Access to Reinsurance by Smaller Insurers: Perils, Pitfalls and Solutions

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Reinsurance Section
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HAUSE Actuarial Solutions

This research project was a joint undertaking of the Committee on Life Insurance Research, Smaller Insurance Company Section and Reinsurance Section of the Society of Actuaries. A Project Oversight Group (POG) was selected to frame the research questions, select a researcher and then work with the researcher to develop the survey(s), perform follow-up interviews and write a final report with the survey results and recommendations for possible solutions to the challenges identified during the survey and follow-up process.

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Executive Summary

The purpose of this research project was to identify challenges encountered by smaller insurers in obtaining life reinsurance, learn about challenges and opportunities life reinsurers face in servicing these companies, and consider some possible solutions that might help to resolve the challenges encountered. The knowledge from this research is intended to assist actuaries, smaller insurers, reinsurers and others in optimizing their respective success in future reinsurance endeavors with smaller insurers.

Some of the issues investigated were:

- The use of benchmarks by reinsurers to determine the size of companies they are willing to do business with,
- Reinsurance treaties and services available above and below those benchmarks,
- The reasons smaller insurers need reinsurance,
- Challenges experienced by smaller insurers when trying to secure reinsurance, and
- The ways in which the challenges were (or were not) overcome.

To gather information, a two survey approach was used – one to reinsurers and brokers, and one to smaller insurers. Follow-up interviews were used to clarify responses and dig deeper into the challenges and discuss possible solutions.

Of the smaller insurers that responded to the survey, about one-half reported that they have had challenges with the reinsurance process. These insurers are referred to as the "challenges group". However, as tables 5 and 7 will show, the challenges group reinsured more of their business in 2007-2009 than the no-challenges group, and the total ceded amounts inforce for the two groups are about the same. This suggests that even though there have been challenges, they were apparently not insurmountable for the companies that responded to the survey.

We encourage readers to look at the entire report and form their own conclusions, but the conclusions and suggestions from the researcher are as follows:

1. There is a reinsurance market for smaller insurers. If you are experiencing challenges, you are encouraged to keep trying. Most of the smaller insurers participating in the survey found ways to deal with the challenges they experienced.
2. For those companies that are new to the reinsurance world, or if you have had challenges in the past, there is a list of suggested steps you might want to consider taking the next time you approach the reinsurance market with a new product. Those suggestions are documented in Appendix 1.
3. A special smaller insurer pool might also be a solution, and a suggested framework for the pool approach is discussed in the Summary and Solutions section.

Background, Purpose and Objective of the Study

Life reinsurance is a universally recognized risk management tool protecting insurance company surplus levels, yet smaller insurance companies, who oftentimes benefit the most from establishing prudent risk management practices, frequently report unique challenges in securing life reinsurance. Commercially feasible life reinsurance risk management solutions for smaller insurers are in the best interest of the life insurance industry as a whole because of its value in protecting company surplus and solvency.

The purpose of this research project was to identify the challenges and problems encountered by smaller insurers in obtaining life reinsurance as well as the challenges and opportunities life reinsurers face in servicing these companies, and the solutions explored to resolve the challenges experienced. The knowledge from this research is intended to assist actuaries, smaller insurers, reinsurers and others in optimizing their respective success in future reinsurance endeavors.

The original intent was to perform a survey including all players in the reinsurance markets, including but not limited to:

- Smaller direct writers of life insurance,
- Life reinsurers,
- Other providers of reinsurance services to smaller life insurers, and
- Life reinsurance brokers.

The issues to be investigated included:

- The reasons smaller direct writers of life insurance need reinsurance,
- The current size of the life reinsurance market servicing small direct writers and how it compares to the life reinsurance market servicing larger direct writers,
- The problems experienced by smaller direct writers of life insurance when trying to secure reinsurance,
- The ways in which the problems were overcome (or failed to be overcome),
- Life reinsurer challenges and opportunities in servicing the smaller insurers including identifying successes and failures in servicing smaller insurers versus servicing larger insurers, and
- Comparing the experiences and opinions between the direct writers and life reinsurers.

