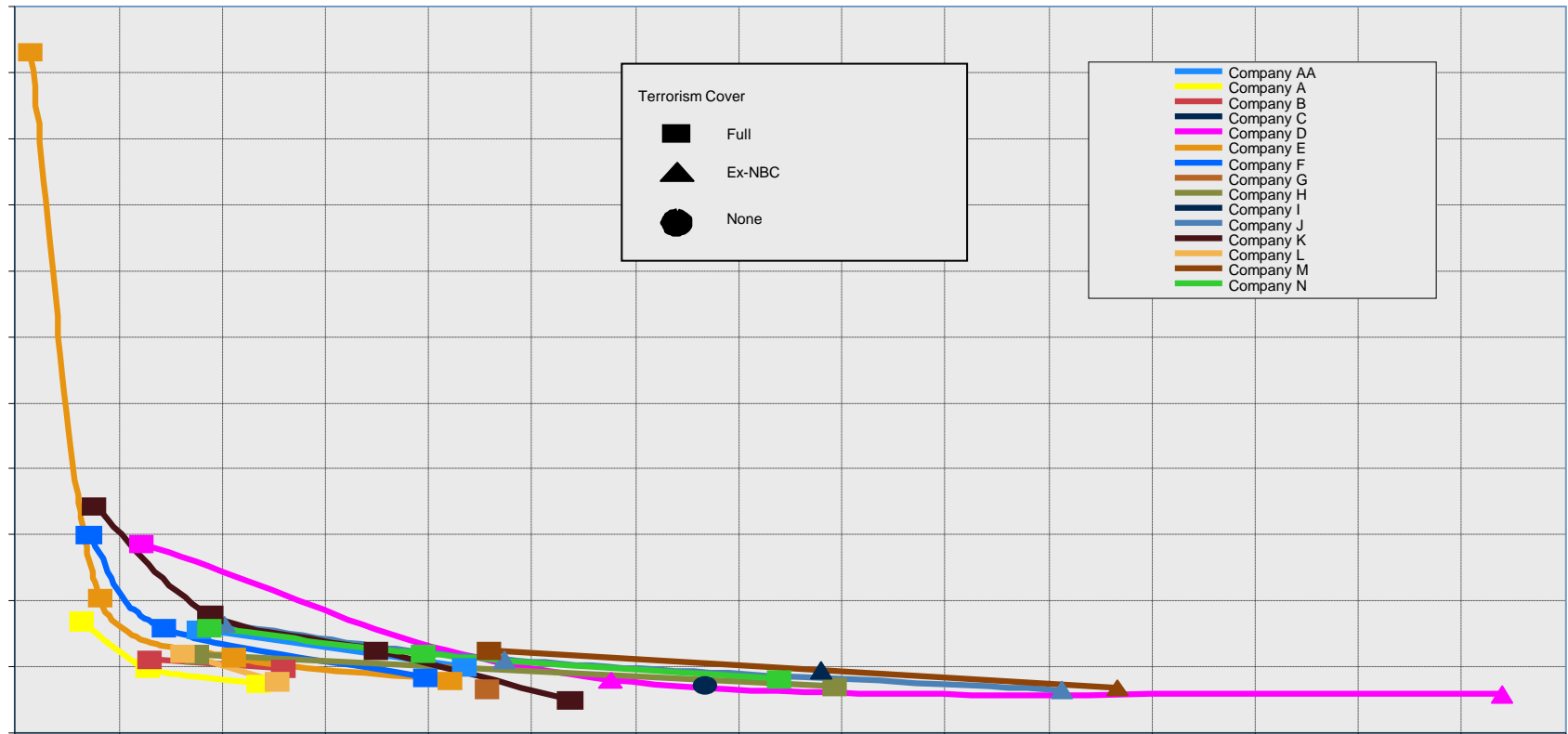
# Canadian Life and PA Catastrophe Covers

- By terrorism coverage type



# Rate on Line

## MARKET COMPARISON - CATASTROPHE EXCESS OF LOSS PROGRAMS



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# Impact of the Crisis

- Pricing stable (down on rate-adjusted basis)
- Very reliable source of capital
- Capital markets shut down

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# Current Issues

- Accumulation Controls
- Economic Capital / Solvency II
- Longevity Risk
- Data

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**Curt Zepeda**  
**Vice President**  
**RGA US Group Reinsurance**

