



Our Viewpoint



By J.C. Brueckner, President & COO

In this edition of *The Viewpoint* you will find an article written by our CFO, Jay Kinnamon, outlining Generali USA's approach to Economic Capital as a part of our Enterprise Risk Management (ERM) process.

As many of you know, ERM has become a hot button for both rating agencies and analysts. Implementing a strong ERM process became a top priority for the Generali Group about two years ago. A great deal of effort was put into establishing a strong process and structure

that did more than meet the expectations of the rating agencies, it put in place a framework for measuring and monitoring our critical business activities. We view ERM as more than just a rating agency requirement, we believe it is an effective approach to

Continued on page 8

Generali USA's Approach To Economic Capital

By Jay Kinnamon, FSA, SVP, CFO & Chief Actuary



Which risks are the most concerning for your company?

Volatile markets?

Pandemics?

Interest Rate Fluctuations?

Fraud?

Inflation?

Defaults?

Regulatory actions?

Obesity?

Sarbox?

Subprime?

Emerging Issues?

As insurance organizations, we are in the business of assuming and managing many risks. Most of our companies have now implemented an enterprise risk management (ERM) structure to proactively identify and manage the risks that we encounter through our business operations.

Continued on page 2



View On...Tammy Kapeller

The Viewpoint (TV) is pleased to feature another installment in our View On series. Each issue we will feature an interview with various key players within the Gener-

ali USA circle. The objective behind 'View On...' is to profile members of our team and give everyone the opportunity of hearing directly about their respective responsibilities and business activities, their involvement and contribu-

tion to our business, information about market issues and/or challenges affecting business initiatives, plus individual ideas and views on current business developments. Finally, it will

Continued on page 6

Inside this issue:

(Please note: Click on the title to jump to a specific article. Navigate the articles by clicking on the "continued on" text.)

Welcome 8

Economic Capital (continued from page 1)

The purpose of this article is to describe one component of Generali USA’s ERM process – the determination of economic capital. Economic capital is an amount of capital necessary to support the specific risks to which a particular company is exposed. As opposed to more general regulatory or rating agency formulaic capital models, a company’s determination of economic capital is better calibrated to its particular risks and should provide a more accurate measure of the capital needed to assure its

solvency. Once an organization has identified its relevant risks through its ERM activities, economic capital can be calculated as the amount of capital that is required to ensure a specific likelihood of economic solvency over a given time horizon.

