

Summit Perspectives

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Some regard private enterprise as if it were a predatory tiger to be shot. Others look upon it as a cow that they can milk. Only a handful see it for what it really is—the strong horse that pulls the whole cart.

Winston Churchill



SummitRe

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Who is Swiss Re?

As the world's leading and most diversified global reinsurer, Swiss Re offers financial services products so you can take the risks that are essential to your enterprise and progress.

Founded in 1863 in Zurich, Switzerland, Swiss Re provides its expertise and services to clients throughout the world.

Swiss Re's traditional reinsurance products and related services for property and casualty, as well as for life and health business, are complemented by insurance-based corporate finance solutions and supplementary services for comprehensive risk management.

Core values

Swiss Re's core values include active engagement with stakeholders, excellence through operational efficiency, sustainability in its economic, environmental and social performance, as well as integrity through its commitment to transparency and ethical principles.

Products

Products include property and casualty insurance (including workers' compensation, excess, surplus and program business), professional liability insurance, excess medical expense and risk management services. Swiss Re's Commercial Insurance arm has served the primary insurance and reinsurance community since 1908 and is committed to providing service, creative solutions, and security for its clients.

Financial strength

Swiss Re is now the world's largest reinsurer, with the acquisition of GE Insurance Solutions (which includes Employers Reinsurance Corporation, a subsidiary of GEIS) in 2006. It has a leadership position in life and health reinsurance, as well as property and casualty reinsurance.

The total Swiss Re Group capital and surplus exceeds \$30 billion (USD), at the time of publication. Earned premiums for 2007 also exceed \$30 billion, so the company wrote to a very conservative 1 to 1 premium-to-equity ratio.

Relationship with Summit Re

Summit Re manages catastrophic medical excess risks in conjunction with the Swiss Re Commercial Insurance operation located in Overland Park, KS.

Summit Re is the exclusive reinsurance intermediary for the Swiss Re managed care medical excess business line. Summit Re sells and services catastrophic medical excess protection to HMOs, Blue Cross / Blue Shield plans and insurance carriers on behalf of Swiss Re, utilizing Swiss Re's Westport Insurance Corporation. (See article on page 2.)

Swiss Re Financial Strength Ratings

Standard and Poor's	AA-	Very Strong
Moody's	Aa2	Excellent
A.M. Best	A+	Superior

ERC becomes Westport Insurance Corporation

On January 1, 2008, Employers Reinsurance Corporation (ERC) merged with Westport Insurance Corporation. Both companies were owned by Swiss Re, the largest reinsurer in the world. The entity continued as Westport Insurance Corporation and is still owned by Swiss Re.

The merger underscores Swiss Re's commitment to commercial insurance, including managed care medical excess, and exemplifies its focus on capital management and reducing operating costs.

Swiss Re's commitment to provide you with the best-in-class service, financial strength and expertise of the Swiss Re group along with the personal attention provided through its exclusive distributor agreement with Summit Re remains as strong as before the merger.

Although we will often refer to your reinsurer as Swiss Re for marketing and branding purposes, remember that the specific reinsurer used for the medical excess treaty business of Summit Re is Westport

Insurance Corporation. (Insurance policies rather than excess treaties will be issued in Tennessee.)

The result of the merger and the strong financial strength of the Swiss Re group are that all financial strength ratings were retained. The financial strength ratings for the new Westport Insurance Corporation, with statutory capital and surplus exceeding \$3 billion currently, are the same as Swiss Re's ratings. (See page 1.)

Welcome, Faith and MaryBeth

The greatest assets of a company are its employees. Summit Re is proud to announce the acquisition of additional assets.

Faith Johnston

Faith joins Summit Re as Regional Vice President – Sales. She will sell and service catastrophic medical excess programs to insurance companies, Blue Cross/Blue Shield plans, HMOs and other managed care organizations. Faith will establish our Western Regional Office:

Faith Johnston
1366 Preserve Circle
Golden, CO 80401
720-746-1366
fjohnston@summit-re.com

Faith has participated in the health and life reinsurance industry for 20 years from a variety of perspectives. Prior to joining Summit Re, Faith was a reinsurance sales representative for Lincoln Re, Allianz Re and Allianz Healthcare Risk Man-

agement. She also worked as a reinsurance broker and for a medical cost containment company.