# **Recession and the US Group LTD Market**

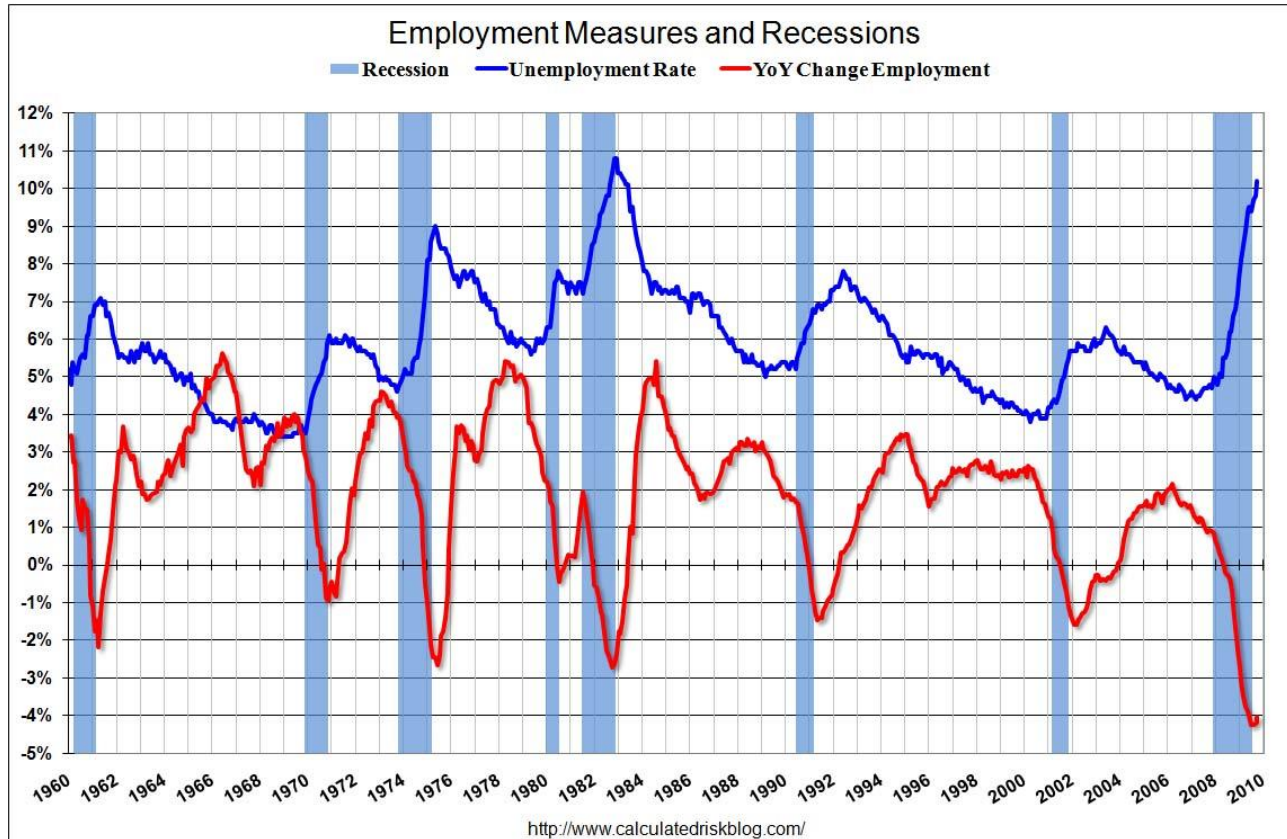
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# Unemployment -10.2% in October 2009