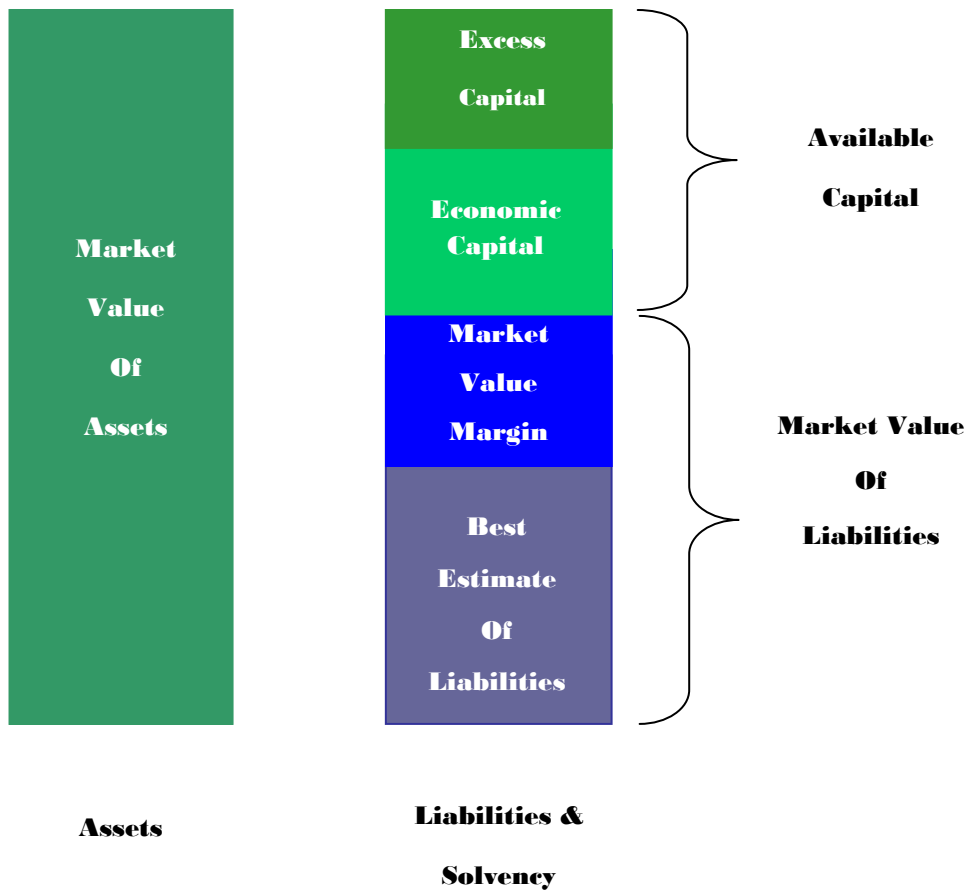
Generali’s Economic Balance Sheet

Generali USA has incorporated the approach of its parent, Assicurazioni Generali S.p.A. (Generali), for determining economic capital. This approach

utilizes the economic balance sheet concept as illustrated in the following diagram:

Economic Capital is an amount of capital necessary to support the risks to which a particular company is exposed.

Continued on page 3



Economic Capital (continued from page 2)

The economic balance sheet values both assets and liabilities on a market value basis. The market value of liabilities is defined as the best estimate of liabilities (BEL) plus a market value margin (MVM). Though a full description is beyond the scope of this article, the BEL for Generali USA is roughly equal to its policy reserves minus the present value of its future profits calculated at a risk free rate of return. The MVM is an allowance for non-hedgeable non-financial risk (mortality, lapse, etc.) relative to the best estimate assumptions used in the

BEL and is calculated using a cost of capital approach.