MaryBeth Gregory

MaryBeth joins Summit Re as Assistant Vice President of Underwriting – Employer Stop Loss. She will establish our new Indianapolis, Indiana office:

MaryBeth Gregory
10606 John Carter Court
Lizton, IN 46149
317-755-9171
mgregory@summit-re.com

Mary Beth brings over 20 years of employer stop loss underwriting experience to Summit Re and will support the underwriting of accounts throughout the United States. Mary Beth's previous work experience includes her tenure at Lincoln Re with Underwriters and Management Services and, most recently, Symetra Financial.

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Conning's unique combination of services

Conning & Company, a Swiss Re company, can address your unique investment objectives by drawing from its three core capabilities – asset management, insurance research and strategic consulting.



Conning's experienced team of insurance and investment specialists can work closely with your organization to:

- address industry and competitive issues affecting your company,
- better balance your enterprise risk/reward, and
- optimize your investment performance.

Asset Management

Conning provides asset management services to more than 120 insurance clients. As of December 31, 2007, through its U.S. and Dublin investment centers, Conning managed \$72.7 billion of assets offering primarily fixed income products. Health insurance clients accounted for \$2.95 billion of these assets.

Conning's full-service asset management approach includes customized portfolio management, extensive insurance and investment advi-

sory services, and investment accounting and reporting.

Conning's portfolio managers, analysts and traders seek to optimize investment yield and total return by:

- recommending a portfolio strategy based on your organization's financial objectives, risk tolerance and situation;
- developing an investment performance benchmark for your portfolio based on your goals and objectives;
- drawing upon the latest market research to make value-added investment decisions; and
- actively managing responses to shifts in the financial markets, the insurance industry, the regulatory environment and your competitive pressures.

Insurance Research

Senior leaders at the majority of the nation's top 25 insurance companies rely on the work of Conning's research analysts. As a result, we believe these clients make smarter, more confident decisions about their businesses and gain more insights into the insurance markets.

Conning's analysts monitor and analyze all aspects of the property and casualty, life and health and managed care sectors – reporting on current trends, performance challenges and competitive landscapes for each industry. Conning's research publications include:

- *Conning Library*, the web-based archive of all its globally-respected insurance industry publications, presentations and data;

- *Industry Insights*, segment reports monitoring 30 industry lines of business;
- *Forecast & Analysis*, projections and analyses of specific lines of business; and
- *Strategic Studies*, widely-read reports on key industry trends.

Strategic Consulting

Conning leverages its deep knowledge to provide you customized strategic and operational consulting services – from benchmarking and peer forecasting to strategic overviews and line-of-business analyses. Conning also can personalize its broad industry findings for your specific needs.

Conning's strategic services include industry analyses, enterprise risk management, asset/liability management, and dynamic financial analysis. Analyses are engineered using Conning's latest modeling tools, including its proprietary FIRM® stochastic modeling and AFFIRM™ scenario modeling that help you gain an enterprise-wide view of your risks and management opportunities.

To learn more about these services, contact either Summit Re or Conning & Company:

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Summit Perspectives

How you can respond to leveraged trend

Is “leverage” good or bad? It depends on whether you are negotiating with someone, trying to lift a heavy object, or analyzing your reinsurance premium increase. Excess medical reinsurance premium rates are subject to leveraging and most often will see a higher rate of increase (trend) than the underlying medical trend, because of the phenomenon of “leveraged trend”.

How does leveraged trend work?