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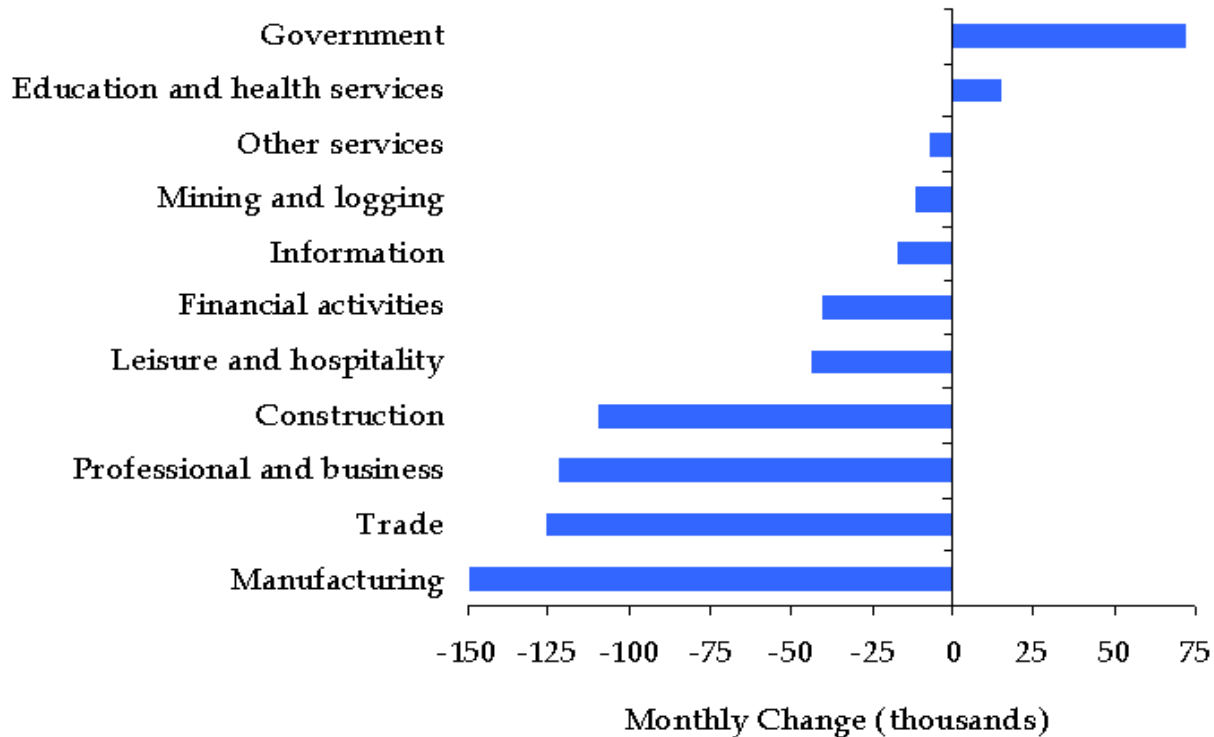
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# Current Recession by Industry

## Nonfarm Payroll



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# 2009 US LTD Insurance Results

- Lack of organic premium growth
  - Employee reductions
  - Limited, if any, salary increase
- Challenge to write new business
- Most met or exceeded profit objectives
  - No material increase in claim incidence
  - Slight reduction in LTD claim terminations
  - Very few reported an impact from recession

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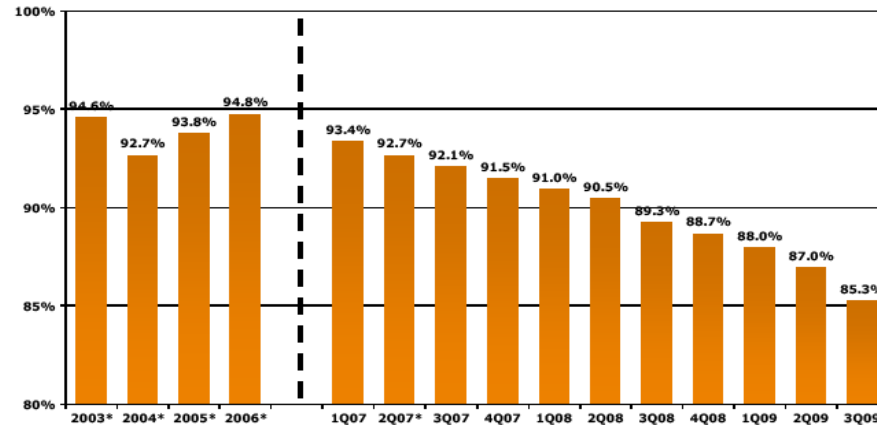
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# Unum Benefit Ratio Through 3Q'09

## Unum US – Profitability Drivers

### Group Disability Benefit Ratios



\* Excludes claim reassessment impact and reserve strengthening.

