

Actuaries' Club of the Southwest

Galveston, TX
June 17, 2004

CAPITAL MANAGEMENT



Rémi HOULE, FSA, MAAA, FCIA
Tamara BURDEN, ASA, MAAA



OPTIMUM RE INSURANCE COMPANY

CONTENTS

- Why capital?
- What affects a company's capital?
- Statutory strain data based on a 20-year term and a whole life
- Comments on data
- Practical applications to retain or increase capital



WHY CAPITAL?

PASSIVE ACTIONS

- To exist
- To survive changing economic conditions
- To survive changing business environments
- To weather claim volatility (including some catastrophic events)



WHY CAPITAL?

(con't)

DYNAMIC ACTIONS

- To size up new business opportunities
- To grow the business
 - development of new products
 - entering new lines of business
 - increasing sales
- To undertake major IT development projects



WHAT AFFECTS A COMPANY'S CAPITAL?

➤ **Externally:**

Infusion from, or dividends to, shareholders

➤ **Internally:**

Profit (loss), i.e., mortality and lapse experience and return on investments (including capital gains)



PRICING/PROJECTION ASSUMPTIONS

- A) Expenses: 30% First Year, 10% Renewal
Commissions: 100% First Year, 10% Renewal
(as percentage of gross premiums)
- B) Interest Rate: 4.5%
- C) Lapses: 2001 LIMRA (9% grading down to 3.5%
by duration 11)



STATUTORY RESERVES

20-Year Term (M-50, NS)

Pricing Based On 95% of US 75-80 S&U. Gross Premium=\$8.40, Profit=0%.

Reserves Based On 80 CSO, 20-Year Select

Year	Valuation Premium	Base V*	Deficiency V*	Total V*	Total V**
1	1.46	0.00	0.00	0.00	0.00
2	8.39	6.67	0.00	6.67	5.66
3	8.39	13.14	0.00	13.14	10.60
4	8.39	19.45	0.00	19.45	15.01
5	8.39	25.61	0.00	25.61	18.83
6	8.39	31.62	0.00	31.62	22.22
7	8.39	37.45	0.00	37.45	25.12
8	8.39	43.03	0.00	43.03	27.56
9	8.39	48.31	0.00	48.31	29.51
10	8.39	52.95	0.00	52.95	30.82
11	8.39	56.79	0.00	56.79	31.67
12	8.39	59.50	0.00	59.50	31.74
13	8.39	61.42	0.00	61.42	31.31
14	8.39	62.38	0.00	62.38	30.36
15	8.39	62.21	0.00	62.21	28.86
16	8.39	58.99	0.00	58.99	26.00
17	8.39	52.03	0.00	52.03	21.74
18	8.39	40.75	0.00	40.75	16.11
19	8.39	23.87	0.00	23.87	8.91
20	8.39	0.00	0.00	0.00	0.00

*Per Unit In Force

**Per Unit Issued

STATUTORY RESERVES

20-Year Term (M-50, NS)

Pricing Based On 95% of US 75-80 S&U. Gross Premium=\$8.40, Profit=0%.

Reserves Based On 2001 CSO, 25-Year Select

Year	Valuation Premium	Base V*	Deficiency V*	Total V*	Total V**
1	1.49	0.00	0.00	0.00	0.00
2	7.33	5.74	0.00	5.74	4.87
3	7.33	11.36	0.00	11.36	9.16
4	7.33	16.83	0.00	16.83	12.99
5	7.33	22.15	0.00	22.15	16.28
6	7.33	27.19	0.00	27.19	19.10
7	7.33	31.84	0.00	31.84	21.36
8	7.33	36.01	0.00	36.01	23.06
9	7.33	39.68	0.00	39.68	24.24
10	7.33	42.75	0.00	42.75	24.89
11	7.33	44.98	0.00	44.98	25.08
12	7.33	46.06	0.00	46.06	24.57
13	7.33	45.90	0.00	45.90	23.40
14	7.33	44.38	0.00	44.38	21.60
15	7.33	41.44	0.00	41.44	19.23
16	7.33	36.81	0.00	36.81	16.22
17	7.33	30.72	0.00	30.72	12.83
18	7.33	22.97	0.00	22.97	9.08
19	7.33	12.97	0.00	12.97	4.84
20	7.33	0.00	0.00	0.00	0.00

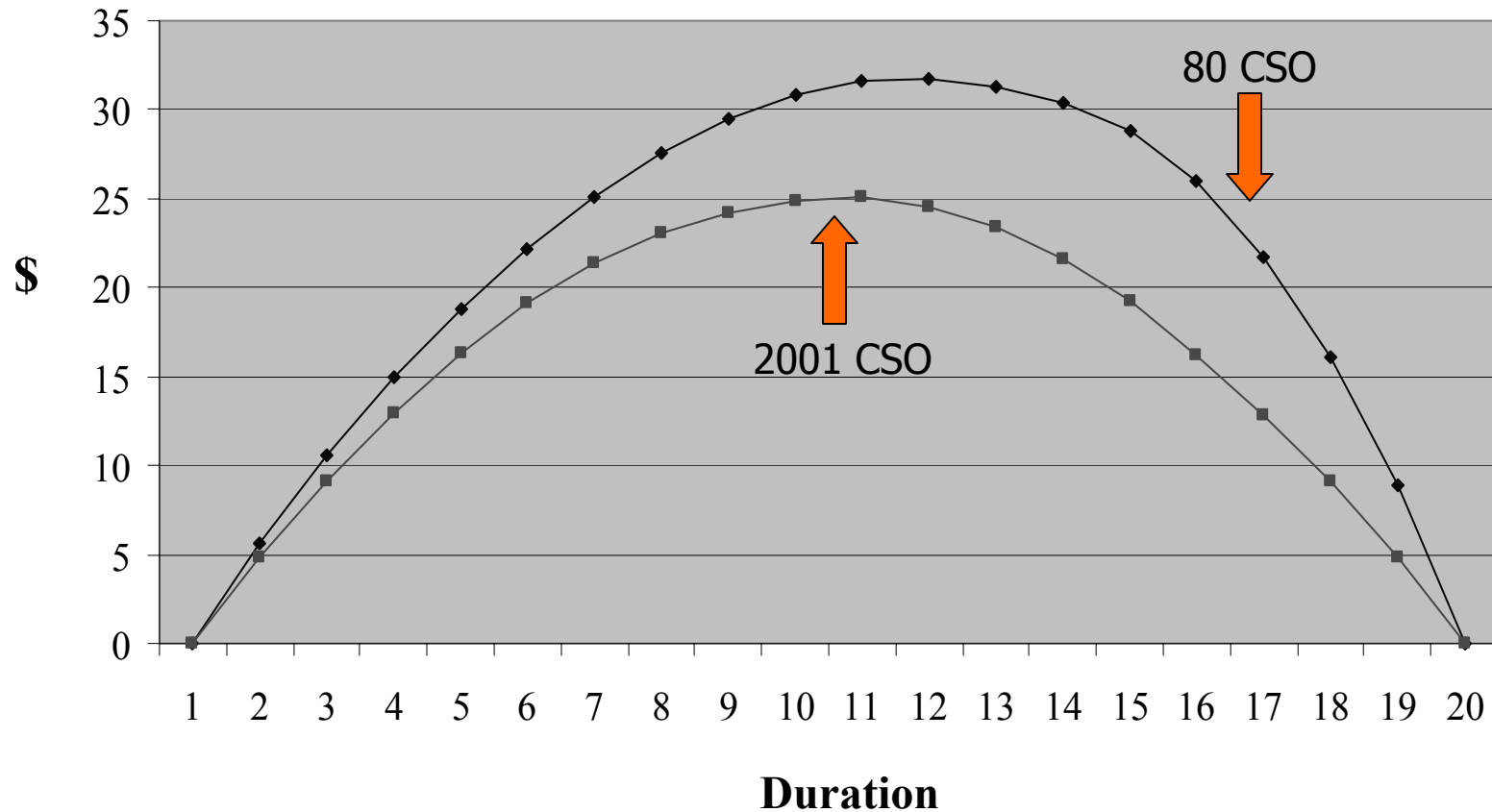
*Per Unit In Force

**Per Unit Issued

STATUTORY RESERVES**

20-Year Term (M-50, NS)

Pricing Based On 95% of US 75-80 S&U. Gross Premium=\$8.40, Profit=0%.



**Per Unit Issued

STATUTORY STRAIN**

20-Year Term (M-50, NS)

Pricing Based On 95% of US 75-80 S&U. Gross Premium=\$8.40, Profit=0%.