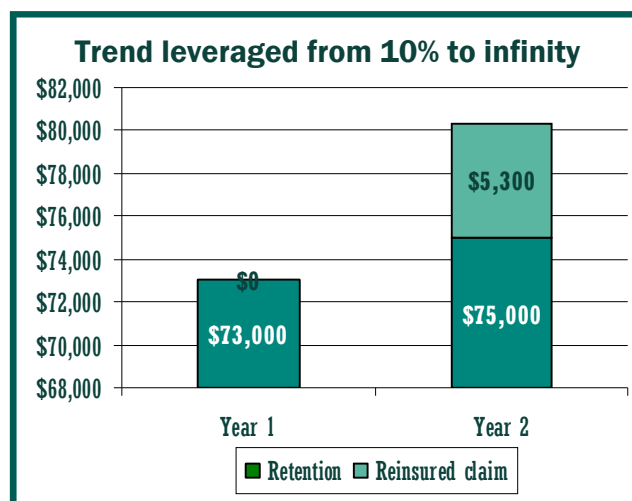
Let’s look at a simple example of leveraged trend and the impact on a catastrophic medical claim, or, in other words, a reinsurance claim.

	<u>Year 1</u>	<u>Year 2</u>	<u>Trend</u>
Medical claim	\$95,000	\$104,500	10%
Retained claim	\$75,000	\$75,000	
Reinsured claim	\$20,000	\$29,500	47.5%

Assuming a \$75,000 deductible and an underlying medical trend of 10%, the increase to the reinsured claim is 47.5% or $(29,500 - 20,000) / 20,000$. The amplification of the trend from 10% to 47.5% is referred to as leveraged trend.

	<u>Year 1</u>	<u>Year 2</u>	<u>Trend</u>
Medical claim	\$73,000	\$80,300	10%
Retained claim	\$73,000	\$75,000	
Reinsured claim	0	\$5,300	infinite

In this instance, the reinsured claim went from zero to \$5,300, or an infinite increase.



Obviously, a number of potential claim scenarios make up the true composition of leveraged trend, and they depend a great deal upon individual circumstances. In any case, you can see that the value of the deductible is “eroded” by trend. You can also see how the actual trend of the reinsured portion of the claims can be much greater than the underlying medical trend.

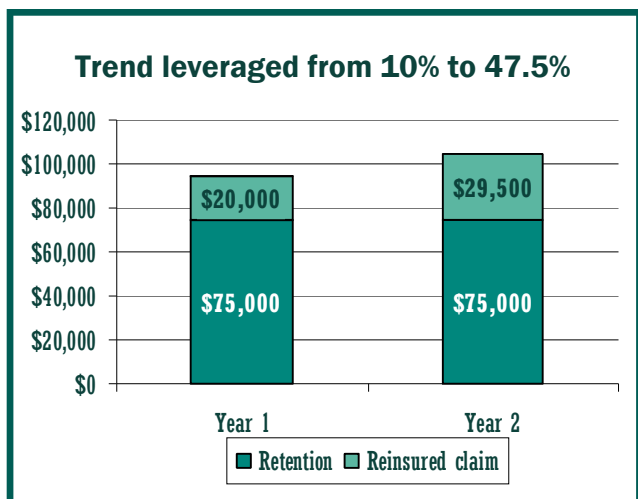
How can you respond?

There are two techniques for mitigating the affect of leveraging. You can increase your deductible at the same rate as the underlying medical trend or you can produce claim savings through contracting or managed care programs that leverage claim trends downward.

Leveraged deductible

One option would be to modify your reinsurance deductible by the same underlying medical trend. This may not always be consistent with your risk tolerance strategies; however, it does offset the affect of leveraging. Let’s look at the previous examples, but this time

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However, that increase is just part of the picture. There may be other claims that came close to the deductible in Year 1, which now with trend applied exceed that same deductible in Year 2, such as in this example.