4Q'09 Disability Benefit Ratio = 84.6%

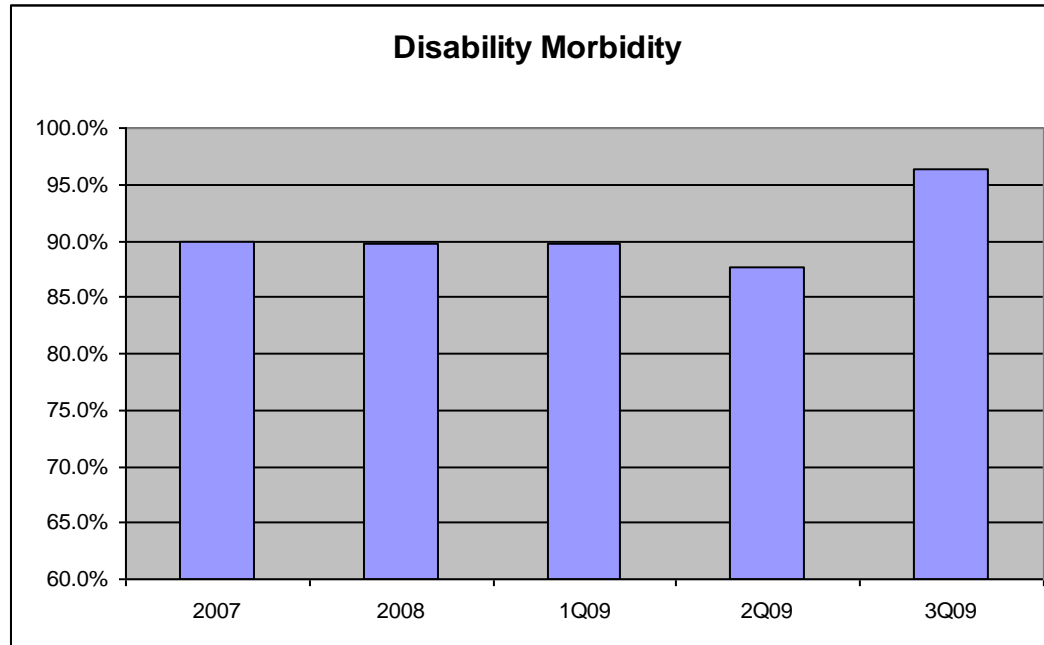
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# MetLife Benefit Ratio Through 3Q'09



4Q'09 total benefit ratio (disability, dental, non-medical coverage) of 90.2%

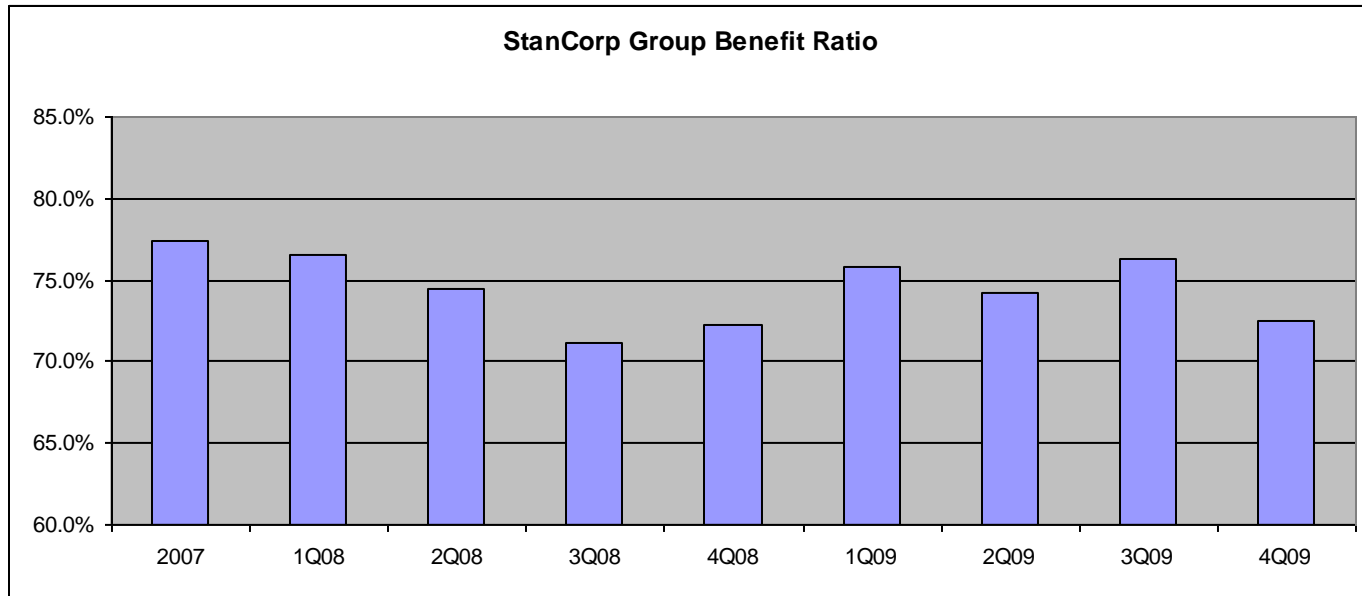
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# StanCorp's Benefit Ratio Through 4Q'09