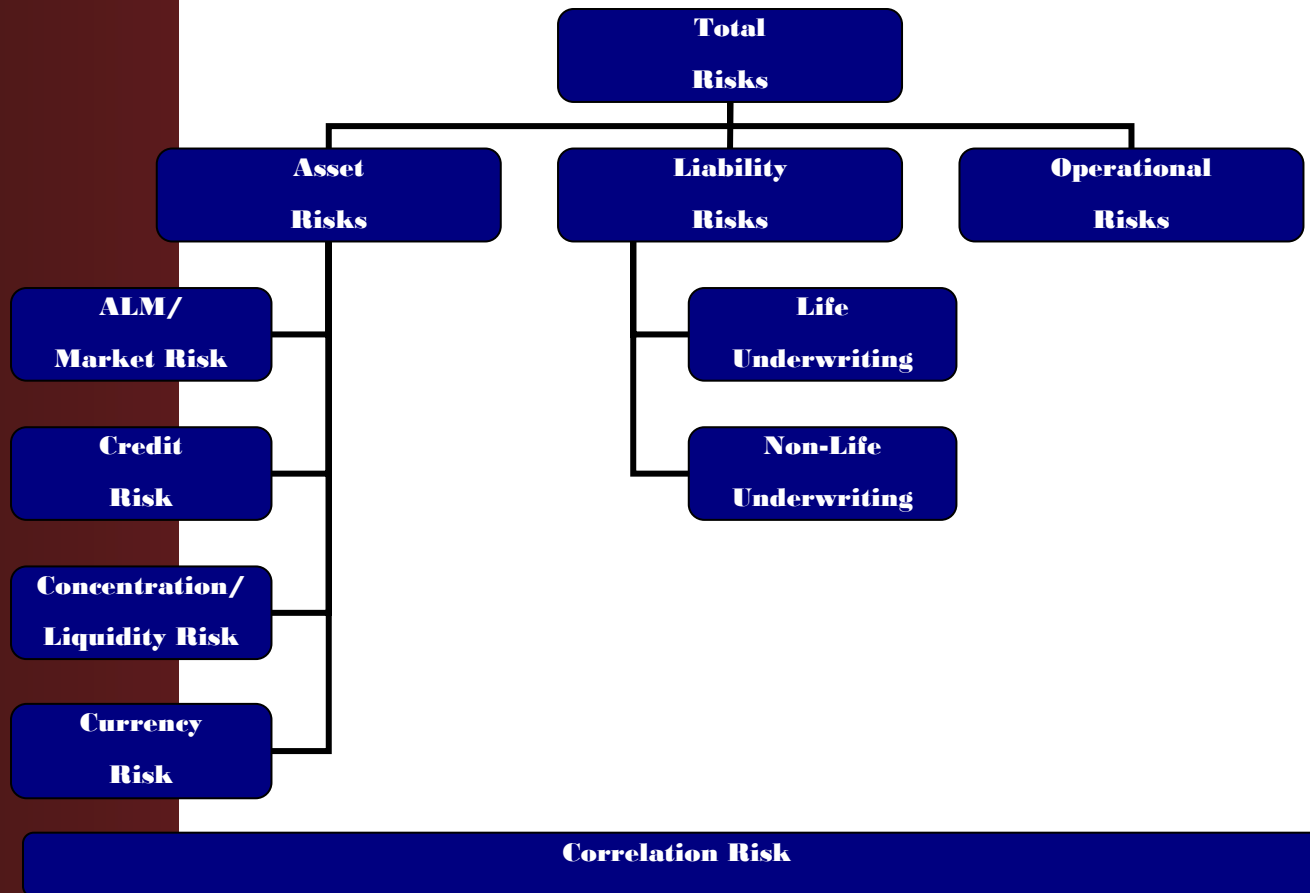
For Generali, economic capital is determined as the amount of capital required to ensure economic solvency (market value of assets > market value of liabilities) at a probability level consistent with its AA rating over a one year time horizon. Other organizations may use different probability levels or time horizons. Shocks are applied to all relevant risks by assuming 'worst' case occurrences (at the chosen probability level) over the next year. Though the one year time hori-

zon considers the possible assumption shocks that have been determined to be feasible during the next year, the present values of future impacts from these one year shocks are reflected in determining the resulting market values. Any capital remaining after the calculation of economic capital is considered to be excess capital.

Risks Considered

Generali considers the following risk categories in its analysis of economic capital:

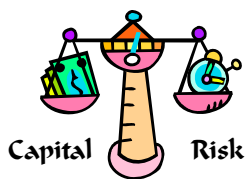
Continued on page 4



Economic Capital (continued from page 3)

Though all companies have their own view of their particular risks, this diagram is broadly representative of a high level risk perspective for many organizations. Multiple risks may be included within these categories. For example, Generali splits life underwriting risks into five components: mortality, longevity, disability/morbidity, lapse, and expense. Economic capital is calculated for a given risk by utilizing a methodology developed specifically for that risk to generate the assumption shocks described above.

The strength and direction of the relationship between different risks can be assessed through correlation – with the correlations determining the combined impact of the risks. Generali has developed a correlation matrix for combining the economic capital results of its various risks. It is likely that each company will have a unique perspective as to what these correlations should be. Correlation risk refers to the impact on economic solvency associated with unexpected changes in the correlations between different risk factors.



Illustrative Example: Mortality Risk

Though not subject to all of the above risks (e.g. non-life underwriting), Generali USA is subject to many of these risks and all relevant risks are included in its economic capital calculations. As an illustration of the

approach used by the company to determine economic capital for a given risk, this section provides a description of the approach used for mortality risk (a portion of life underwriting risk). Mortality risk is clearly a key risk assumed and managed by Generali USA and is a primary contributor to the amount of economic capital that the company is required to hold.