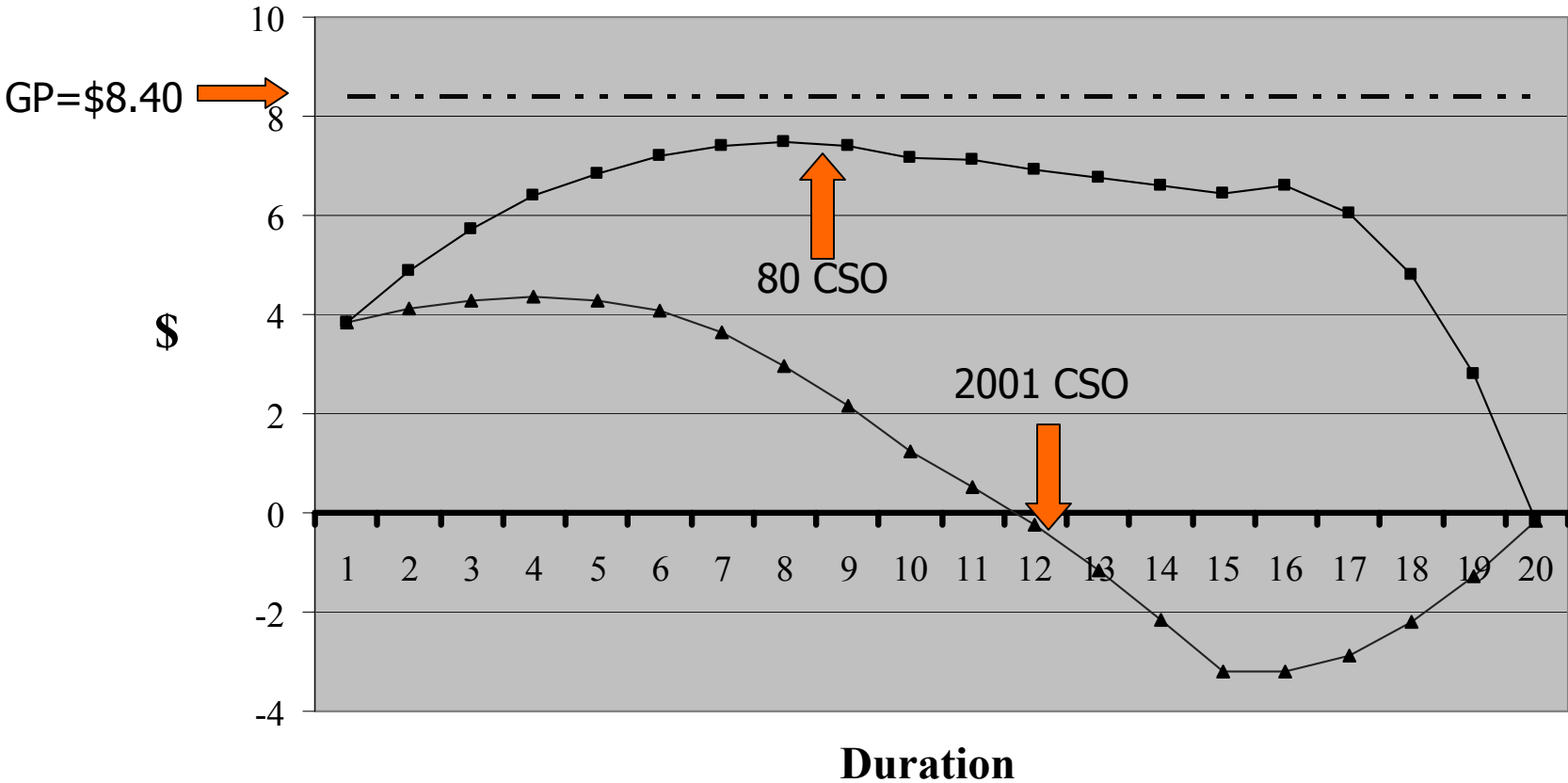
Year	Strain/Unit		Strain(% of GP)	
	80 CSO	2001 CSO	80 CSO	2001 CSO
1	3.85	3.85	46%	46%
2	4.89	4.10	58%	49%
3	5.71	4.27	68%	51%
4	6.39	4.37	76%	52%
5	6.84	4.30	81%	51%
6	7.19	4.08	86%	49%
7	7.40	3.64	88%	43%
8	7.46	2.96	89%	35%
9	7.41	2.15	88%	26%
10	7.16	1.23	85%	15%
11	7.12	0.53	85%	6%
12	6.92	-0.26	82%	-3%
13	6.76	-1.15	81%	-14%
14	6.61	-2.15	79%	-26%
15	6.45	-3.19	77%	-38%
16	6.59	-3.19	78%	-38%
17	6.03	-2.88	72%	-34%
18	4.82	-2.21	57%	-26%
19	2.79	-1.28	33%	-15%
20	-0.16	-0.16	-2%	-2%

**Per Unit Issued

STATUTORY STRAIN**

20-Year Term (M-50, NS)

Pricing Based On 95% of US 75-80 S&U. Gross Premium=\$8.40, Profit=0%.



**Per Unit Issued

STATUTORY RESERVES

20-Year Term (M-50, NS)

Pricing Based On 70% of US 75-80 S&U. Gross Premium=\$6.18, Profit=0%.

Reserves Based On 80 CSO, 20-Year Select

Year	Valuation Premium	Base V*	Deficiency V*	Total V*	Total V**
1	1.46	0.00	27.95	27.95	25.40
2	8.39	6.67	26.95	33.61	28.52
3	8.39	13.14	25.91	39.05	31.50
4	8.39	19.45	24.84	44.29	34.17
5	8.39	25.61	23.73	49.34	36.27
6	8.39	31.62	22.57	54.20	38.07
7	8.39	37.45	21.37	58.82	39.46
8	8.39	43.03	20.12	63.15	40.44
9	8.39	48.31	18.81	67.12	41.00
10	8.39	52.95	17.46	70.41	40.99
11	8.39	56.79	16.06	72.84	40.62
12	8.39	59.50	14.60	74.10	39.53
13	8.39	61.42	13.07	74.49	37.98
14	8.39	62.38	11.47	73.85	35.94
15	8.39	62.21	9.79	72.00	33.41
16	8.39	58.99	8.04	67.04	29.54
17	8.39	52.03	6.21	58.24	24.33
18	8.39	40.75	4.27	45.02	17.80
19	8.39	23.87	2.21	26.08	9.74
20	8.39	0.00	0.00	0.00	0.00

*Per Unit In Force

**Per Unit Issued

STATUTORY RESERVES

20-Year Term (M-50, NS)

Pricing Based On 70% of US 75-80 S&U. Gross Premium=\$6.18, Profit=0%.

Reserves Based On 2001 CSO, 25-Year Select

Year	Valuation Premium	Base V*	Deficiency V*	Total V*	Total V**
1	1.49	0.00	14.52	14.52	13.20
2	7.33	5.74	14.00	19.74	16.74
3	7.33	11.36	13.46	24.82	20.02
4	7.33	16.83	12.90	29.74	22.94
5	7.33	22.15	12.32	34.47	25.34
6	7.33	27.19	11.72	38.91	27.34
7	7.33	31.84	11.10	42.93	28.80
8	7.33	36.01	10.45	46.46	29.75
9	7.33	39.68	9.78	49.46	30.21
10	7.33	42.75	9.07	51.83	30.17
11	7.33	44.98	8.35	53.32	29.73
12	7.33	46.06	7.59	53.65	28.62
13	7.33	45.90	6.80	52.70	26.87
14	7.33	44.38	5.98	50.35	24.50
15	7.33	41.44	5.11	46.55	21.60
16	7.33	36.81	4.20	41.01	18.07
17	7.33	30.72	3.24	33.96	14.19
18	7.33	22.97	2.23	25.20	9.96
19	7.33	12.97	1.15	14.12	5.27
20	7.33	0.00	0.00	0.00	0.00

