



ReFlexions

A Message from the President



John Chamberlain
President

Summer has finally arrived in southern Ontario, with NHL hockey playoffs ending just in time for the start of the FIFA tournament in Brazil. Already, our memories of last summer's floods and the winter's ice storm are fading.

Looking forward, analysts have indicated the summer of 2014 may be unusually rainy and stormy, due to El Niño conditions in the Pacific Ocean, and a busy hurricane season in the Atlantic. Property Insurers have adjusted premiums (upwards) and coverage conditions (downwards) in many situations to try to keep up with the challenges Mother Nature throws our way.

Volatility in earnings and the balance sheet is not only a feature of property insurance operations. Over many years, RMA has specialized in bringing a wide variety of volatility management solutions to our life insurance clients, particularly those who are unable contractually to raise policyholder premiums or to reduce policyholder insurance coverage. Whether your concerns are with large individual risks, concentrations of risk or broader portfolio issues, contact one of our representatives to discuss how we can customize a reinsurance program to address your concerns.

Sincerely,

John Chamberlain
President

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*By Ed Yeung,
Vice President,
Insurance Products*

Creditor Insurance – Debunking Some of the Myths

Having worked in the creditor insurance world for over a decade, people often ask me, “Isn’t that creditor stuff a rip off?” While at first glance, it might seem that way, there are indeed advantages to this type of offering, which make it a viable segment in the insurance market.

The most common complaints I hear are:

1. It’s too expensive;
2. Level premium should mean level benefit, not decreasing benefit;
3. It’s not flexible, since the benefit only goes to the creditor;
4. The post claim underwriting means that I am not guaranteed a benefit payout if I make a claim.

Let’s take a look at each of these complaints, and see if perhaps they can be explained away. But before examining in more detail, let’s first define the nature of creditor insurance, and give a brief of history to its evolution.

Creditor Insurance – A Brief Outline

Traditionally, creditor insurance came about as a means for lenders, in particular banks, to add extra security to their loans, whether they be mortgage loans, vehicle loans or just general consumer loans.

The banks were looking for ways to guard against sudden default on a loan, due to events such as death or disability of the borrower. They also wanted a simplified issue process, that didn’t involve an insurance agent or require special licensing. Enter, Group Creditor Life and Health Insurance.

There were three key features that made creditor insurance attractive to lenders:

1. Creditor Insurance is group insurance, where the lender is the group policyholder and group sponsor. Hence lenders do not require a licensed agent to offer the insurance. They are deemed to be enrolling members in a group plan.

2. The insurance proceeds can only be paid to the lender to reduce or extinguish the loan. This allows lenders to have direct security on their loans. There is no need to get in line as a creditor to the estate, and no need to wait for the foreclosure or sale of the collateral property.
3. Creditor Insurance is usually simplified issue, or even guaranteed issue, which lends itself to a very easy enrollment process.

Myth #1 – Too Expensive

A common myth is that creditor insurance is “too” expensive. But what is “too” expensive? Is milk too expensive at the corner store, versus the supermarket? Yes, but do some people still buy it there? Yes, why? Because it’s convenient.

How about a more sizable purchase like a home? Some people might argue that renting is “too” expensive relative to buying. Then why don’t we all buy? Well, for some people, it’s the discomfort of a huge mortgage. For others, it’s the lack of good credit. For others, it’s just more convenient to rent (e.g. not responsible for maintenance).

Now, let’s look at the purchase of insurance. Indeed, creditor insurance can be more expensive than preferred term, or even standard term, under most circumstances. But what does it take to get that better rate? A lot of shopping around? Back and forth sessions with the insurance agent, the nurse and the doctors? An extended time period of uncertainty?

All of the above weigh on the consumer’s decision, and many consumers attach a high “cost” to those activities. There is a cost for convenience, and creditor insurance is often the most convenient product for someone just looking to cover only a specific debt.

Also, for coverage on small loans, such as car loans, one typically can’t get access to insurance on such a small amount, especially with regard to disability insurance.