General Survey Methodology

Although the original intent was to use a single survey sent to all respondents, it was apparent that a two survey approach would better fit the overall goals of the research study. Key questions for reinsurers and smaller insurers, the primary focus groups, were determined to be uniquely different. It was also felt the answers received from a first survey sent to reinsurers and brokers might help to direct questions for a second survey sent to the smaller insurers. We also anticipated that the reinsurer responses would identify size constraints in dealing with prospective customers to help identify the criteria for determining which companies should receive the small company survey.

Reinsurer Survey

A copy of the survey that was sent to reinsurers and brokers is found in Appendix 2.

Information requested in the survey included:

- Benchmarks used by reinsurers, if any, to identify or eliminate prospective clients
- Types of treaties available to client companies above and below benchmarks
- If available, the amount of individual life risk assumed from companies above and below the established benchmarks
- Services other than reinsurance coverage available to companies above and below the established benchmarks
- Issues reinsurers have experienced with smaller insurers

Smaller Insurer Survey

A copy of the survey that was sent to smaller insurers is found in Appendix 3.

Information requested in the survey included:

- Company size in total assets
- Count and face amount for policies issued and ceded from 2007 through 2009
- Gross total count and amount inforce and ceded as of December 31, 2009
- Maximum retention limits
- Reasons for buying reinsurance
- Types of reinsurance used to cede risk
- Identification and ranking of challenges or reasons why challenges have not been experienced
- Companies were encouraged to provide examples of their experiences

Follow-Up Interviews

In both surveys we asked if the survey respondent would be willing to participate in a short follow-up telephone interview. The intent was to verify answers and dig deeper into the experiences reinsurers and smaller insurers have had during the reinsurance placement process. Additional questions were developed, one set of questions for reinsurers and another set for smaller insurers, and all companies that agreed to a follow-up interview were contacted. Three reinsurers participated in follow-up interviews, and nine insurance companies either provided follow-up answers via email or were interviewed by the researcher.

Reinsurer/Broker Survey

The first survey was sent electronically to 27 reinsurers and brokers. Six responses were received - five reinsurers and one broker. Of those six, four completed the entire survey (3 reinsurers and the broker) and two did not provide responses beyond the second question in the survey.

Do reinsurers have minimum benchmarks?

The first few questions in the survey focused on the use of minimum benchmarks to determine viable insurance company clients. Our definition of benchmark is any method used to decide which companies a reinsurer will or will not do business with.

Three of the five reinsurers and the broker indicated they have benchmarks. The broker benchmark was based on new business premium volume (the amount was not identified). Benchmarks cited by the reinsurers were minimum rating (AM Best A- or B+) and either minimum net amount at risk ($100 million) assumed annually or minimum new business premium volume ($20 million) assumed annually. In the follow-up interview one of the reinsurers said they do make exceptions to their benchmarks depending on the circumstances of each specific opportunity.

Two of the reinsurers indicated they have no benchmarks. One of these two did not complete the remainder of the survey.

In addition to the benchmarks identified above, one of the reinsurers commented that they perform a review of each prospective client based on years in business, lines of business, profitability, quality of assets, distribution channels, target market, reason for reinsurance and operational staff capabilities (i.e., claims, underwriting, administration and actuarial). We have reasons to believe that all other reinsurers perform similar due diligence prior to treaties with new clients.

What types of reinsurance treaties are available above and below the benchmark?

The survey asked what treaty types were available above and below the benchmarks that were established. The reinsurance treaty types listed in the survey were:

a. YRT - Excess of retention: Cede amounts in excess of the company's stated retention using YRT rates
b. YRT - Quota share: Cede a percentage of each policy issued, and retain an amount up to the company's stated per policy retention, using YRT rates
c. Coinsurance - Excess of retention: Cede amounts in excess of the company's stated per policy retention using the direct company's rates with allowances

d. Coinsurance – Quota share: Cede a percentage of each policy issued, and retain an amount up to the company's stated per policy retention, using the direct company's rates with allowances
e. Surplus relief
f. XXX reserve relief
g. Bulk or individual accidental death benefit treaty
h. Catastrophic risk coverage including accidental death carve-out
i. Stop Loss coverage
j. Other

Treaty types available above and below the benchmark are shown in Table 1. Types available only above the benchmark are highlighted in red.