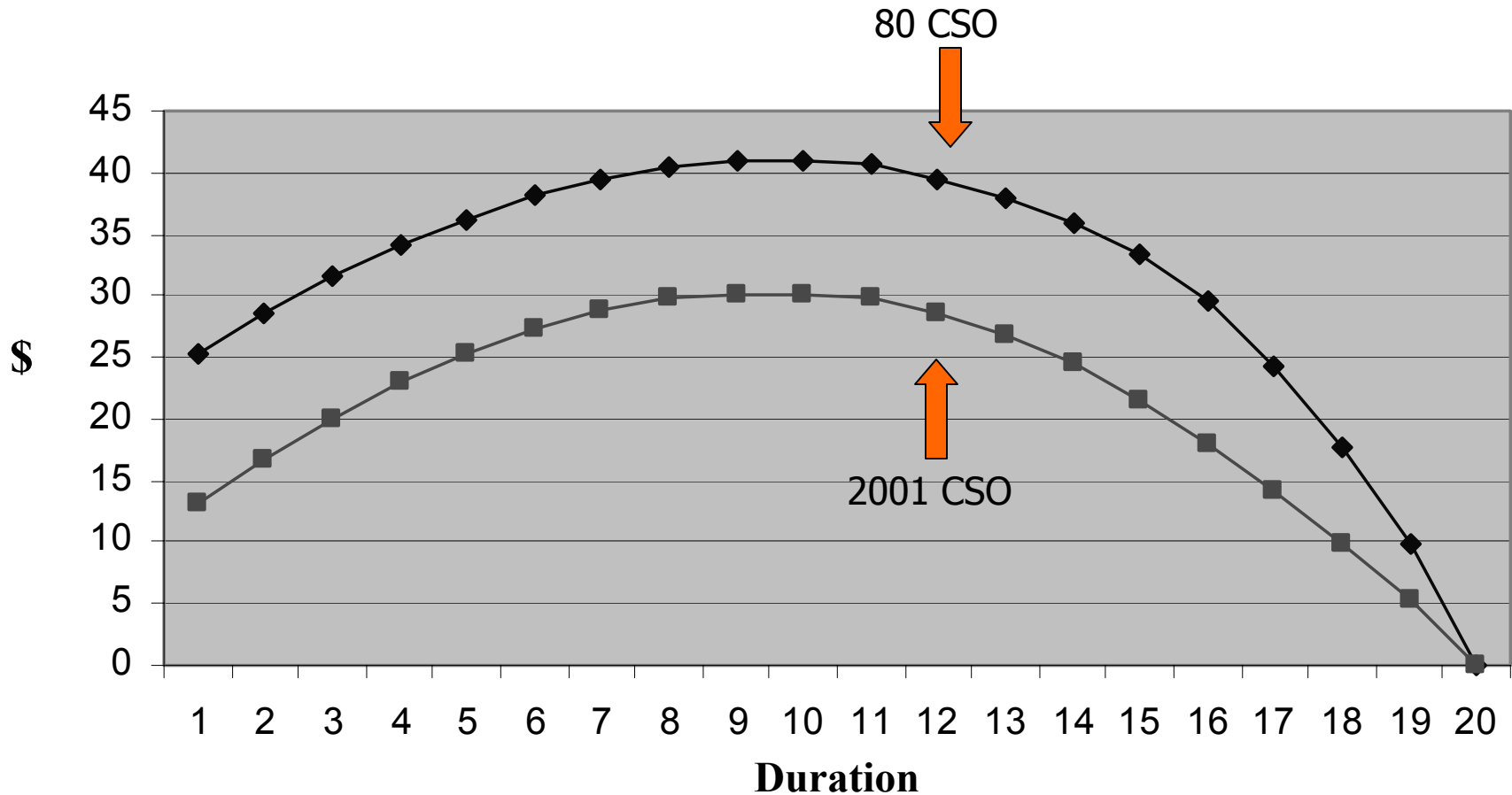
*Per Unit In Force

**Per Unit Issued

STATUTORY RESERVES**

20-Year Term (M-50, NS)

Pricing Based On 70% of US 75-80 S&U. Gross Premium=\$6.18, Profit=0%.



**Per Unit Issued

STATUTORY STRAIN**

20-Year Term (M-50, NS)

Pricing Based On 70% of US 75-80 S&U. Gross Premium=\$6.18, Profit=0%.

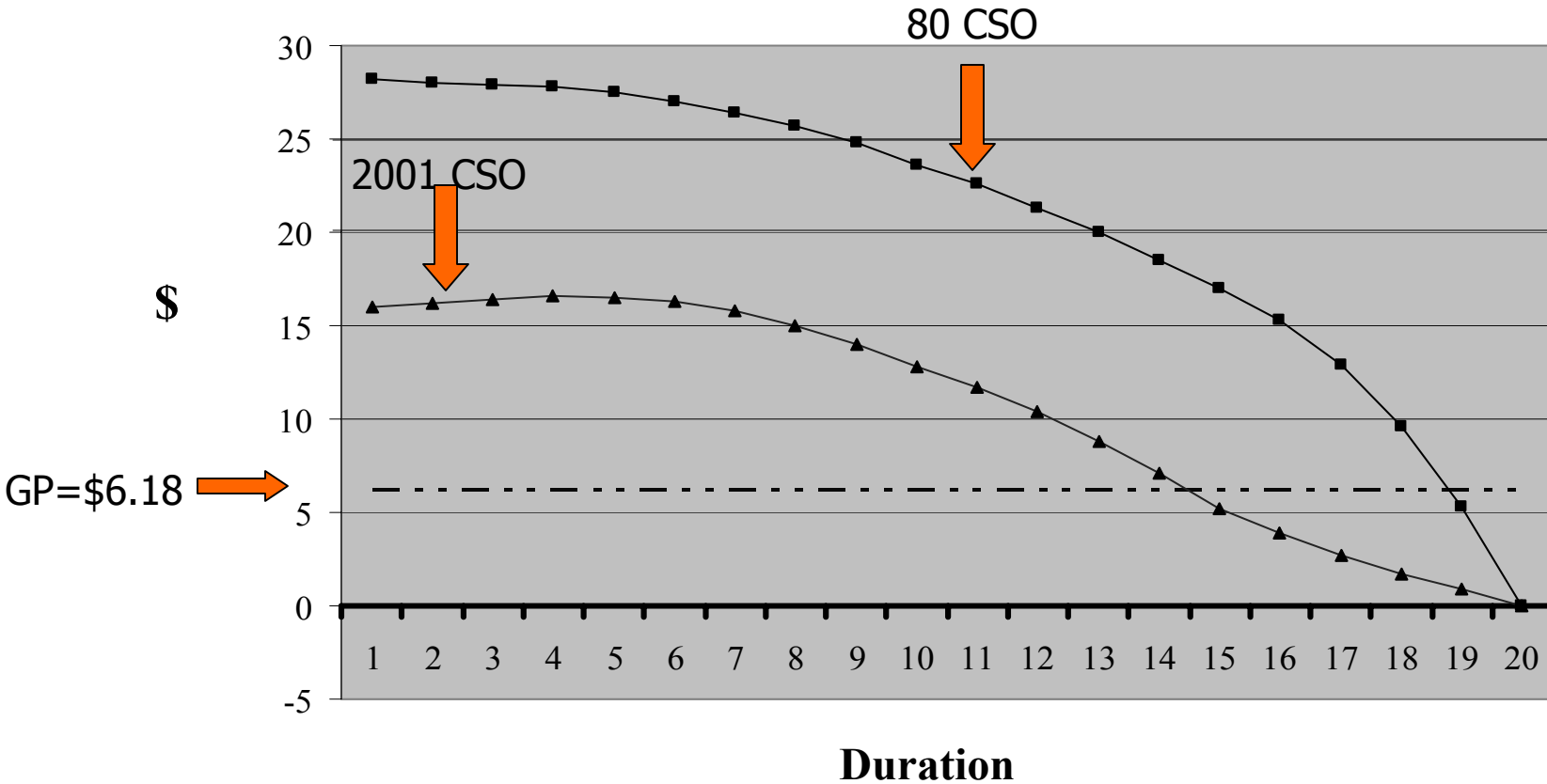
Year	Strain/Unit		Strain(% of GP)	
	80 CSO	2001 CSO	80 CSO	2001 CSO
1	28.24	16.04	457%	259%
2	27.95	16.18	452%	262%
3	27.91	16.43	452%	266%
4	27.84	16.61	450%	269%
5	27.46	16.53	444%	268%
6	27.03	16.29	437%	264%
7	26.43	15.78	428%	255%
8	25.67	14.98	415%	242%
9	24.76	13.98	401%	226%
10	23.61	12.79	382%	207%
11	22.59	11.70	366%	189%
12	21.30	10.39	345%	168%
13	19.96	8.85	323%	143%
14	18.52	7.08	300%	115%
15	16.97	5.16	275%	84%
16	15.33	3.86	248%	63%
17	12.85	2.71	208%	44%
18	9.58	1.74	155%	28%
19	5.34	0.87	86%	14%
20	0.00	0.00	0%	0%

**Per Unit Issued

STATUTORY STRAIN**

20-Year Term (M-50, NS)

Pricing Based On 70% of US 75-80 S&U. Gross Premium=\$6.18, Profit=0%.



**Per Unit Issued

STATUTORY RESERVES

20-Year Term (M-50, NS)

Pricing Based On 70% of US 75-80 S&U. Gross Premium=\$6.67, Profit=5%.

Reserves Based On 80 CSO, 20-Year Select

Year	Valuation Premium	Base V*	Deficiency V*	Total V*	Total V**
1	1.46	0.00	21.74	21.74	19.76
2	8.39	6.67	20.96	27.63	23.44
3	8.39	13.14	20.16	33.30	26.86
4	8.39	19.45	19.32	38.77	29.91
5	8.39	25.61	18.46	44.07	32.40
6	8.39	31.62	17.56	49.18	34.55
7	8.39	37.45	16.62	54.07	36.27
8	8.39	43.03	15.65	58.68	37.58
9	8.39	48.31	14.64	62.94	38.45
10	8.39	52.95	13.58	66.53	38.73
11	8.39	56.79	12.49	69.28	38.63
12	8.39	59.50	11.35	70.85	37.80
13	8.39	61.42	10.17	71.59	36.50
14	8.39	62.38	8.92	71.30	34.70
15	8.39	62.21	7.62	69.83	32.40
16	8.39	58.99	6.26	65.25	28.75
17	8.39	52.03	4.83	56.86	23.75
18	8.39	40.75	3.32	44.07	17.42
19	8.39	23.87	1.72	25.59	9.55
20	8.39	0.00	0.00	0.00	0.00

*Per Unit In Force

**Per Unit Issued

STATUTORY RESERVES

20-Year Term (M-50, NS)

Pricing Based On 70% of US 75-80 S&U. Gross Premium=\$6.67, Profit=5%.

