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Life Reinsurance Data from The Munich American Survey

by James L. Sweeney and David M. Bruggeman

Munich American Reassurance Company prepared the survey at the request of the Society of Actuaries Reinsurance Section as a service to Section members. The contributing companies provide the numbers in response to the survey. These numbers are not audited and Munich American, the Society of Actuaries and the Reinsurance Section take no responsibility for the accuracy of the figures.

Munich American's annual survey, which is conducted on behalf of the Statistical Research Committee of the Reinsurance Section, covers Canadian and U.S. ordinary and group life reinsurance new business production and in force. The ordinary numbers are further subdivided into:

1) Recurring reinsurance: conventional reinsurance covering an insurance policy with an issue date in the year in which it was reinsured;
2) Portfolio reinsurance: reinsurance covering an insurance policy with an issue date in a year prior to the year in which it was reinsured, or financial reinsurance; and,

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Reinsurance in Europe

by Joseph F. Kolodney

While America has served as the "pioneer" in the versatile use of life reinsurance over the past 20 years, Europe is still in a somewhat evolutionary process of recognizing the use of life reinsurance as a financial management tool.

Reinsurance in Europe really needs to be bifurcated between the United Kingdom (specifically England and Scotland) and Continental Europe.

The United Kingdom. The U.K. marketplace has, in the last eight years, become more like that of the United States. U.K. companies, which have historically purchased their risk reinsurance on an excess over retention basis, have now moved to what is referred to as "The American Model" where it is not uncommon to see large quota-shares of 80% or 90% on term life products as the rule rather than the exception. In the U.K., term life is generally referred to as "Protection."

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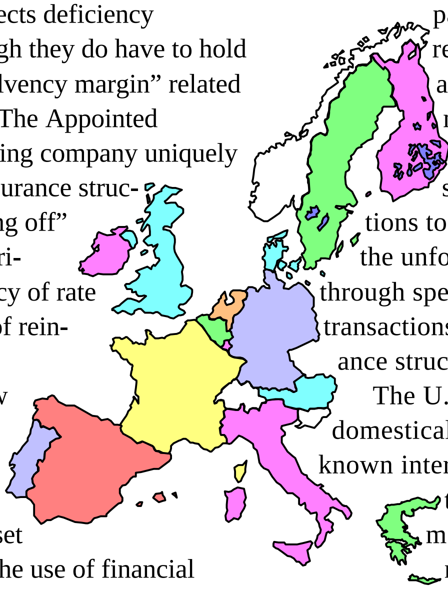
One interesting element in U.K. reinsurance practice is that reinsurers can guarantee the risk premium rates they charge without undergoing the type of reserving requirement imposed on U.S. companies as respects deficiency reserves — although they do have to hold an appropriate "solvency margin" related to their liabilities. The Appointed Actuary of the ceding company uniquely passes on the reinsurance structure and by "signing off" on it, de facto imprimaturs the adequacy of rate and acceptability of reinsurer security.



In addition, new business strains or the desire to improve solvency margins or free asset ratios have led to the use of financial reinsurance structures such as mod-co. The U.K. Financial Services Authority (FSA) and its predecessor, the Department of Trade and Industry (DTI), have also allowed the use of subordinated debt as an additional "reinsurance" type tool for U.K. life companies. This is a form of securitization which, after the successful completion of one transaction, National Provident Indemnity (NPI), seems to have languished as a structure of choice for other companies. The NPI transaction provided capital relief on a fairly long duration basis which would not have been supportable by a conventional "surplus relief" structure.

Key reinsurance products in the U.K. are geared to the "Protection," Critical Illness, and Disability reinsurance marketplaces. There is also death cover to be provided on "unit-linked" business — analogous to our variable life and annuity insurance products.

Because of improving mortality, many U.K. companies (as are Continental companies) are faced with an economic reality that the Annuities issued some years back, currently in pay-out, are probably under reserved as respects accounting for continued mortality improvements. Many companies are seeking reinsurance solutions to "carve-out" or deal with the unforeseen longevity risk through specific mortality carve-out transactions or asset based reinsurance structures.

The U.K. market is served domestically by many of the well-known international life reinsurers through representative marketing offices, companies or branches in the U.K. The usual players such as Swiss Re, Gerling, Hannover, GE Frankona, GeneralCologne Re, Munich Re, SCOR Vie and others are all striving for a position on the panel of the U.K. life insurers. RGA, of American provenance, has established a U.K. presence as well.

Continental Europe

The Continental life reinsurance market is not as dynamic or pro-active as is the U.K. With the exception of Ireland, which has encouraged the formation of Life Reinsurers using the Dublin Financial Center providing significant tax relief and ease of doing business, most European countries are more "traditional" users of life reinsurance. This is in part dictated by tax issues around which product is designed, the type of distribution allowed from country to country, consumer sophistication and also local regulation which may create a "tariff" environment making it difficult to stimulate competition.