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# 2009 LTD Reinsurance Results

- Not favorable
  - No material increase in incidence
  - Slight reduction in terminations
  - **Increased severity!**
- Especially pronounced in the financial and legal sectors
  - Rich benefit designs

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# 2009 LTD Reinsurance Results

- On the surface, did not seem to be economy related
  - Increased number of cancer claims
  - Accidents
  - No increase in subjective type claims: M/N, musculoskeletal, etc.
- The 3 US excess LTD reinsurers experienced similar results. Why would that be?
- A result of the types of benefits written in the US?
- May be some employee choice of working through illness or injury?

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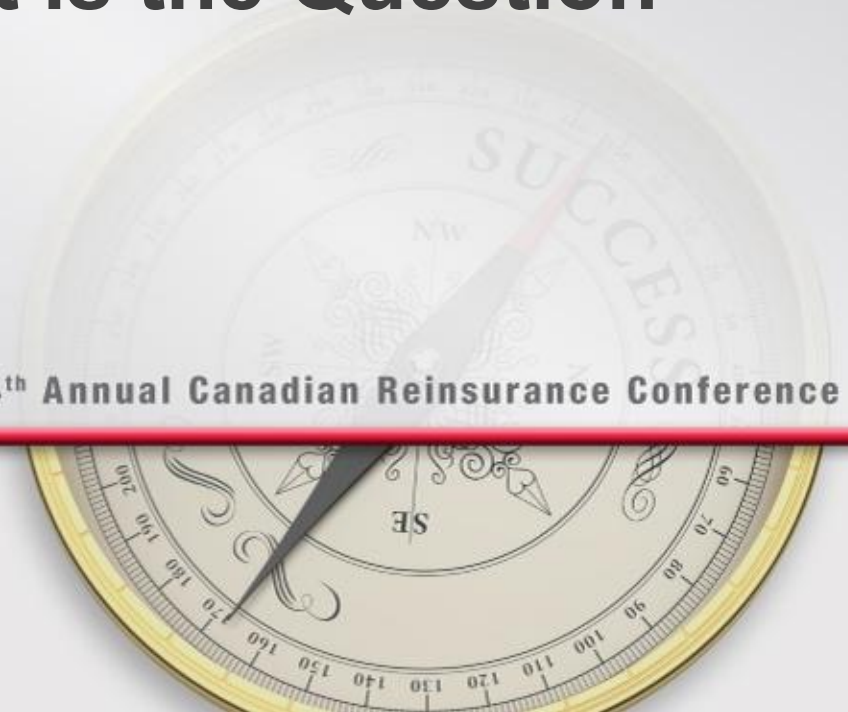


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# John Iacono, Vice President Sutton Reinsurance Underwriters Ltd.