Reserves Based On 2001 CSO, 25-Year Select

Year	Valuation Premium	Base V*	Deficiency V*	Total V*	Total V**
1	1.49	0.00	8.30	8.30	7.54
2	7.33	5.74	8.00	13.74	11.66
3	7.33	11.36	7.70	19.05	15.37
4	7.33	16.83	7.38	24.21	18.68
5	7.33	22.15	7.04	29.19	21.46
6	7.33	27.19	6.70	33.89	23.81
7	7.33	31.84	6.34	38.18	25.61
8	7.33	36.01	5.97	41.98	26.88
9	7.33	39.68	5.59	45.27	27.65
10	7.33	42.75	5.19	47.94	27.91
11	7.33	44.98	4.77	49.75	27.74
12	7.33	46.06	4.34	50.40	26.89
13	7.33	45.90	3.89	49.79	25.38
14	7.33	44.38	3.42	47.79	23.26
15	7.33	41.44	2.92	44.36	20.58
16	7.33	36.81	2.40	39.21	17.28
17	7.33	30.72	1.85	32.57	13.61
18	7.33	22.97	1.27	24.24	9.58
19	7.33	12.97	0.66	13.63	5.09
20	7.33	0.00	0.00	0.00	0.00

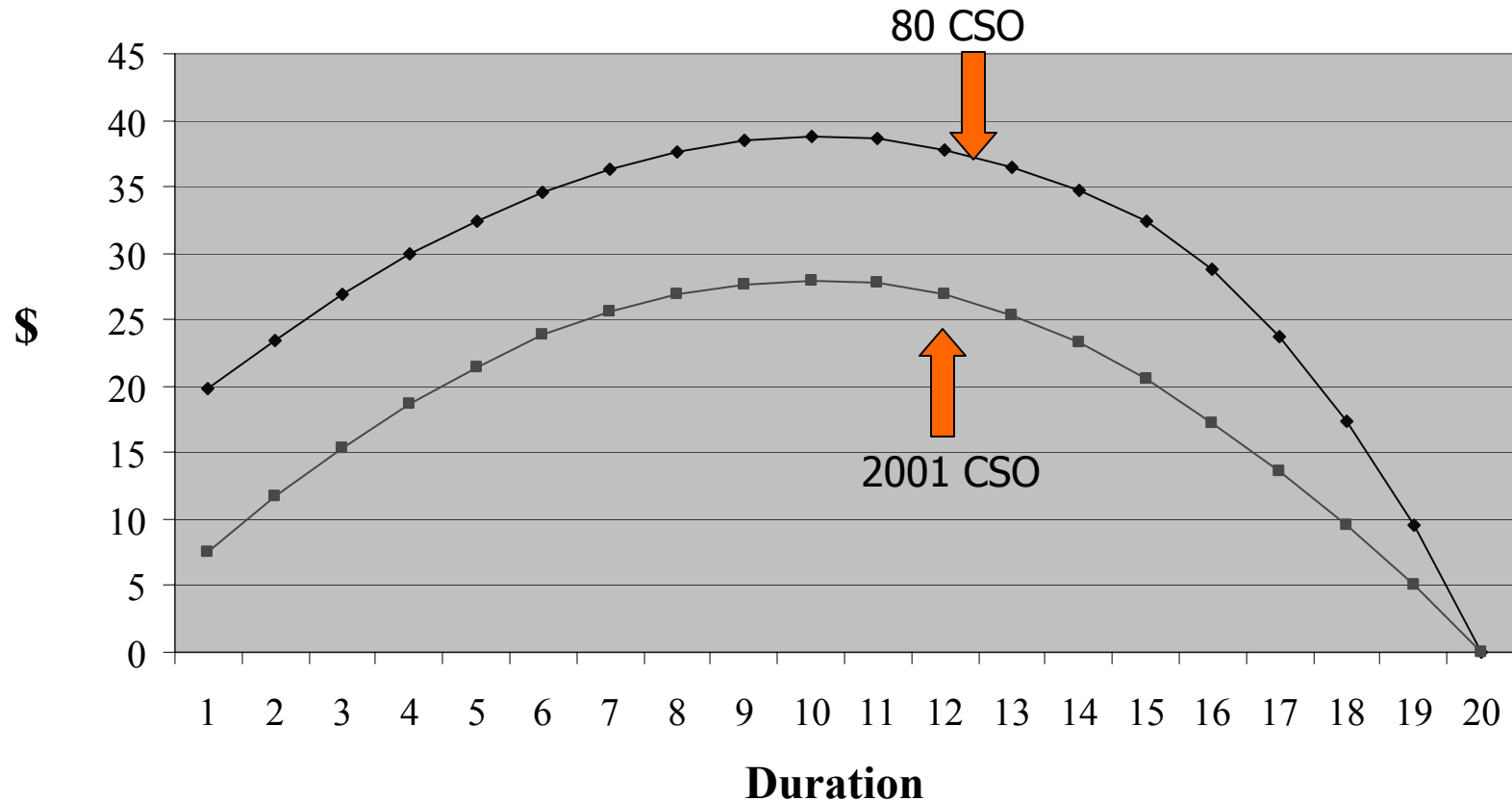
*Per Unit In Force

**Per Unit Issued

STATUTORY RESERVES**

20-Year Term (M-50, NS)

Pricing Based On 70% of US 75-80 S&U. Gross Premium=\$6.67, Profit=5%.



**Per Unit Issued

STATUTORY STRAIN**

20-Year Term (M-50, NS)

Pricing Based On 70% of US 75-80 S&U. Gross Premium=\$6.67, Profit=5%.

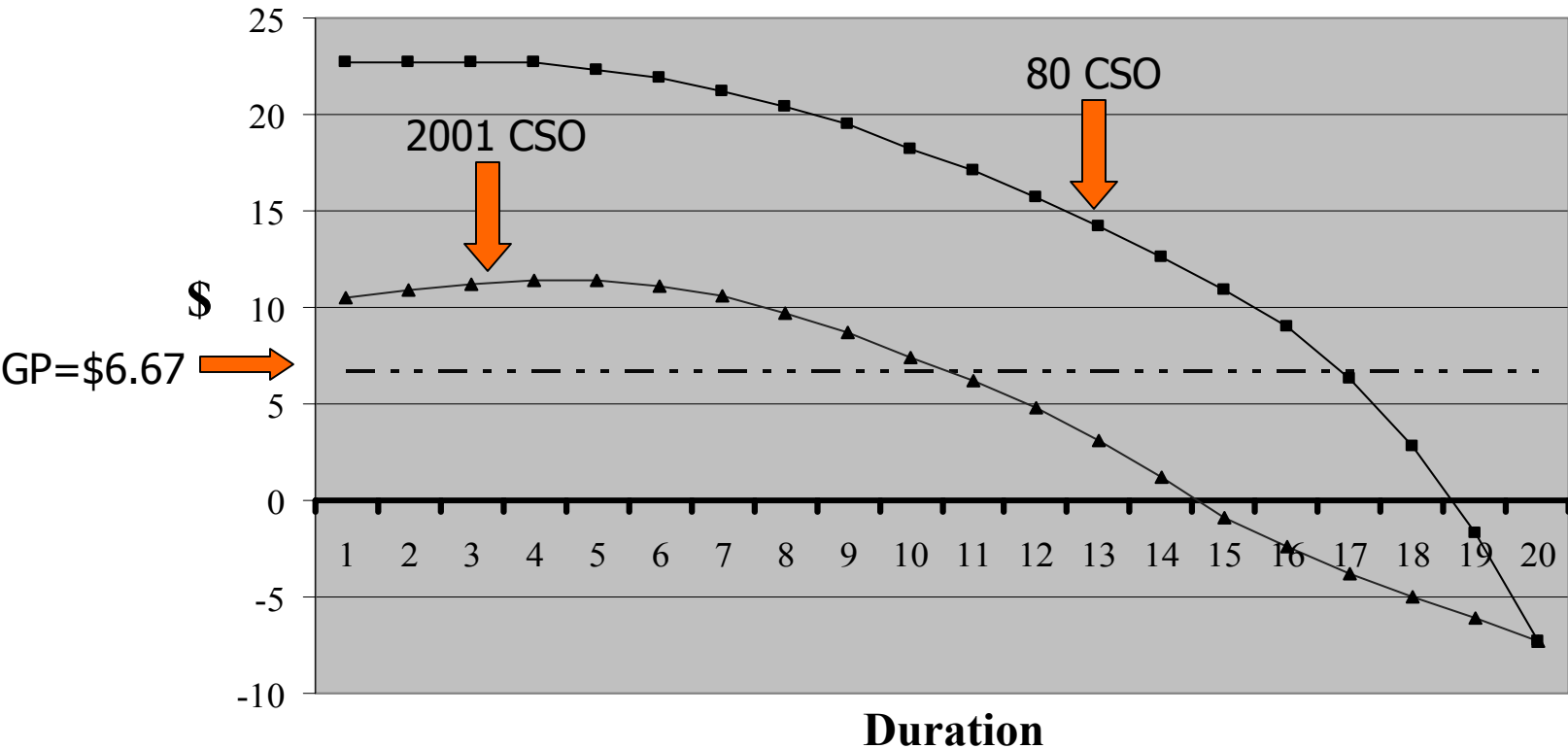
Year	Strain/Unit		Strain(% of GP)	
	80 CSO	2001 CSO	80 CSO	2001 CSO
1	22.75	10.54	341%	158%
2	22.66	10.88	340%	163%
3	22.69	11.21	340%	168%
4	22.65	11.41	339%	171%
5	22.30	11.36	334%	170%
6	21.86	11.12	328%	167%
7	21.24	10.58	318%	159%
8	20.43	9.74	306%	146%
9	19.47	8.67	292%	130%
10	18.23	7.41	273%	111%
11	17.10	6.21	256%	93%
12	15.68	4.77	235%	71%
13	14.20	3.08	213%	46%
14	12.60	1.15	189%	17%
15	10.87	-0.95	163%	-14%
16	9.03	-2.44	135%	-37%
17	6.33	-3.81	95%	-57%
18	2.82	-5.01	42%	-75%
19	-1.68	-6.14	-25%	-92%
20	-7.29	-7.29	-109%	-109%

**Per Unit Issued

STATUTORY STRAIN**

20-Year Term (M-50, NS)

Pricing Based On 70% of US 75-80 S&U. Gross Premium=\$6.67, Profit=5%.