The components of mortality risk considered by Generali USA in its calculation of economic capital are as follows:

- Volatility risk
- Catastrophe risk
- Uncertainty – misestimation risk
- Uncertainty – trend risk
- Correlations of these risks

The methodologies utilized to determine the economic capital required for each of these components are described below:

Volatility: This risk reflects an adverse fluctuation in mortality over the next year when compared to the anticipated level of claims. Generali USA utilizes a Monte Carlo statistical simulation to develop an aggregate distribution of claims for the next year. This distribution can then be used to determine the difference between the adverse claim level commensurate with the desired probability percentile and the mean of the claim distribution. This component is generally fairly minor

for an organization with a large book of life business since mortality fluctuation is a diversifiable risk.

Catastrophe: A number of high impact, low frequency mortality risks such as pandemics, terrorist attacks, natural disasters, etc. are encompassed in this risk category. Industry (SOA, S&P), government (HHS, CDC), and other models are analyzed by Generali USA to provide guidance for developing the appropriate shocks for these risks at the desired probability levels. These models are generally extrapolations of historical experience and are often based on general population data. Adjustments for insured mortality vs. general population mortality may be appropriate for certain risks. Reinsurance coverage, CAT bonds, or other factors that mitigate these risks may be particularly important in the analysis of this component of economic capital. Catastrophe risk is often very meaningful for large blocks of individual life business and for blocks of group life or COLI/BOLI business which have significant concentrations of risk, depending on any mitigating factors.

Uncertainty – Misestimation: This involves the risk that the level of mortality in the company’s claims model is incorrect due to an inaccurate underlying model or due to incorrect parameters in the model. In other words, expectations regarding mortality are not reflective of true mean mortality experience. This

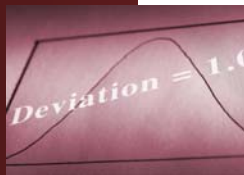
Generali has developed a correlation matrix for combining the economic capital results of its various risks.

Continued on page 5

Economic Capital (continued from page 4)

What is the risk that the trend in future mortality will differ from expectations?

risk can be quantified using credibility theory techniques, which measure the probability that a sample mean (such as that provided by a mortality study) is significantly different from a true mean (the desired parameter). Generali USA performs a unique assessment of mortality for each of its clients, potentially resulting in the estimation of different sets of parameters for each mortality model. The probability of misestimating the true mortality for each of the company's clients is considered along with the volume of business ceded to Generali USA by each client. A simplified Monte Carlo simulation for all clients is used to determine the economic capital impact at the desired probability level. This risk is generally fairly small for a large book of mortality risk business.



Uncertainty – Trend:

Excluding pandemics and war events, mortality in the United States has been steadily improving over the past century. Based on this experience, what is the risk that the trend in future mor-

tality will differ from expectations? This could result from medical advances, new diseases, obesity or many other factors. This risk of emerging events is difficult to assess, though some statistical approaches utilizing historical data are possible. Generali USA currently employs what it believes to be a very conservative approach by assuming a significant adverse departure from historical experience in all future years, resulting from an event that emerges over the next year. Evaluation of this assumption is ongoing, however, to determine if a more refined statistical methodology can be utilized to more accurately relate this risk to the probability level desired in the economic capital model. This risk can be significant for a large book of life business depending on the methodology and assumptions used.

Correlations: It is important to recognize that not all of these mortality risks will occur at the same time (even under the tail risk probability levels reflected in the economic capital models). Generali USA is continuing to evaluate and refine a correlation matrix for these

risks that adjusts the overall impact for mortality to the desired probability level. There is much judgment involved in this exercise and each company will likely have its own unique views regarding the appropriate correlations to use. This matrix is a subset of the overall risk correlation matrix which combines all risks considered in the determination of economic capital.

Growing Importance of Economic Capital

Economic capital is very important for Generali USA as it integrates with Generali's ERM and reporting activities. However, economic capital is quickly becoming important for all U.S. insurance organizations as rating agencies, analysts, and others are becoming more interested in this measure of company solvency. Companies will likely face increasing demands to develop their own measures of economic capital. In doing so, it is important that each company evaluates its unique risks and risk tolerances in order to determine the level of economic capital appropriate for its desired solvency position.