Myth #2 – Level Premium should mean Level Benefit

I often hear people say, “My creditor insurance benefit is decreasing, but my premium stays the same. That’s just wrong!” What they do not understand is that the premium they are being charged, already takes into account that the benefit is decreasing. If the benefit

had been level, then the premiums would have been almost double. A very big misconception is that the pattern of premiums should track the pattern of benefit. But mismatching of premiums and benefits is not uncommon at all. Take a look at a level benefit universal life policy with YRT premiums. The benefit stays level but the premium goes up year after year!



Creditor insurance is often the most convenient product for someone just looking to cover only a specific debt.

Myth #3 – Creditor as the Beneficiary makes it Inflexible

The fact that insurance benefits only accrue to the creditor, makes people think that creditor insurance is inferior relative to term insurance. However, this feature actually creates a flexibility that is not otherwise available.

Most disability income insurance plans have built-in offsets. If you are disabled, and claim on your individual or group disability policy, one of the first things the insurer will do, is to check for offsetting benefits (e.g. social security, wsib, spousal plans, etc.). Any benefits you receive will be deducted from the benefit you would have otherwise received. Guess what insurance benefits are not included in the offset calculation? You guessed it – Creditor Insurance.

Thus, creditor insurance offers a flexible way to isolate certain debt obligations, insure them fully, and still have the full benefits of your other disability insurance without corresponding reductions.

Also, the fact that the creditor is the named beneficiary means that the lender does not have to wait in line to make a claim on the estate. Creditor insurance provides a secured creditor situation for the lender. This can also allow the lender to offer better borrowing rates to the borrower, since the insurance can lower the default rate.

Myth #4 – Post Claim Underwriting is a Scam

The dreaded pre-existing condition clause has made its way through various news “exposés” on more than one occasion. These one-sided narrations tell the tale of how unsuspecting customers bought the creditor insurance thinking they were covered for conditions from which they were already suffering, and how the nasty insurance companies maliciously denied their claims.

They also claim that the car dealer or loan officer who sold them the insurance, didn’t explain everything to them. While this may have actually happened on occasion, these are isolated incidents. But more importantly, are people not responsible for their own actions? Does *caveat emptor* apply to everything else except insurance?

Just about every creditor insurance application and certificate clearly states that there are exclusions, and that the buyer should carefully read the list of exclusions before purchasing. In fact, the buyer signs right below the disclaimer that states the buyer did indeed read everything before signing.

In the end, many of these “misled” claimants turn out to be people who thought they could walk in sick, buy the insurance, and claim tomorrow.

Post claim underwriting is not meant to scam the insured, but to provide a simple and streamlined way to apply for the insurance. Also, most coverages only exclude the pre-existing condition for one year, so if one is indeed ill but survives for a year, then coverage is still available for that condition.

Conclusion

Creditor insurance gets a bad rap in my opinion. There are many features which appear to be disadvantageous, but they are all there for a reason, as explained above. Creditor insurance fills the void, where the average consumer can get quick and easy access to life and health insurance coverage, without the hassles of traditional agent-sold insurance. Very often, creditor insurance is the only means by which a consumer can get a small amount of insurance for a short period of time, and this may be all that they require. It also provides a means to potentially secure better borrowing rates from their lender. So the next time someone complains to you about creditor insurance, perhaps you can help enlighten them with some of the concepts described above.

Coverholder at **LLOYD'S**

RMA is excited to announce the successful completion of its application to become a Lloyd's coverholder. Lloyd's is located in the City of London, England and is an insurance market specializing, predominately, in general insurance and reinsurance since the 17th century. The Principals at RMA have had a relationship with the Lloyd's market for more than 20 years, underwriting and placing profitable Life and Accident & Health reinsurance business into Lloyd's.

Becoming a Lloyd's coverholder was a natural progression of RMA's relationship with the Lloyd's market. As an extension of the current services RMA provides, this will enable RMA to provide third party administration services on behalf of Lloyd's for Accident and Health as well as General Insurance products in North America.

"RMA have always impressed us with their capabilities and we were happy to support them in their application to become a Lloyd's coverholder".