How you can respond to leveraged trend

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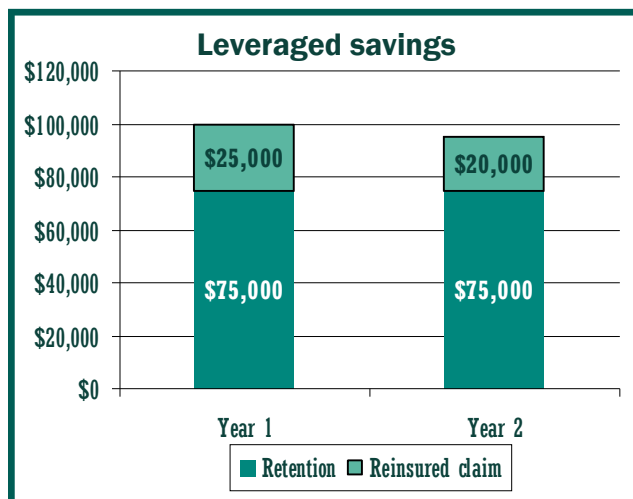
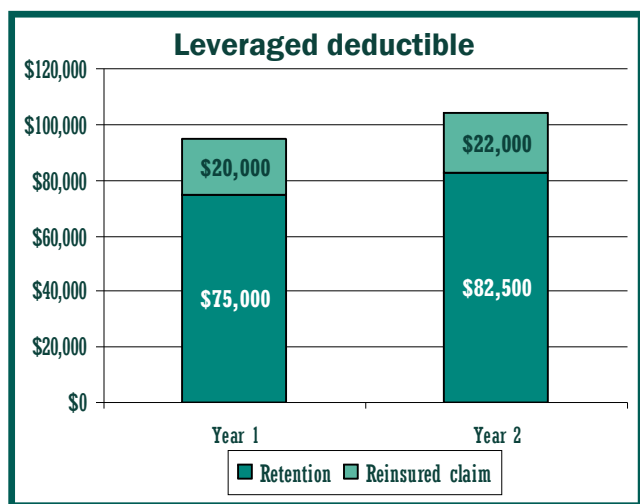
we will trend the deductibles as well as the claims from Year 1 to Year 2.

	<u>Year 1</u>	<u>Year 2</u>	<u>Trend</u>
Medical claim	\$95,000	\$104,500	10%
Retained claim	\$75,000	\$82,500	10%
Reinsured claim	\$20,000	\$22,000	10%

In this illustration the increase to the reinsured claim is 10% or $(22,000-20,000)/20,000$, or exactly the same value as the underlying medical trend.

are improvements in costs (or services that translate into costs) that will result in leveraged savings. These savings will be leveraged just like trend, but in the opposite direction. We often don't think in these terms, but another example will illustrate the point. Once again assuming a \$75,000 deductible, but, in this instance, a 5% savings. Let's look at the impact on a reinsured claim.

	<u>Original Claim</u>	<u>After a 5% Savings</u>
Medical claim	\$100,000	\$95,000
Deductible	\$75,000	\$75,000
Reinsured claim	\$25,000	\$20,000



Let's look at the other claim scenario just to be sure we are getting the same impact.

	<u>Year 1</u>	<u>Year 2</u>	<u>Trend</u>
Medical claim	\$73,000	\$80,300	10%
Deductible	\$75,000	\$82,300	10%
Retained claim	\$73,000	\$80,300	
Reinsured claim	0	0	

In this instance, the reinsured claim stayed at zero in both years.

Leveraged savings

All this talk about leveraged trend increases is quite depressing, especially if you are the one writing the checks for such increases. However, we now can see how trending the specific retention levels (deductibles) can eliminate the impact of leverage. This is good, but even better

The decrease to the reinsured claim is 20% or $(25,000-20,000)/25,000$. In this example, a 5% savings resulted in a 20% reinsured claim savings because of the impact of leveraging.

Additional considerations

Another observation with respect to leveraged trend is the magnification effect caused by high deductibles. This magnification is present because the entire effect of trend or discounts is reflected in the small part of the claim we are observing above some relatively high deductible level. This is only true when we don't change the deductible, of course. Both positive and negative impacts are magnified. However, there are further considerations regarding how significant leverage will be in a given situation.

How you can respond to leveraged trend

Continued from Page 5

Leveraging can be greater when the amount of the claim above the deductible is small relative to the amount below the deductible. Following is an example of this situation using a 10% trend and once again a \$75,000 deductible.

	<u>Original Claim</u>	<u>After 10% Trend</u>
Medical claim	\$100,000	\$110,000
Deductible	\$75,000	\$75,000
Reinsured claim	\$25,000	\$35,000

The increase to the reinsured claim is 40% or $(35,000 - 25,000)/25,000$. The net result is that our underlying trend is leveraged up by a factor of 4.