Jay Kinnamon, FSA is Senior Vice President - CFO and Chief Actuary at Generali USA. He previously worked for BMA in various actuarial positions, most recently as Vice President and Corporate Actuary. Jay graduated from Drake University with majors in Actuarial Science and Accounting. He is a Certified Public Accountant (CPA), Member of the American Academy of Actuaries (MAAA), and Fellow of the Society of Actuaries (FSA).

View On... (continued from page 1)



**Tammy Kapeller,
VP - Process
Improvement**

provide an interesting personal perspective on them, e.g. hobbies, interests.

This installment spotlights Tammy Kapeller, Vice President – Process Improvement

TV: Tammy, please introduce yourself to our readers. How long have you been with Generali USA? Where did you start your career?

Tammy: I began my career at Generali USA in 1988. I was hired as an Actuarial Student in the Product Development area on the BMA Direct side. I was involved in many activities during the seven years I worked in this area...assisting with individual life product development, medical rate pricing and loss ratios, sales compensation pricing, as well as experience studies. I joined the Reinsurance Department in 1995 and had roles in pricing, product development, marketing and sales.

TV: Can you summarize what you currently do at Generali USA?

Tammy: Currently I am leading an initiative to review all business processes at Generali USA and implement plans to improve efficiency and access to data. While in the early stages of the Business Process

Improvement (BPI) Project, senior management made the decision to provide the resources to re-vamp our systems applications. We are engaged in a long-term project along with our IT consulting partners from Celeritas Technologies, to create inter-related web-based applications and an operational data store (ODS). We began the systems project approximately nine months ago, and the entire project is expected to span 2-3 years. In the course of this project, I work very closely with the business users and the IT staff to collectively strive for systems that provide maximum flexibility to our entire organization.

TV: What are the main milestones of the BPI project for 2008?

Tammy: So far this year, we have implemented our Sales Quote Pricing (SQP) system and replaced our old CRM software with an application that is integrated with the SQP. With our new applications, we can track a Request For Proposal (RFP) from the moment it is received until our proposal is accepted. All documents related to the RFP and future treaty are uploaded into our document management system and permanently linked. Our goal is to capture all pertinent information used in pricing and administration at the front end of the process and then pass that information to other business areas at the time it is

needed. We want to enter information one time and at the earliest point possible in order to ensure efficiency and accuracy. Other projects slated for 2008 include Treaty Management, Workflow for SQP and Treaty, Facultative Underwriting Management and Account Management. Along with these projects, we are working to convert data from our current database to the ODS. We are following a very aggressive schedule in order to build our base system. This is a work in progress and systems enhancements will be an ongoing activity.

TV: Can you give us a look ahead on what impact the BPI project will have on our customers and identify the major challenges you still have to face?

Tammy: Our new systems should benefit our customers in many ways. Creating systems where information flows through all of our business processes will ensure consistency and accuracy from pricing through administration and analysis. Our treaty department will receive the information directly which



Continued on page 7

View On... (continued from page 7)

should expedite the treaty negotiation process. Our underwriters will have information related to all company treaties at their fingertips which will help them provide informed facultative offers even more quickly. Our administrative account representatives will be able to concentrate more on managing accounts and communicating with our clients rather than setting up accounts and fixing transactional errors. We also hope to implement a secure client portal application where our customers can share and receive important data related to their business.

Presently, our biggest challenge is the conversion of our current database into the more robust ODS. Our aggressive schedule will also be challenging to meet. However, it is a very exciting time and as we see our new applications building, we can envision offering new services and improved ways of conducting business.

TV: Enough about the business. We would like to hear more about you. What do you like most about your job?

Tammy: I really like the variety of work I have been able to do throughout my career. I can honestly say I have never been bored. I love working in reinsurance and the interaction with clients. Even though my current role is more internally focused, I try to maintain an external one as well. I feel

very fortunate that I have been able to learn something about every area in our company and appreciate the role everyone plays in providing reinsurance services to our clients.

TV: What are the most memorable moments in your career?

Tammy: The implementation of Regulation XXX was a major change. I had just recently moved into the Product Development area of reinsurance. All of a sudden we had several portfolios to re-price or at least re-evaluate.