Jonathan Price, Ark Syndicate Management Ltd., UK

Health and Wellness Initiative



RMA understands the value of a work/life balance and the importance of health and wellness. We are excited to announce that RMA has partnered with GoodLife FITNESS and launched a Health and Wellness initiative for our staff effective July 1, 2014. Included in the program are a fitness membership subsidy, quarterly health and wellness workshops, and the addition of a Critical Illness (CI) cover to RMA's group benefit plan. To supplement the program, we've even implemented a lunch-time walking club and monthly group exercise class!

RMA joins Group Underwriters Association of America Specialty Markets Committee



RMA is very pleased to have been added to the Specialty Markets committee for the Group Underwriters Association of America (GUAA). GUAA is an organization which promotes the study, analysis and discussion of all matters of mutual interest relating to the underwriting of group insurance products. RMA has been an active member of the organization for many years and was a proud sponsor at the 2014 Annual Meeting in San Francisco.

RMA launches a new website



RMA is constantly growing; this month we are pleased to announce the launch of our new website! The site better reflects the expansion of our services, including risk management solutions, third-party administration, and consulting services for specialty insurance and reinsurance products. It also highlights our industry expertise with feature articles, team profiles, and our semi-annual newsletter "ReFlexions," which focuses on industry developments and analysis. Technologically speaking, the site is responsive – making it easy to navigate and view regardless of the device being used – and interactive, with a blog and social media features. We hope that the new site builds on our strong relationship with you, our clients, and achieves our goal for the highest level of service!

ReFocus Conference – March 2014



Refocus is an annual conference jointly organized by the ACLI and SOA and was held in Las Vegas during the 2nd week of March, 2014. This year, two of RMA's executives, Howard Bernstein and Douglas Lum, attended the conference and hosted an evening of great food and entertainment for our clients. This year's entertainment was the Cirque du Soleil performance of Michael Jackson's ONE held at Mandalay Bay. RMA's guests were entertained by a dazzling spectacle of acrobatics, dance, special effects and music celebrating Michael Jackson's achievements. We would like to thank all of our clients who attended the event and look forward to seeing you at next year's conference.

Community Outreach



At RMA, we believe in giving back to the community – be it sponsoring a family at Christmas or supporting a local shelter. On Monday, July 21, several RMA staff members participated in a hands-on Volunteer job at the Toronto Daily Bread Food Bank. We were put to work preparing bags of powdered milk for the distribution boxes and after four hours, we were pleased to see 48 boxes of milk were filled and ready to be distributed. Everyone who participated in the volunteer outing came away with a feeling of great pride and accomplishment. It truly was a rewarding experience!

CRC Client Event – April 1, 2014



From L to R: Mark Kersey (Dueling Pianos) and Gary Walters (RGA)

The theme of this year's client appreciation event was April Fool's – "more than meets the eye". Over 100 clients and guests from across North America and Europe attended our event. It was held on the evening prior to the Canadian Reinsurance Conference (CRC), at Roy Thomson Hall in downtown Toronto. Entertainment was provided by the Dueling Piano's with unique and imaginative prizes awarded during the evening; themed food was created and catered by Daniel et Daniel. We'd like to thank all of our clients who attended and we look forward to seeing you at our next event on Monday, April 13, 2015.

Please contact us at info@rmacan.com for more information.

Upcoming RMA Events

RMA Annual Golf Classic

Woodbridge, Ontario, September 10, 2014

SOA Meeting and RMA Golf outing

Orlando, Florida, October 26–29, 2014

Staff Profile



*Lillian Chan,
Senior Account Manager,
Accident & Health*

In this issue we'd like to introduce **Lillian Chan, Senior Account Manager, Accident & Health**. Being the first employee and having the longest service at RMA, Lillian, unquestionably, is the most suitable person to discuss the changes at the company since it began operations in 1996. Lillian has more than 30 years of experience in the reinsurance industry and is a Fellow, Life Management Institute (FLMI).

RMA: Where are you originally from and how would you describe your family life?