Many European countries have started to recognize that the U.S. problem of the continued solvency and financing of its Social Security system has to be recognized in Europe as well. Most European countries have very encompassing — and commensurately expensive — pension and retirement "schemes" where the political structure of the respective countries is recognizing that the "promises made" may not be kept. As a result, many countries such as France, Spain, Italy and others have, or are introducing, regulations which provide tax incentives for individuals to start providing for their own retirement security. All of the countries are recognizing, as in the U.S., that there will be fewer and fewer active workers on whom to levy taxes to support those that have retired. As an example, Italy has a declining birth rate. This does not bode well for the future solvency of the Italian state-supported pension system. Life reinsurance opportunities may be generated as a result of this move to start "cost-shifting" from the public to private sectors.

In France, it is possible to buy a "life insurance product," mainly an accumulation savings product, which if held for a minimum eight year period allows accumulated cash values to be taken out without incurring a taxable event. Better yet, hold it and annuitize it and the stream of annuity payments will also be tax free. In Germany, until recently, there was a huge market in 12-year Endowment contracts, where, after the twelfth year, accumulated values would be completely free of tax. This concentration on "savings products" and the culture of "putting money away" has significantly depressed the sale of “protection products.” The “Human Life Value” concept in the United States, which has been the trigger for a more encompassing approach to both personal and family financial planning, has not gained the same “aura” and interest in Europe.

The European insurance giant, AXA, has reformulated its strategy to do exactly that which has been commonly done in the U.S. by starting with simple personal lines products such as automobile and homeowners insurance and using that as a foundation to build protection products, savings products, estate planning products, etc.

With the “bull market” of the last 10 years, more and more consumers are being made aware of the desirability to involve themselves in equities. This is accomplished by insurance companies providing “unit-linked” policies where performance is tied to the “ups and downs” of the stock market. These are “wrapped” in a life insurance cover to qualify for attractive tax treatment. The “unit-linked” policies are the European equivalent of the mutual fund industry in the United States.

This same approach is taking hold in Spain as well. As a matter of interest, the bancassurance (bank insurance) marketplace is a significantly growing one in all of the European countries where Banks can own their own life insurance companies and market products to bank customers which are generally uncomplicated to buy and flow along the lines of reaching the middle market consumer.

> *“The ‘unit-linked’ policies are the European equivalent of the mutual fund industry in the United States. The same approach is taking hold in Spain as well.”*

We suspect that the introduction of the Euro as common currency in the European Monetary Union countries will create some very unique distribution and reinsurance opportunities where residents of countries formally tied to their respective national currencies will now be dealing in one, the Euro. As a result, companies will be able to market to these consumers on a more level playing field where product comparisons can be made as to cost and benefits without deterring the interested and educated consumer from pursuing those products in those countries that offer him or her best financial advantage.

From a life reinsurance marketing viewpoint, it is a reality that dealing in a more highly developed market requires reinsurers interested in establishing a European presence to take a very long-term view. Historically, this marketplace has been dominated by the same “usual suspects” prevalent in North America and the U.K. who have had, in some cases, more than 100 years of involvement in relatively protected environments to build a massive presence in their home markets and significant business in countries around them.

Reinsurance Market Shrinkage

There is a rarity of new life reinsurance company formations in Europe. There has also been a diminution of existing reinsurers who have had historical presence in the European marketplace. Whether by choice or chance, Swiss Re has probably been the leading acquirer and amalgamator of many European reinsurers who no longer exist independently. Such names as Mercantile & General, Union Re, Unione Italiana, Bavarian Re and most recently Lincoln National Re, have all been acquired or owned as autonomous entities, by Swiss Re. While CNA Life Re never operated in Europe, its acquisition by Munich Re still takes away potential life reinsurance capacity. The new reinsurance company presences in Europe (with the exception of RGA which continues to expand in the more traditional lines of life reinsurance), have tended to focus on financial and asset-based reinsurance transactions. Ace, Tempest, XL Ltd., Max Re and investment banking entities such as Lehman Re, fall into this latter genre.

As we sometimes say in the United States, new products and “trends” seem to move from West to East — from California to New York — whether it’s new drinks, new fashion and new attitudes. We believe that this holds true in life reinsurance where the evolution of the use of life reinsurance will continue to develop along structures and products created in the United States and moving across the Atlantic to the European marketplace.

It will be interesting to revisit this in a couple of years to see what has occurred.

Joseph F. Kolodney is the Global Life Reinsurance Product Group Leader for Aon Re Worldwide, the largest reinsurance broker in the world. The Life Reinsurance Intermediary operation does business in North America and the U.K. and Europe having consummated transactions in the United States, England, France, Italy, Spain and The Netherlands.