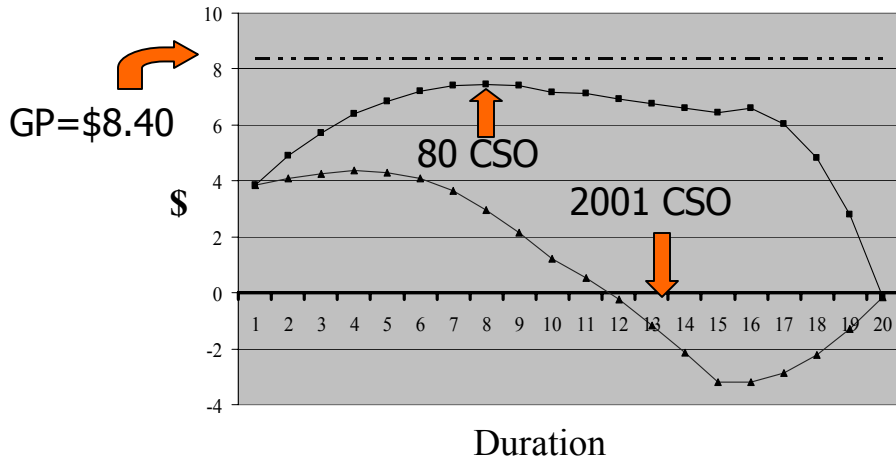


**Per Unit Issued

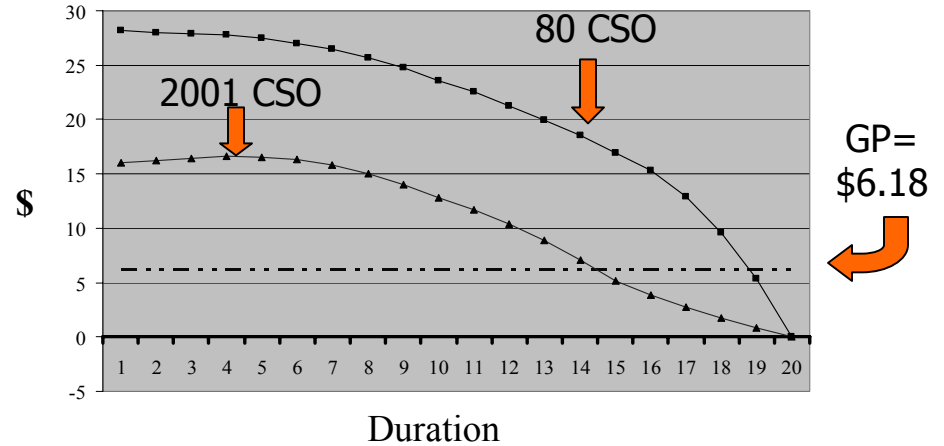
STATUTORY STRAIN

20-Year Term (M-50, NS)

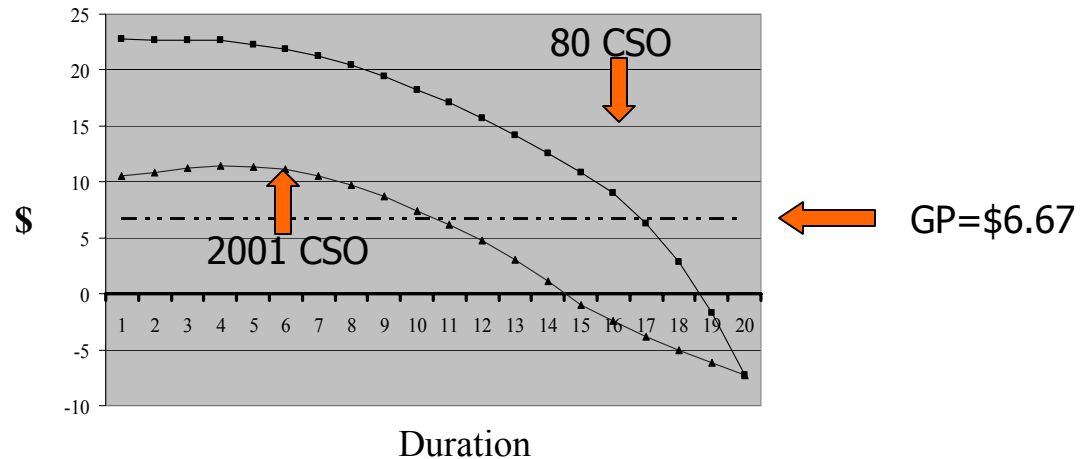
Qx=95% of 75-80, Profit=0%



Qx=70% of 75-80, Profit=0%



Qx=70% of 75-80, Profit=5%



STATUTORY RESERVES

Whole Life (F-60, AGG)

Pricing Based On 100% of US 75-80 Ultimate. Gross Premium=\$41.51, Profit=0%.

Reserves Based On 80 CSO, Ultimate

Year	Valuation Premium	Base V*	Deficiency V*	Total V*	Total V**
1	9.59	0.00	0.00	0.00	0.00
2	34.11	25.13	0.00	25.13	21.04
3	34.11	50.74	0.00	50.74	40.12
4	34.11	76.73	0.00	76.73	57.62
5	34.11	103.03	0.00	103.03	73.18
6	34.11	129.66	0.00	129.66	87.30
7	34.11	156.67	0.00	156.67	99.91
8	34.11	184.17	0.00	184.17	111.11
9	34.11	212.23	0.00	212.23	120.99
10	34.11	240.84	0.00	240.84	129.58
11	34.11	269.89	0.00	269.89	137.68
12	34.11	299.22	0.00	299.22	144.49
13	34.11	328.58	0.00	328.58	149.88
14	34.11	357.75	0.00	357.75	153.79
15	34.11	386.57	0.00	386.57	156.17
16	34.11	414.97	0.00	414.97	157.06
17	34.11	442.96	0.00	442.96	156.48
18	34.11	470.57	0.00	470.57	154.50
19	34.11	497.85	0.00	497.85	151.18
20	34.11	524.77	0.00	524.77	146.59

*Per Unit In Force

**Per Unit Issued

STATUTORY RESERVES

Whole Life (F-60, AGG)

Pricing Based On 100% of US 75-80 Ultimate. Gross Premium=\$41.51, Profit=0%.

Reserves Based On 2001 CSO, Ultimate

Year	Valuation Premium	Base V*	Deficiency V*	Total V*	Total V**
1	8.16	0.00	0.00	0.00	0.00
2	28.74	20.99	0.00	20.99	17.57
3	28.74	42.40	0.00	42.40	33.53
4	28.74	64.23	0.00	64.23	48.23
5	28.74	86.48	0.00	86.48	61.42
6	28.74	109.14	0.00	109.14	73.49
7	28.74	132.20	0.00	132.20	84.31
8	28.74	155.63	0.00	155.63	93.90
9	28.74	179.42	0.00	179.42	102.29
10	28.74	203.54	0.00	203.54	109.51
11	28.74	227.93	0.00	227.93	116.28
12	28.74	252.53	0.00	252.53	121.94
13	28.74	277.32	0.00	277.32	126.50
14	28.74	302.27	0.00	302.27	129.94
15	28.74	327.36	0.00	327.36	132.25
16	28.74	352.56	0.00	352.56	133.44
17	28.74	377.87	0.00	377.87	133.48
18	28.74	403.25	0.00	403.25	132.40
19	28.74	428.71	0.00	428.71	130.18
20	28.74	454.21	0.00	454.21	126.88