## “Fac or Treaty? That is the Question”

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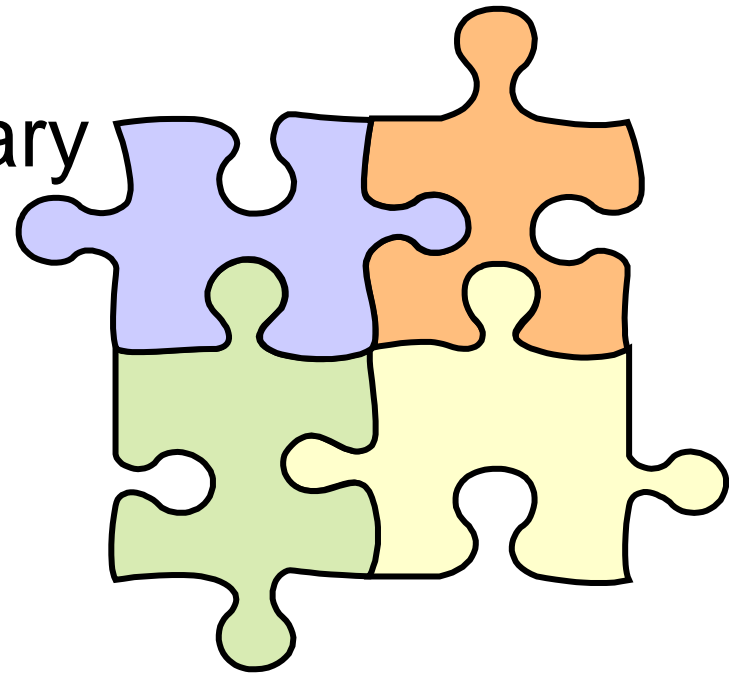


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# What is Facultative Reinsurance?

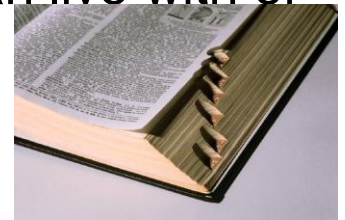
- I've always wondered – its an odd name!
- Treaty is weird too
- Lets Look at the dictionary





# Facultative Definition

1. Conferring a faculty, privilege, permission, or the power of doing or not doing something: a facultative enactment.
2. Left to one's option or choice; optional: The last questions in the examination were facultative.
3. That may or may not take place; that may or may not assume a specified character.
4. Biology. having the capacity to live under more than one specific set of environmental conditions, as a plant that can lead either a parasitic or a non-parasitic life or a bacterium that can live with or without air (opposed to [OBLIGATE](#)).
5. Of or pertaining to the faculties



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# Treaty Definition

- a formal agreement between two or more states in reference to peace, alliance, commerce, or other international relations.
- the formal document embodying such an international agreement.
- any agreement or compact



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# Facultative is non-obligatory

- Treaty Reinsurance is obligatory
- Facultative is tailored to specific risk concerns – special hazards for example
- Acid Test – Fac is a reinsurance of an individual risk ( a person or a group) that can be named and identified.



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# Facultative – a cost effective solution

- Treaty can be costly because the insurer “gives up” a portion of their business
- Facultative can provide effective control of peak or unusual risks at a low cost
- Facultative can be used as a tool to enhance the treaty program



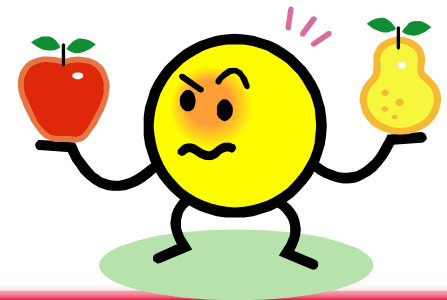
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# Why Fac?

- Insurer is not comfortable with a risk
- Laser it out and cede 100%
- It's a special hazard not covered by the treaty arrangement
- Given the current economic climate facultative solutions can enhance an insurers bottom line



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# Types of Facultative Accident Reinsurance Mining Risk

- Underground mining is very risky
- Large Groups of insureds are working together and exposed to a common disaster
- Pricing reflects average loss rates, but not a shock loss
- Group Reinsurers can cede the underground risk facultatively



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# Types of Facultative Accident Reinsurance

## Mining Risk – Historical Events in Canada

- 1) **Deaths 29 – Upper Big Branch Mine, Montcoal, West Virginia , April 5, 2010.**
- 2) Deaths 26 – Westray Mine methane explosion, Plymouth, Nova Scotia, 9 May 1992
- 3) Deaths 74 – Third Springhill mining disaster, Springhill, Nova Scotia, 23 October 1958
- 4) Deaths 39 – Second Springhill mining disaster, Springhill, Nova Scotia, 1 November 1956