Lillian: I was born in Hong Kong and immigrated to Canada in 1973. I enjoy weekly gatherings with my elderly mother-in-law, playing Mah-Jong with her to cheer her up and having dinner together keeps us close.

RMA: What are your personal interests?

Lillian: I enjoy playing games, listening to music, watching TV drama, fishing and travelling.

RMA: How would you describe yourself in one sentence?

Lillian: Self-disciplined and detail-oriented.

RMA: Prior to joining RMA, where were you employed and what did you do?

Lillian: Prior to joining RMA in 1997 and after the Manulife/North American Life merger, I worked on Manulife's Business Analysis Team for more than a year, managing administering North American Life's reinsurance business and providing support when converting the business to Manulife's operation. Prior to the merger, I had worked at North American Life for ten years as a Reinsurance Administrator and then as a Reinsurance Specialist, being mainly responsible for providing administration and technical support. I was a Reinsurance New Business Administrator with Gerling Global Life before joining North American Life.

RMA: What do you do now at RMA?

Lillian: Financial reporting for Life and A&H business; playing a major role in the development and implementation of the administration/financial reporting system; compiling statistical reports including, but not limited to, Experience Study work for our clients and senior management; providing cash management support of all of RMA's corporate and clients' fiduciary accounting functions.

RMA: Can you share your views about the changes at the company?

Lillian: The changes are just for the better. The administration/financial reporting process has improved by having an automated system. The system enhancements are on-going so as to increase the effectiveness and efficiency of the process. The level of data accuracy is high. We are also able to prepare various customized reports as requested by our clients so as to satisfy their needs. We're flexible enough to provide solutions and services to them.

The turnover rate is low at RMA and many staff have been with the organization for over 10 years (I'm one of them!). This is mainly due to the fact that the company cares about us! I always have a sense of security working at RMA.

New Faces at RMA



*Cecilia Torrejon,
Assistant Vice President
and Chief Underwriter*

Cecilia Torrejon recently joined the RMA team at the end of March, 2014 as **Assistant Vice President and Chief Underwriter**.

Cecilia oversees the underwriting, treaty and claims management functions for the life reinsurance line of business. She is an underwriting professional with over 30 years of experience in the industry and is well-versed in the North and Latin American markets. Prior to joining RMA, Cecilia was at Foresters Life as Director & Chief Underwriter for Canada, having previously held various senior underwriting roles with notable organizations including RGA, Swiss Re, Canada Life and ManuLife. Cecilia holds both the FALU and FLMI designations.

Contacts

John Chamberlain

President
416.408.1234
jchamberlain@rmacan.com

Steve Hardacre

Vice President, Pricing,
Life Reinsurance
416.408.1994
shardacre@rmacan.com

Ted Clark

Vice President, Marketing
416.408.3310
tclark@rmacan.com

Claire Myles

Managing Director, A&H and
Chief Operating Officer
416.408.4137
cmyles@rmacan.com

Cecilia Torrejon

Assistant Vice President and
Chief Underwriter, Life Reinsurance
416.408.4463
ctorrejon@rmacan.com

Laurel David

Director, Accident & Health
416-408-0464
ldavid@rmacan.com

Douglas Lum

Managing Director,
Life Reinsurance
416.408.0741
dlum@rmacan.com

Ed Yeung

Vice President,
Insurance Products
416.408.1078
eyeung@rmacan.com

Jason Arnell

Chief Information Officer
416.408.2797
jarnell@rmacan.com

Howard Bernstein

Executive Vice President,
Marketing, Life Reinsurance
770.495.7250
hbernstein@rmacan.com

Tracy English

Assistant Vice President,
Insurance Operations
416.408.3804
tenglish@rmacan.com

Andrew Barth

Principal, Intermediary
and Consulting Services
416.408.4442
abarth@rmacan.com



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Reinsurance Management Associates, Inc.

170 University Ave., Suite 500, Toronto ON M5H 3B3
Tel: 416.408.2602 Fax: 416.408.2262
info@rmacan.com

www.rmacan.com