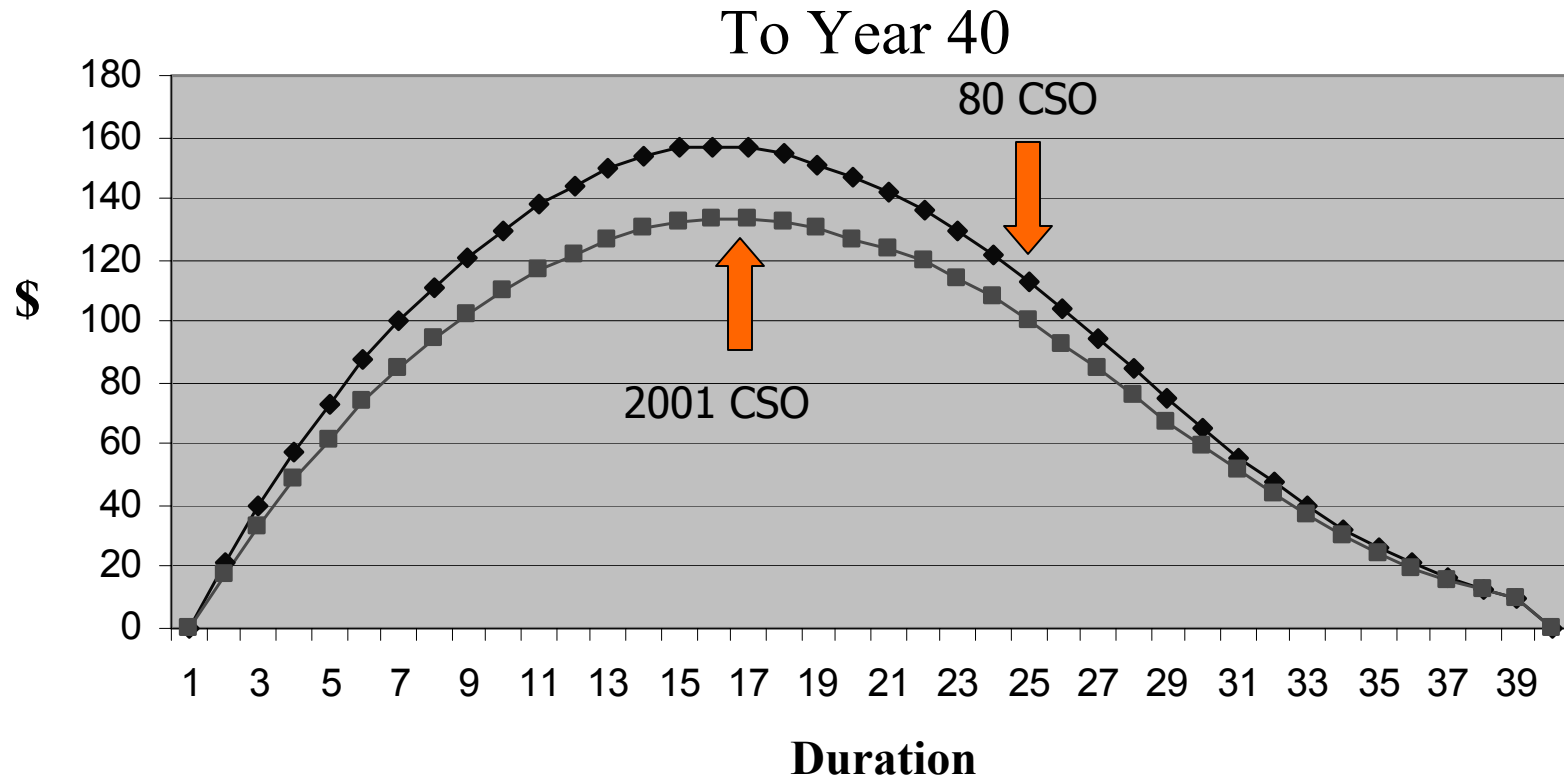
*Per Unit In Force

**Per Unit Issued

STATUTORY RESERVES**

Whole Life (F-60, AGG)

Pricing Based On 100% of US 75-80 Ultimate. Gross Premium=\$41.51, Profit=0%.



**Per Unit Issued

STATUTORY STRAIN**

Whole Life (F-60, AGG)

Pricing Based On 100% of US 75-80 Ultimate. Gross Premium=\$41.51, Profit=0%.

Year	Strain/Unit		Strain(% of GP)	
	80 CSO	2001 CSO	80 CSO	2001 CSO
1	21.05	21.05	51%	51%
2	21.11	17.64	51%	43%
3	21.12	14.53	51%	35%
4	20.99	11.61	51%	28%
5	20.70	8.94	50%	22%
6	20.26	6.44	49%	16%
7	19.74	4.13	48%	10%
8	19.22	2.00	46%	5%
9	18.74	0.04	45%	0%
10	18.31	-1.75	44%	-4%
11	17.85	-3.56	43%	-9%
12	17.33	-5.21	42%	-13%
13	16.70	-6.68	40%	-16%
14	15.91	-7.94	38%	-19%
15	14.97	-8.95	36%	-22%
16	13.94	-9.68	34%	-23%
17	12.88	-10.11	31%	-24%
18	11.87	-10.23	29%	-25%
19	10.97	-10.02	26%	-24%
20	10.20	-9.51	25%	-23%

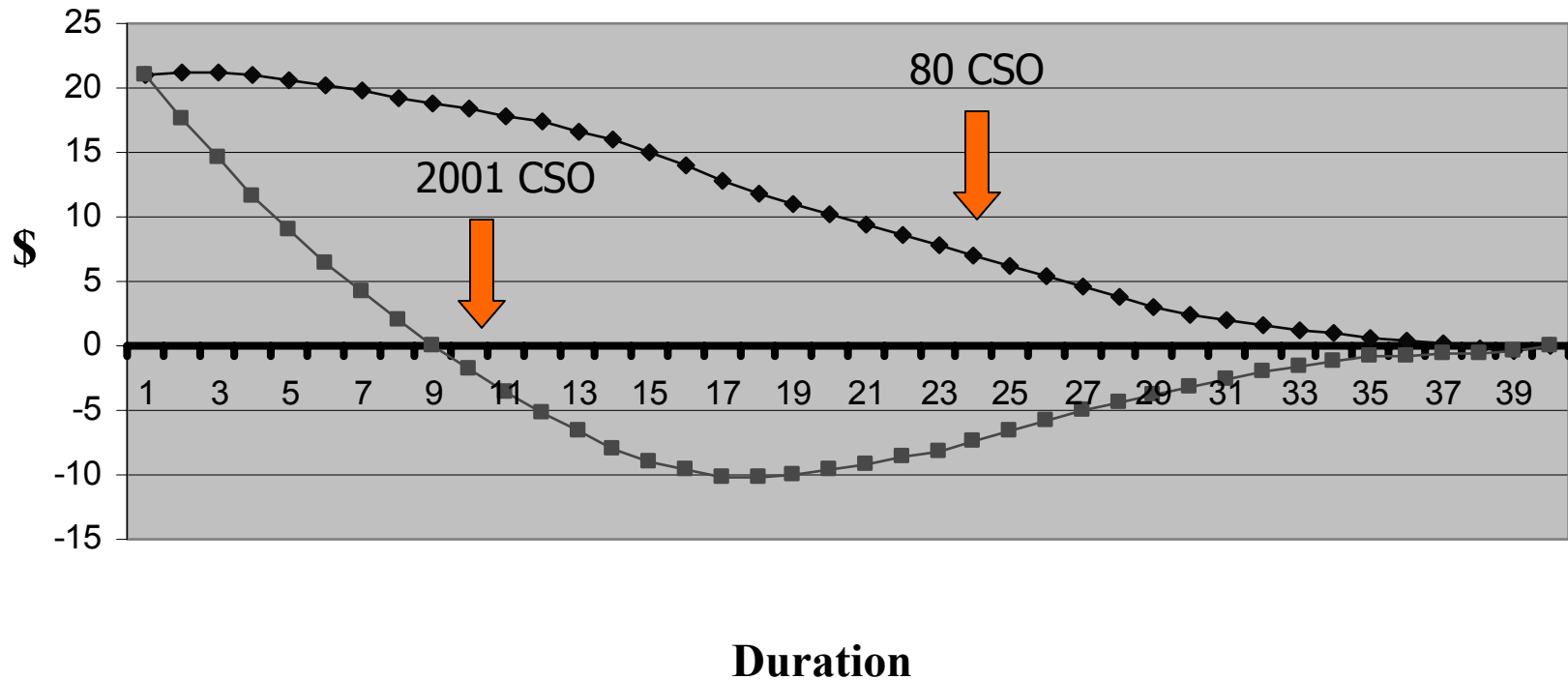
**Per Unit Issued

STATUTORY STRAIN**

Whole Life (F-60, AGG)

Pricing Based On 100% of US 75-80 Ultimate. Premium=\$41.51, Profit=0%.

To Year 40



**Per Unit Issued

STATUTORY RESERVES

Whole Life (F-60, AGG)

Pricing Based On 100% of US 75-80 Ultimate. Gross Premium=\$43.09, Profit=2.5%.

Reserves Based On 80 CSO, Ultimate

Year	Valuation Premium	Base V*	Deficiency V*	Total V*	Total V**
1	9.59	0.00	0.00	0.00	0.00
2	34.11	25.13	0.00	25.13	21.04
3	34.11	50.74	0.00	50.74	40.12
4	34.11	76.73	0.00	76.73	57.62
5	34.11	103.03	0.00	103.03	73.18
6	34.11	129.66	0.00	129.66	87.30
7	34.11	156.67	0.00	156.67	99.91
8	34.11	184.17	0.00	184.17	111.11
9	34.11	212.23	0.00	212.23	120.99
10	34.11	240.84	0.00	240.84	129.58
11	34.11	269.89	0.00	269.89	137.68
12	34.11	299.22	0.00	299.22	144.49
13	34.11	328.58	0.00	328.58	149.88
14	34.11	357.75	0.00	357.75	153.79
15	34.11	386.57	0.00	386.57	156.17
16	34.11	414.97	0.00	414.97	157.06
17	34.11	442.96	0.00	442.96	156.48
18	34.11	470.57	0.00	470.57	154.50
19	34.11	497.85	0.00	497.85	151.18
20	34.11	524.77	0.00	524.77	146.59

*Per Unit In Force

**Per Unit Issued

STATUTORY RESERVES

Whole Life (F-60, AGG)

Pricing Based On 100% of US 75-80 Ultimate. Gross Premium=\$43.09, Profit=2.5%.

