



SOCIETY OF ACTUARIES

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SOMEWHERE OVER THE JUMBO?

by David Atkinson

The jumbo limit found in automatic reinsurance treaties is a source of increasing concern in the industry today. A jumbo limit is used in reinsurance agreements to manage retention by limiting automatic binding authority. The limit is compared to the total amount of insurance inforce and applied for on a life, in all companies. If the jumbo limit is exceeded on a life, there are two choices: retain the risk or submit on a facultative basis.

The increasing concern comes from this simple question: What happens if a direct writer is unknowingly over the jumbo limit when it automatically binds its reinsurers?

Most reinsurers are backed by automatic reinsurance agreements that also have jumbo limits. Retrocessionaires have been clear that, whether all inforce and applied for amounts on a life are known or unknown at the time of issue, the jumbo limit will be enforced at claim time. This leads to some thorny questions when there are multiple simultaneous applications—some applications may fall under the jumbo while others may be somewhere over the jumbo.

From a direct writer perspective, there is a very real chance that an applicant will fail to disclose all amounts inforce and applied for, whether purposely or by accident. Without accurate information, the direct writer cannot properly enforce the jumbo limit at the time of issue. To not know whether automatic reinsurance is truly in place is not an acceptable situation.

There are several factors that make this an increasing problem:

- The days of unlimited jumbos came to an end after 9/11 as reinsurers came to fully understand their risk accumulation, ultimately settling on \$65 million as a limit that would align with their risk accumulation exposure;
- Available capacity in the market has shrunken due to the consolidation or exit of several reinsurers and retrocessionaires;

- The size and number of large amount policies continues to grow, especially at the older ages;
- The shopping of applications to multiple direct writers (often as trial apps) occurs in significant number. Multiple apps are sometimes placed with no disclosure to any one direct writer of the other apps placed;
- Insured's may not realize that any insurance sold to the secondary life settlement market should be included in an insured's inforce total even though the insured is no longer the policy owner or payor. Often these policies are not counted or included when answering the inforce and applied for in all companies question on the application;
- The stealthy nature of Stranger-Owned Life Insurance (STOLI) business may sometimes result in non-disclosure of other STOLI policies that are inforce or applied for.

The life insurance industry has no central repository for the accumulation and reporting of amounts inforce or applied for on a life. As a result, over the jumbo situations are at risk for not being discovered until time of claim. On a handful of cases, a retrocessionaire or reinsurer has seen enough inforce on a life to realize that the jumbo limit has been violated. If discovered before the end of the contestable period, rescission is a possible solution. If rescission is not workable and the insured is still alive, there may be an opportunity to cobble together available retention to cover the risk. However, not all over the jumbo problems will be resolved so easily.

A far better approach would be to prevent over the jumbo problems in the first place or at least discover them early on in the contestable period. We could do this by establishing an industry-wide central repository for the accumulation and reporting of amounts inforce and applied for on each life. There is a precedent for this kind of repository: Over 100 years ago, the industry established the Medical Information Bureau (now the MIB Group) to collect and share medical information in order to

prevent fraud. Today, the vast majority of individual life insurance is underwritten with the benefit of an MIB check for undisclosed medical information.

The industry is engaged in early discussions with MIB to establish such a repository. There are more questions than answers at this stage:

- For this repository to be useful, how many direct writers of large policies would be needed to contribute data?
- Would reinsurance and retrocessionaire data be beneficial?
- Should both in-force amounts and amounts applied for be reported?
- At what threshold should amounts be reported to MIB (for example, policy size over \$2 million)?
- How might companies adapt existing workflows to access this information?
- How should MIB's development costs and ongoing costs be funded?
- How long would this take MIB to develop and how long would it take companies to start contributing data?
- Is there a way to structure this so that some benefit can be delivered immediately?

The central repository concept works best when the bulk of the industry supports the effort and contributes data. The motivations for this are:

- Nobody wants to explain why one death cost their company many millions more than the retention limit;

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- Policyholders and beneficiaries may be counting on coverage that may not be available due to non-disclosure of amounts inforce or applied for;
- Underwriting decisions may be different if a larger total amount has been applied for than disclosed.

The over the jumbo problem is already a topic of discussion at many companies. The MIB Group is talking to many companies and investigating various alternatives. I encourage you to help shape the outcome by discussing this within your company and sharing your thoughts with the MIB Group.¹

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Editor's note: If you have any thoughts or opinions on this article, please submit your comments as a "Letter To The Editor" c/o the SOA or this newsletter's editor, richard_jennings@manulife.com.



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