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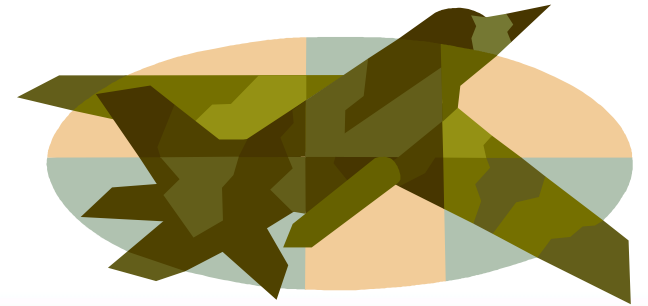


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# Types of Facultative Accident Reinsurance

## Airline Risks

- Group Insurer may cover airline
- Corporate Group may own or lease aircraft
- Credit Card may provide enhanced AD benefit
- Canadian Air Safety is at an all time high
- The concentration of risk on an aircraft poses a problem for the insurer



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# Types of Facultative Accident Reinsurance

## Airline Risks – Historical Events

- 1. 96 Deaths 2010 April 10: TU-154 crashes in dense fog killing Polish president**
2. 17 Deaths 2009 March 12: Cougar Helicopters Flight 91 off of Newfoundland.
3. 229 Deaths 1998 September 2: Swissair Flight 111 Peggys Cove, Nova Scotia
4. 329 Deaths 1985 June 23 Air India Flight 182



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# Types of Facultative Accident Reinsurance Unusual Risks/Special Hazards

## Occupations

- Astronaut
- Lumberjacks & Loggers
- Military Groups
- Oil Rig Workers



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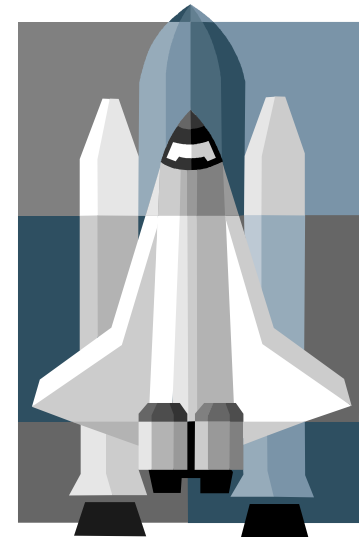
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# Types of Facultative Accident Reinsurance Unusual Risks/Special Hazards – Historical Events

## Occupations

1. Jan 28, 1986 – 7 deaths -Challenger Disaster
2. Canadian Deaths in Afghanistan:
  - 2010: 3 deaths
  - 2009 : 32 deaths
  - 2008: 32 deaths
  - 2007: 30 deaths
3. July 6, 1988 - Oil Rig – Piper Alpha – 167 deaths





# Types of Facultative Accident Reinsurance Unusual Risks/Special Hazards

## Avocations:

1. Bungee Jumping
2. Hang Gliding
3. Heli-Skiing
4. Hot Air Ballooning
5. Race Car Driver
6. Scuba Diver
7. Sky Diving



# Types of Facultative Accident Reinsurance Unusual Risks/Special Hazards - Statistics

Avocations:

1. 30 Skydiving deaths per year in the US or 1 in 100,000 jumps.
2. Base Jumping – Skydiving from a fixed object – 1 death per 60 participants since 1981 to 2006
3. 11 Hot Air Ballooning accidents in the US involving fatalities between 1997 and 2007



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# Types of Facultative Accident Reinsurance Target Risks

- A building with a known concentration of lives
- Target Risks – Conventions, ground and air exposures
- Home Office of a large corporation
- Insurance Agents sales convention



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# Types of Facultative Accident Reinsurance

## Target Risks / Historical Events

- 1) 2,973 deaths: 9/11
- 2) 114 deaths: Hyatt Regency Walkway collapse, Kansas City – July 17, 1981 A building with a known concentration of lives
- 3) 85 deaths: MGM Grand, Las Vegas – Nov 21, 1980



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# Advantages of Fac

- By lasering out certain risks, a company can be more comfortable with a higher retention
- Older ages can be reinsured on an accident carve-out basis
- Portfolio Management
- High Limits





# Conclusion

- Accident Reinsurers often offer facultative reinsurance for “special risks”
- An insurer can fine tune its exposure to unanticipated losses by utilising facultative reinsurance
- Facultative Reinsurance is an ideal tool to minimize the effect of shock losses



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# THANK YOU & QUESTIONS

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