Reserves Based On 2001 CSO, Ultimate

Year	Valuation Premium	Base V*	Deficiency V*	Total V*	Total V**
1	8.16	0.00	0.00	0.00	0.00
2	28.74	20.99	0.00	20.99	17.57
3	28.74	42.40	0.00	42.40	33.53
4	28.74	64.23	0.00	64.23	48.23
5	28.74	86.48	0.00	86.48	61.42
6	28.74	109.14	0.00	109.14	73.49
7	28.74	132.20	0.00	132.20	84.31
8	28.74	155.63	0.00	155.63	93.90
9	28.74	179.42	0.00	179.42	102.29
10	28.74	203.54	0.00	203.54	109.51
11	28.74	227.93	0.00	227.93	116.28
12	28.74	252.53	0.00	252.53	121.94
13	28.74	277.32	0.00	277.32	126.50
14	28.74	302.27	0.00	302.27	129.94
15	28.74	327.36	0.00	327.36	132.25
16	28.74	352.56	0.00	352.56	133.44
17	28.74	377.87	0.00	377.87	133.48
18	28.74	403.25	0.00	403.25	132.40
19	28.74	428.71	0.00	428.71	130.18
20	28.74	454.21	0.00	454.21	126.88

*Per Unit In Force

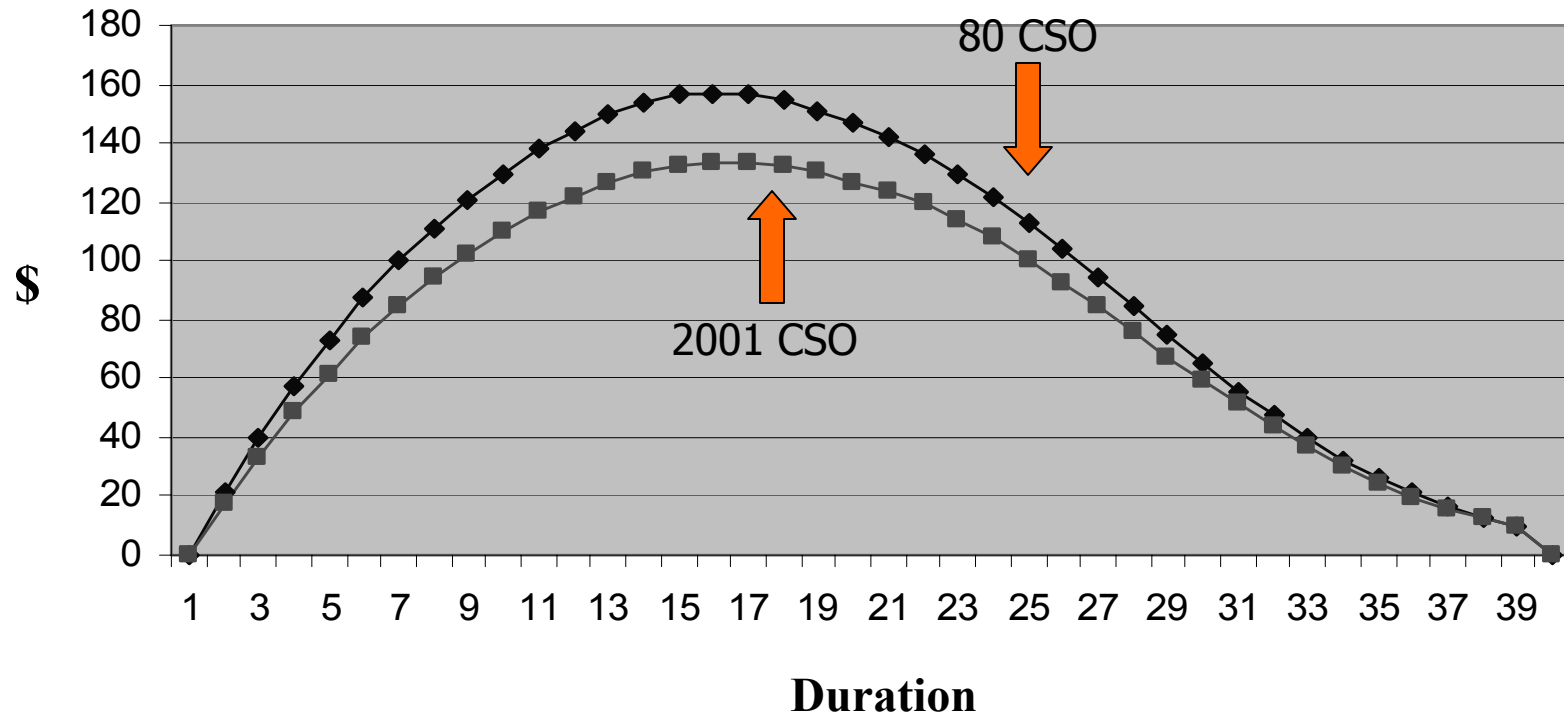
**Per Unit Issued

STATUTORY RESERVES**

Whole Life (F-60, AGG)

Pricing Based On 100% of US 75-80 Ultimate. Gross Premium=\$43.09, Profit=2.5%.

To Year 40



**Per Unit Issued

STATUTORY STRAIN**

Whole Life (F-60, AGG)

Pricing Based On 100% of US 75-80 Ultimate. Gross Premium=\$43.09, Profit=2.5%.

Year	Strain/Unit		Strain(% of GP)	
	80 CSO	2001 CSO	80 CSO	2001 CSO
1	21.55	21.55	50%	50%
2	20.44	16.97	47%	39%
3	19.31	12.72	45%	30%
4	18.06	8.67	42%	20%
5	16.64	4.89	39%	11%
6	15.08	1.27	35%	3%
7	13.44	-2.17	31%	-5%
8	11.79	-5.43	27%	-13%
9	10.18	-8.52	24%	-20%
10	8.62	-11.45	20%	-27%
11	7.01	-14.40	16%	-33%
12	5.33	-17.21	12%	-40%
13	3.52	-19.86	8%	-46%
14	1.54	-22.31	4%	-52%
15	-0.61	-24.54	-1%	-57%
16	-2.88	-26.50	-7%	-62%
17	-5.20	-28.19	-12%	-65%
18	-7.48	-29.58	-17%	-69%
19	-9.69	-30.68	-22%	-71%
20	-11.79	-31.50	-27%	-73%

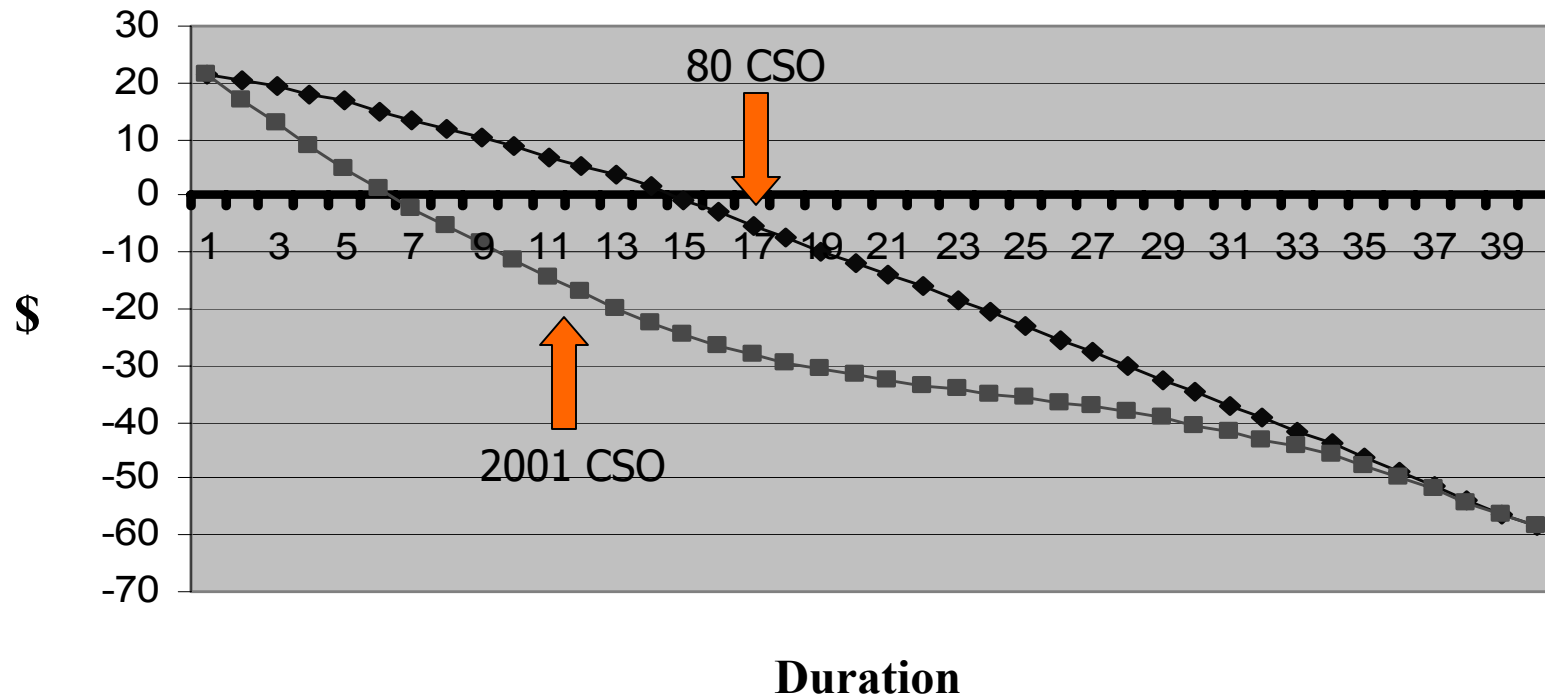
**Per Unit Issued

STATUTORY STRAIN**

Whole Life (F-60, AGG)

Pricing Based On 100% of US 75-80 Ultimate. Gross Premium=\$43.09, Profit=2.5%.

