



**SOCIETY OF
ACTUARIES**

Article from

Small Talk

July 2019

Issue 51

What Can Reinsurance Help You With? Probably More Than You Think

By Ben Keslowitz

Pretty much every insurance professional has heard of reinsurance. Many understand in general terms what it can be used for, or at least some of the primary applications of reinsurance. Very few, though, know just how helpful it can be for an insurance company, especially a small insurance company. What can reinsurance help you with? A better question might be “What *can't* reinsurance help you with?”

Reinsurance is generally known as a tool to limit risk. For instance, sellers of life insurance have limits on face amounts they're willing to issue, especially to one individual policyholder,

but turning away large clients who are looking for larger policies, or limiting sales significantly by limiting distribution, can be a bad move in the long term. Once you turn off distribution, it's not always so easy to turn it back on. Further, I wouldn't advise turning away a large client looking for a large policy; you don't want a big spender going to the competition. In situations like this, insurers usually retain what they want and reinsure the rest. But this isn't the only effective way to use reinsurance.

What about capital? Did you know that reinsurers can help improve your capital position? Or perhaps you're looking for a ratings boost. Did you know that reinsurance can help you with that? Pricing and valuation support? Check. Additional data for more appropriate pricing decisions? Check. Asset management expertise? Check. A general profitability boost? We have you covered. Ultimately, there are a tremendous number of ways reinsurance can be of service to you.

Let's first talk about capital. Obviously, an insurance company needs capital to write business. Unfortunately, capital is finite, and balancing regulatory, rating agency and economic capital demands can pull your capital in many different directions. But reinsurance is here to assist you. Reinsurers can help with premium financing, lowering your initial capital requirements necessary to write new



business. Reinsurers can also provide you access to a different jurisdiction, which may have different regulatory capital requirements than the one you're in. In addition, you'll probably be able to find a reinsurer that will come for the ride with you, taking the risk you don't want (and potentially even paying you to do so), while allowing you to write new business without being limited by capital concerns. Not only will this help you with capital restrictions but it can also lead to a ratings boost from your rating agencies and a thumbs-up from your other stakeholders, including your regulators, policyholders and shareholders.

Numerous reinsurers offer the business and functional expertise, quality systems and data access that can fulfill your previously unmet needs.

No need for capital support, risk sharing or happier stakeholders? You're tough. Well, there's more. One thing that small insurance companies often struggle with is multifunctional expertise. As a small insurance company, having the best of the best for pricing, valuation, risk management, asset management and proper matching, along with all your other needs, is expensive and not always practical. And that's before taking into account the expense associated with having top-tier systems that can handle modern and best-in-class functional needs, and it does not even consider having access to enough data to support your pricing requirements. Where can you get support for all of these issues? I think you know where I'm going with this. Reinsurance can help here as well. Although it's important to speak

with multiple reinsurers to ensure that you're getting the help you need, numerous reinsurers offer the business and functional expertise, quality systems and data access that can fulfill your previously unmet needs.

What's that? You have everything you need? More than adequate capital, expertise to the extreme, the best and newest systems on the planet? You're lucky. Don't need reinsurance? Well, let's not go that far. There's still one application of reinsurance we haven't spoken about yet: profits. Everyone wants to make a buck. And with reinsurance, now you can. Have an old block of liabilities that's making you a couple of bucks a year that you're willing to part with for a lump sum? Reinsurance. Have a barely breakeven block or one that is a challenge to manage due to its size or complexity? There's reinsurance for that too.

So where can you find this virtual panacea known as reinsurance? Well, that's easy. Reach out to your SOA section. Speak with your peers. Talk with the insurance consultants and reinsurance brokers. Or perhaps even better than all of these, shoot me a message on LinkedIn. But finding the right reinsurer is important. Make sure that before moving forward with any reinsurer, you understand the benefits of working with them over an alternative, and know the risks of entering into such a partnership. Provided that you run the proper diligence, chances are you'll be able to benefit in many different ways by leveraging the right reinsurance company. ■



Ben Keslowitz, FSA, MAAA, can be reached at ben.keslowitz@gmail.com.