TV: Do you enjoy sports?

Tammy: I grew up in Lincoln, Nebraska and have loved football my entire life. I am also a big Kansas City Chiefs fan. Lately, my teams have not performed well, but I love them anyway. Other sports I like to watch are soccer and tennis.

TV: What do you enjoy doing when you finally have a chance to be at home or on vacation? What are your hobbies?

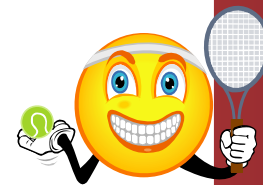
Tammy: Most of my free time is spent with my daughters Meghan (16) and Kate (14). They are involved in soccer, cross country and piano. When I'm not spending time with them, I love to spend my time in the sun. There is nothing I love more than lying on the beach or floating in the pool. I also try to work out every day and am beginning to take tennis lessons.

TV: Finally is there a message or moral in the form of an anecdote you would like to share with us?

Tammy: I'll probably get the exact phrase wrong, but Mel Carvill, one of our Head Office board members once told me: "The ability to get something done is a function of the time you have left to do it." Sometimes you have to work faster and more effectively, but having a deadline can be the best way to accomplish your goal.

TV: Tammy, it's been a pleasure talking to you and thank you for sharing your time with us. We wish you every success with your plans for 2008.

Tammy: Thank you



I also try to work out every day and am beginning to take tennis lessons.

Our Viewpoint (continued from page 1)

help identify and manage business risks.

The operational framework we established is designed to ensure we achieve our objective of an effective, pervasive risk management process. Key elements in that framework are: a Chief Risk Officer, the Risk Management Committee (RMC), Risk Managers (RM), a process to ensure structured regular meetings, and formal reporting requirements. The Risk Management Committee consists of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and General Counsel.

Briefly, we started our ERM process

by identifying all of the critical areas of business performance in our organization. We developed measurements for each of these areas that act as indicators of whether or not performance was at an expected level. We assigned responsibility for analyzing the results to individuals in each of the respective departments (RMs). These people report the results to the RMC no less than on a quarterly basis. Of course, if a situation should arise in between our quarterly meetings, the group will be called together to discuss the issue.

The next step for Generali USA is to integrate the results of our ERM efforts into our systems applications. In

the interview with Tammy Kapeller, you will hear more about our efforts to rewrite all of our business applications and improve our workflow. This project will give us the opportunity to incorporate all of our key ERM Measurements into the design of our new system applications and strengthen our ERM process even further.

I hope you enjoy this edition of *The Viewpoint*. If you have any questions or would like to learn more about our ERM efforts, please feel free to give me a call.



Generali USA Welcomes New Addition

Jeff Lee joined Generali USA in March as a Senior Associate Actuary. Most immediately, he worked for GE as a Valuation Actuary. Prior to his tenure with GE, Jeff worked for two local consulting firms. Jeff also spent 11 years in Denver working for ING as a Regional Pricing Actuary.

Jeff has a Bachelor of Science degree in

Architectural Engineering from the University of Colorado, and has ASA and MAAA designations. He is currently working on obtaining an FSA designation.

Jeff was born and raised in the Kansas City area, and spent some years in Colorado before moving back to Kansas City with his wife and four children. In his spare time, Jeff likes to

attend his children's sports activities and also do a little golfing.



Jeff can be reached at 816.412.3726, or JLee@GeneraliUSA.com.

Generali USA Life Reassurance

Editorial Team

Name	E-Mail Address
J. C. Brueckner	jcbrueckner@generaliusa.com
Amy Cascone	acascone@generaliusa.com
David Gates	dgates@generaliusa.com
Gretchen Johnson	gjohnson@generaliusa.com

The Viewpoint is published for the clients and prospective clients of Generali USA Life Reassurance Company. We welcome your comments. For additional copies or to reprint articles, please contact Patty Swope at pswope@generaliusa.com or 816-412-3740. For more information on Generali USA products and services, please contact your regional sales representative.

We value your business!