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# Life, Health & Annuity Reinsurance; 4<sup>th</sup> Edition 2015

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We are indebted to John and Denise Tiller for once again updating the “reinsurance bible,” *Life, Health & Annuity Reinsurance*. I don’t know anyone involved with reinsurance that doesn’t have a copy of at least one edition. This latest edition (the 4<sup>th</sup>) includes so much more material I believe it should be added to your bookshelf.

Not only since the first edition was published some 25 years ago, but also, since the very first reinsurance transactions were completed, the fundamental principles of life, health, and annuity reinsurance have not changed:

- Reinsurance is a financial transaction; it protects the bottom line and surplus of the insurance company. The basics of any transaction remain the equitable transfer from the ceding company of significant risks and responsibility for payment of future benefits (and expenses) in exchange for reserve credit, to the reinsurer in exchange for compensation. Over time risk transfer and reserve credit rules have been defined, edited, and modified by regulators; however, these two concepts remain the foundation for every reinsurance transaction.

- The three basic forms of reinsurance transactions remain the same—coinsurance, modified coinsurance, and yearly renewable term. Over time the solution structures have become more sophisticated (and complex) as sources for solutions expanded to provide more capacity, as well as electronic techniques aiding creativity.

So what is new in the 4<sup>th</sup> edition? The 3<sup>rd</sup> edition was last published in 2005—well before the financial crisis; shortly after XXX/XXXX regulations, but before the explosion of using captives for reinsurance solutions; barely at the beginning of another expansion of reinsurance/capital market entities becoming global to

enhance capacity. All of these topics and more are covered in the 4<sup>th</sup> edition.

The 4<sup>th</sup> edition reflects many of the changes having taken place during the previous 10-year period. Expanding on more than just the reinsurance practices in the United States, notably significant material has been added reflecting:

- Reinsurance practices in Canada and several other international jurisdictions,
- The importance of arbitration and treaty contract language,
- Risk transfer considerations,
- How to treat reinsurance for in-force blocks of business, and
- The emergence of the use of captives for special reinsurance solutions.

Since the last edition, of course the financial crisis in 2008 has been the most critical factor as it affected the financial services industry, not only in the United States,

but also Canada and around the world. As an outgrowth, Congress, the NAIC, FASB, and the Actuarial Standards Board enacted new regulations—all of these enactments touch reinsurance in one form or another and are addressed in the new edition.

A very important factor also affecting the content was the availability of relevant and reliable information on the Internet. The sections covering international topics came from English language versions of websites, including China and Japan. Information was obtained from actuaries, regulators, accounting firms—a whole host of “alphabet soup” organizations—all listed in the bibliography.

The book opens in the first chapter with an abridged history of reinsurance. Attribution is given to David A. Holland’s excellent and well-researched article “A Brief History of Reinsurance”. We all know (or should know) insurers and merchants began meeting in Edwin Lloyd’s London Coffee House in 1688 leading to the creation



of Lloyd's founding in 1769. But did you know:

- As early as before 3000 BC in the first known example of risk management, Chinese merchants placed goods on multiple ships, realizing the significant risk of placing all of their goods on one ship? Or,
- German, Russian, and Austro-Hungarian companies dominated the world life reinsurance market until World War I, writing two-thirds of the reinsurance premium in the world? The war, as could be expected, totally destroyed their market.

For “history buffs” there are more tidbits in the first chapter. The authors realized the backstory surrounding the development of regulation, taxes, and the reinsurance industry itself was worthy of preservation in one text.

The authors have taken care to make the book easy to read:

- A word in **bold** type for its first appearance means it will also appear in the glossary.
- Sidebars are used to add “nuggets” of information—new to this edition.
- Tables and graphics throughout the book provide examples of important aspects of reinsurance structures and provide extensive illustrations of financial statement treatment before and after reinsurance transactions.

The book is organized into six sections:

Part One (Chapters 1 – 3) introduces the special vocabulary of reinsurance and the basic concepts. These terms and concepts are essential to understanding the material discussed in later chapters.

- Chapter 1: Basic Terms and Concepts
- Chapter 2: Automatic Reinsurance
- Chapter 3: Facultative Reinsurance

Part Two (Chapters 4 – 7) deals with the methods and application of reinsurance.

- Chapter 4: Basic Methods of Reinsurance
- Chapter 5: Advanced Methods and Structures of Reinsurance
- Chapter 6: Assumption
- Chapter 7: Reinsurance of In-force Policies

Part Three (Chapters 8 – 10) focuses on the reinsurance treaty and risk considerations in the United States and Canada. The authors have taken great care to differentiate terms between U.S. versions and Canadian versions. Reinsurance treaties must address risk transfer and the insolvency risk issues.

- Chapter 8: The Reinsurance Treaty
- Chapter 9: Risk Transfer Consideration
- Chapter 10: Insolvency and Reinsurance

Part Four (Chapters 11 – 16) deals with regulation, account-

ing, and taxes.

- Chapter 11: U.S. Regulation of Reinsurance
- Chapter 12: Canadian Regulation of Reinsurance
- Chapter 13: U.S. Statutory Accounting
- Chapter 14: U.S. GAAP Accounting
- Chapter 15: U.S. Tax Considerations
- Chapter 16: Canadian Accounting and Tax Considerations

Part Five (Chapters 17 – 22) focuses on special products and topics.

- Chapter 17: Nonproportional Reinsurance
- Chapter 18: Health Reinsurance
- Chapter 19: Annuity Reinsurance
- Chapter 20: Captives
- Chapter 21: Reinsurance Outside Canada and the United States
- Chapter 22: Additional Reinsurance Topics (Group Life, AD&D, accelerated living benefits, reinsurance with affiliates, reinsurance intermediaries, dispute resolution)

Part Six (Chapters 23 – 24) covers administration and management considerations.

- Chapter 23: Reinsurance Administration
- Chapter 24: Managing Reinsurance

Appendices

- Sample Treaty – Automatic Self-Administered YRT Reinsurance Agreement (courtesy of Swiss Re).
- Glossary – all terms in the text in **bold** type are defined.
- Bibliography – sources are listed separately for each part of the book.

The 4<sup>th</sup> edition is intended to continue to serve as a reference for both seasoned knowledgeable individuals and those new to reinsurance. It is impossible for one book to contain all the knowledge necessary to analyze or document every possible reinsurance transaction—however, this book comes close! The purpose of this edition is to provide the historical foundation and current regulatory/technological framework for reinsurance professionals to design reinsurance solutions to fit the 21<sup>st</sup> century. ■



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