However, if the total medical claim is much larger, then the leveraging impact is much less.

	<u>Original Claim</u>	<u>After 10% Trend</u>
Medical claim	\$200,000	\$220,000
Deductible	\$75,000	\$75,000
Reinsured claim	\$125,000	\$145,000

The increase to the reinsured claim is 16% or $(145,000 - 125,000)/125,000$. In this example, the underlying trend of 10% is only leveraged up by a factor of 1.6.

This explains why leveraging is generally greater as larger reinsurance deductibles are considered. As the deductibles go up, it is typical for the relationship of the size of the claim above the deductible relative to the deductible to go down and, therefore, leveraging increases.

While this may seem a little confusing, it clearly illustrates that the leveraging of increases and savings is a complicated subject. Just one more twist will demonstrate another complication of this concept. Let's consider a 10% trend versus a 15% trend at the same \$75,000 deductible.

	<u>Original Claim</u>	<u>After 10% Trend</u>
Medical claim	\$100,000	\$110,000
Deductible	\$75,000	\$75,000
Reinsured claim	\$25,000	\$35,000

The increase to the reinsured claim is 40% or $(35,000 -$

$25,000)/25,000$, which is 4 times the underlying trend.

Let's look at the impact of a different trend assumption.

	<u>Original Claim</u>	<u>After 15% Trend</u>
Medical claim	\$100,000	\$115,000
Deductible	\$75,000	\$75,000
Reinsured claim	\$25,000	\$40,000

The increase to the reinsured claim is 60% or $(40,000 - 25,000)/25,000$, which is also 4 times the underlying trend.

While the leverage factor for claims exceeding the deductible is the same, there is the potential for claims to exceed the retention using a 15% trend assumption which would not occur at 10%. For example, a claim of \$68,000 would trend forward at 10% to \$74,800 and not be a claim in either year. However, with a 15% trend, that \$68,000 claim becomes \$78,200, producing a reinsurance claim of \$3,200. This illustration shows that the leveraging impact at the 15% trend will be a little bit greater than the leverage at 10% trend.

What can you do with this information?

Knowing how your reinsurance costs are affected from one year to the next either by medical inflation trends that are outside of your control or by programs or negotiations that you may initiate, you can now be a more informed purchaser of reinsurance. You are also in a better position to evaluate your coverage parameters from year to year. Of course, there are many other considerations in your reinsurance coverage decision, but leveraging is an important component.

Knowledge about leveraged trends provides you with insight into the volatility of reinsurance costs, which are magnified by this phenomenon known as leveraging. We all know that large claims are affected by new technology and advanced medical knowledge, but now it becomes clear why costs above reinsurance deductibles are even more volatile because of the leveraging impact of high deductibles. Ultimately, it is up to you as a health plan, employer, or carrier to leverage this information to your benefit!

Cancer risk management services

How effectively do you manage your claim exposure to cancer? Cancer treatment costs average \$80,000 per patient — a figure that climbs annually. The lifetime risk of cancer is 1 in 3 for women and 1 in 2 for men. To help you manage cancer claims, Summit Re has contracted with ITA Partners, Inc.® for cancer risk management services.

Cancer management strategies

ITA provides expertise that improves medical outcomes and delivers extraordinary value for you by managing and reducing your cancer exposure. Importantly, ITA also fills the void for patients who desperately need individualized support during the cancer treatment process. ITA's proprietary risk management strategies include:

Treatment plan validation—affirms patients receive the right treatment at the right time, in alignment with the latest guidelines;

Patient education and support—improves treatment adherence, minimizes side effects, reduces complications and increases treatment success;

Claims assistance—lowers costs for patients and insurers; and

Customized reporting—enables insurers to understand, manage and price cancer risk.

ITA's unique credibility

Independence, clinical depth and personal support of patients put ITA in a unique position of credibility among patients, physicians and insurers. ITA connects all three par-

ties to improve medical outcomes, and that success, in turn, drives improved financial results.