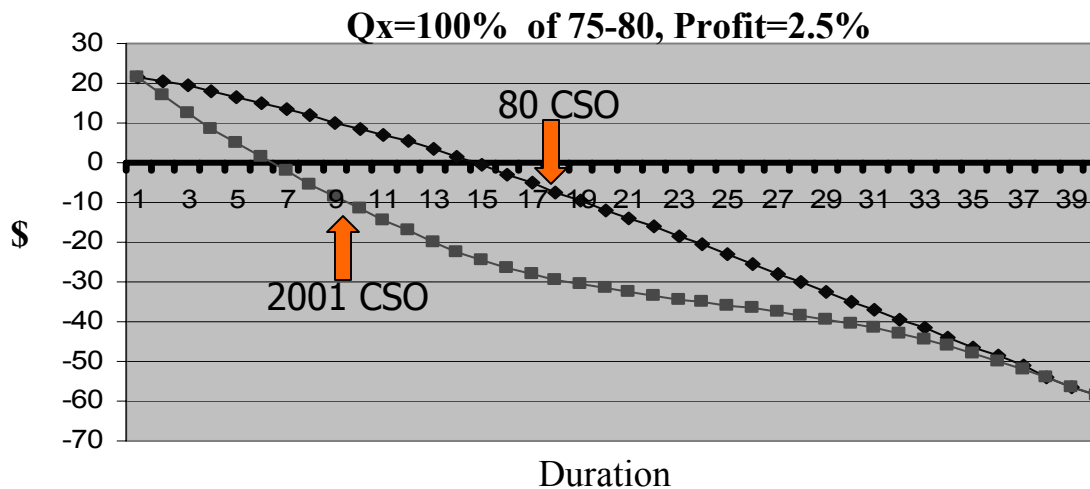
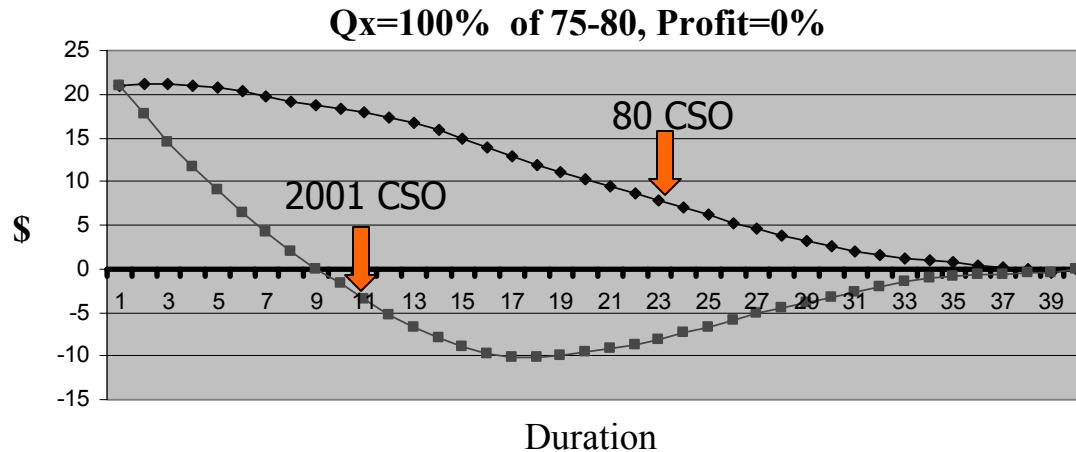
To Year 40



**Per Unit Issued

STATUTORY STRAIN

Whole Life (F-60, AGG)



COMMENTS ON DATA

- ➊ As the gross premiums become more competitive,
 - deficiency reserves
 - total reserves
 - statutory strainall increase.



COMMENTS ON DATA

(con't)

- ② The 2001 CSO generates lower reserves and statutory strain than the 80 CSO.



COMMENTS ON DATA

(con't)

- 3** The statutory strain may remain relatively level (or even increase slightly) during a number of years for both the whole life and the 20-year term plans.



COMMENTS ON DATA

(con't)

④ The first-year statutory strain

- is about 50% of gross annual premium for whole life
- can reach up to 4 times the gross premium for term business



COMMENTS ON DATA

(con't)

- ⑤ Actuaries who use the 75-80 Mortality Table for pricing and the 2001 Mortality Table for valuation should be aware that too much book profit may be released too early, thereby producing book losses in later years.



PRACTICAL APPLICATIONS TO RETAIN OR INCREASE CAPITAL

1

Major IT Development (or similar projects)

- Extend the development period over a number of years
- Amortize costs over a number of years (check with CPA)



PRACTICAL APPLICATIONS

(con't)

2

Mortality Catastrophe

- Review individual retention limit to ensure maximum risk is within acceptable limits
- If possible, avoid concentration of risks, more so if involved in group life insurance
- Obtain catastrophic reinsurance covering events involving, say, 3+ lives and insurance amounts greater than \$X



PRACTICAL APPLICATIONS

(con't)

3

Product Development

- Keep the guarantees (premium, duration) to a reasonable and acceptable minimum
- Consider using the newest valuation mortality table



PRACTICAL APPLICATIONS

(con't)

4

New Business Growth

- Review various scenarios of business growth to ensure the resulting amount of capital is not adversely affected by unduly high statutory strain resulting from new business
- Consider coinsuring a higher percentage of the new business



PRACTICAL APPLICATIONS

(con't)

5

Inforce Business

- Coinsurance of a block of insurance business may generate additional needed surplus. For income statement purposes, the proceeds from the transactions may need to be amortized over a number of years (check with CPA).
- Securitization may also generate additional surplus (session after the break)



PRACTICAL APPLICATIONS

(con't)

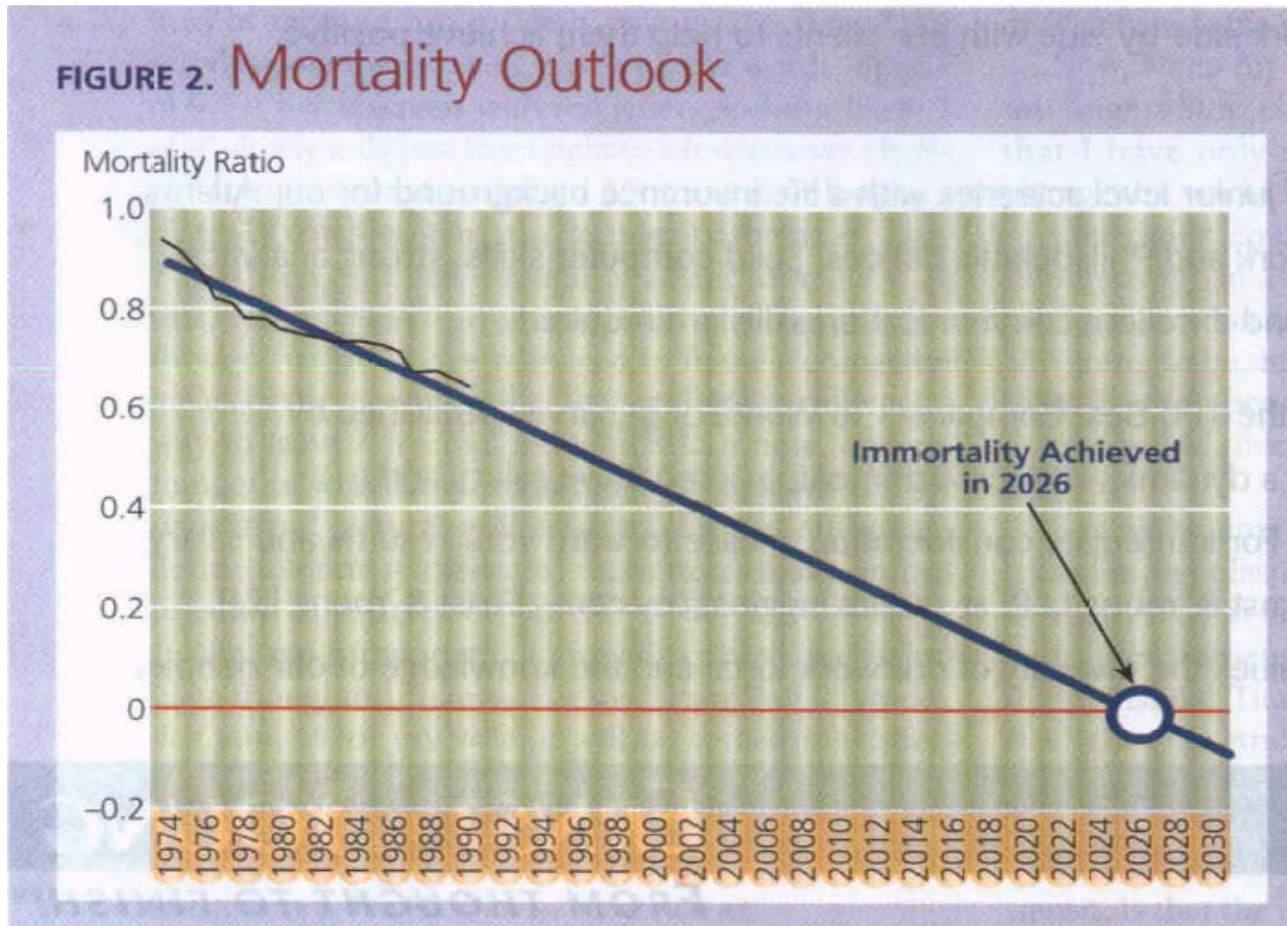
6

Assets

- Ensure appropriate
 - asset quality
 - asset mix (no undue concentration in any one asset or in any one class of assets)
 - liquidity
 - matching
- Conserving your assets=conserving your business
 - NO "GET-RICH-QUICK" SCHEMES



CLOSING IMAGE



CLOSING THOUGHT

“There has been an alarming increase in the number of things we know nothing about.”

-Scientific American