“ITA adds consistency and efficiency to the cancer treatment process,” said Dr. Arlene Forastiere, chair of ITA's Medical Advisory Board, a professor at Johns Hopkins University School of Medicine and an internationally recognized leader in cancers of the head, neck, larynx and esophagus. “America must have better standardization and delivery of cancer care, especially with new, costly therapies emerging constantly. ITA Partners has the reputation, quality and systems to cross the divide.”

Who is ITA Partners, Inc.® ?

ITA is the nation's only independent cancer risk management com-

pany; it is not part of a provider network, insurer or pharmaceutical company. Thus, ITA is uniquely positioned to serve and connect patients, physicians and insurers as well as to ensure prescribed treatments meet national standards and are delivered with minimal complications and side effects.

ITA's Medical Advisory Board includes internationally renowned oncology professionals who play critical roles in setting cancer care standards. Its staff includes oncologists and oncology-certified nurses who interact directly with patients, physicians and insurers.

For more information about accessing these services, contact Debbie Stubbs at dstubbs@summit-re.com or 260-407-3979.

Current Cancer Treatment Information

Evolving standards driven by new drugs and technologies that are both more effective and more expensive emerge constantly in the treatment of cancer, a collection of 120 diseases. Many factors make oncology a less-than-perfect science, and national experts freely acknowledge common gaps in care. Evidence shows:

- 15% of cancer diagnoses are incorrect.
- 20% of prescribed treatment plans deviate from the latest, proven national standards.
- 45% of cancer patients do not comply with prescribed treatments.
- 80% of cancer treatments include off-label drug use that often meets

guidelines, yet frequently is denied by insurers who cannot keep pace with proven standards in cancer care.

The past decade has brought dramatic advances in cancer treatment, and it all carries a price. In 1997, breast cancer drugs cost about \$2,000 per patient. Today, these drugs cost \$90,000 to \$210,000 for an average patient and approach \$500,000 for metastatic disease. Drug costs for non-small cell lung cancer ranged from \$0 to \$50,000 per patient in 1997, whereas today's post-surgical therapies can exceed \$600,000 for a single patient.

End-stage renal disease program

The Kidney Resource Services (KRS) program from OptumHealth Care Solutions is designed to attack costs of end-stage renal disease while optimizing patient outcomes. KRS provides patients with access to top-performing dialysis centers through a kidney Centers of Excellence network.

Cost savings

The KRS program reduces costs in several ways. Inpatient admissions and out-of-network costs are reduced through utilization of the kidney Centers of Excellence network.

Kidney Resource Services Networks

- Integrated Health Plan, Inc.
- Golden Triangle Specialty Network, LLC
- Dialysis Clinic, Inc.
- Diversified Specialty Institutes, Inc.
- Renal Advantage, Inc.
- Innovative Dialysis Systems, Inc.

Cost savings of up to 80% through the utilization of network pharmacies and self-administered drugs can be realized. Finally, unnecessary payments may be reduced through efficient conversion to Medicare as primary payer, if applicable.

Support programs

In addition to ensuring that members can access the best providers through the KRS Centers of Excellence networks, OptumHealth has created comprehensive member support programs to improve the quality of life and clinical outcomes. To prevent treatment complications, there are ongoing clinical consultations, with a continued review for co-morbid issues. Patients receive assistance and education in choosing providers. Cases are managed before, during and after the acute phases of

care. To support lifestyle changes, treatment adherence and member health, patients receive behavioral support and education.

Selection criteria

The KRS networks are selected based on eight critical features:

1. Multidisciplinary approach to care
2. Program depth and breadth
3. Best-practices medicine
4. Patient and family-oriented programs and services
5. Patient volumes
6. Treatment planning and coordination
7. Positive working relationships with referring physicians and payers
8. Clinical research

For more information, contact Debbie Stubbs at dstubbs@summit-re.com or 260-407-3979.

Summit Perspectives is a periodic newsletter published by Summit Reinsurance Services, Inc., a full-service managing underwriter that focuses exclusively on managed care. *Summit Perspectives* highlights various items from both Summit Re and the managed care reinsurance marketplace. We will publish it only when we have important information to share.

If an item in this edition generates questions or comments, please give us a call at 260-469-3000 or write to us at www.Summit-Re.com.



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