Table 1
Treaty Types Available – Reinsurers Only

Treaty Type	Above Benchmark	Below or No Benchmark
YRT - Excess of retention	2	2
YRT - Quota share	2	2
Coinsurance - Excess of retention	2	2
Coinsurance – Quota share	2	2
Surplus relief	1	
XXX reserve relief	2	
Bulk or individual ADB treaty	2	2
Catastrophe Cover and AD Carve Out	2	2
Stop Loss coverage	2	

How much business does your company have with smaller insurers?

The survey asked for 2009 new business premium and face amount assumed, and inforce face amount assumed as of 12/31/2009, above and below benchmarks. The three reinsurers that provided full survey responses assumed less than 20% of ordinary industry recurring reinsurance in 2009. Total inforce as of 12/31/2009 for the three reinsurers is in the $500 to $750 billion range. For the two reinsurers that have benchmarks, new business assumed below the benchmark was less than 1% in 2009, and the assumed inforce below benchmarks as of 12/31/2009 was less than 5%.

What additional services are provided by reinsurers above and below benchmarks?

We asked about availability of additional services above and below established benchmarks, and we also attempted to find out if there are charges for any of the additional services that depend on whether a company is above or below the benchmark. We wondered if smaller insurers would be able to purchase certain services from professional reinsurers that would normally be part of the standard services provided in most "larger" insurance company/reinsurer relationships.

Table 2 shows the additional services listed in the survey and indicates whether a benchmark was used to determine if the service is available (highlighted in red). No one indicated that they charge for any of the additional services.

Table 2
Was a Benchmark Used for Additional Services?

Additional Services	Yes	No
Use of proprietary underwriting manual		3
Access to underwriting staff/Facultative support		3
Access to medical staff		3
Access to actuarial staff		3
Product design and pricing support	2	1
Development of underwriting guidelines	2	2
Reinsurance placement	1	2
Administrative Services		1
Claims Adjudication Services		1

What issues have reinsurers experienced with insurance companies during the reinsurance placement process?

Reinsurers were asked to prioritize issues they have had with insurance companies in situations both above and below the reinsurer's benchmarks. Table 3 shows the reasons listed, along with the average priority ranking both above and below benchmarks.

Table 3 Rank of Issues Reinsurers Experienced		
Issue	**Below Benchmarks**	**Above Benchmarks**
Expected sales volume was low, so quote was never provided	**1**	**2**
Mortality, persistency or expense information was not readily available	**2**	**1**
Company would not accept a quota share treaty (wanted excess of retention)	**3**	**4**
Company was slow to respond to questions (or did not respond at all)	**4**	**3**
Company's retention schedule was too high	**4**	**6**
Company did not accept our quote	**6**	**4**

Companies were then asked to provide examples of how they were able to overcome any reinsurance challenges experienced, or if challenges were not overcome to note that as well. They were also asked if they would be changing their emphasis on companies that fall below their benchmark.

One of the reinsurers said they would get sales executives more involved in fact finding in order to establish where companies fall in relation to their established benchmark. Another reinsurer said they can usually find a reasonable approach to provide adequate reinsurance service without making it too cumbersome, that most insurers were understanding, and that they have established long term relationships with numerous small company clients. The third reinsurer stated that companies falling below their benchmark usually are small companies needing additional services not handled by current staff, and that one major point is the lack of administrative capabilities. Most reinsurers do not accept cession business. When this occurs, they have put the potential prospect in contact with third party administrator's that can provide administration of the business.

The broker and one of the reinsurers answered that in light of the challenges faced they would decrease their emphasis on smaller company clients. One reinsurer said they would neither decrease or increase emphasis, and the third reinsurer answered that it did not apply to them since they don't have a benchmark.

Conclusions – Reinsurer/Broker Survey

The survey results show that there is a market for smaller insurers, albeit a fairly small one. It was encouraging to hear that two reinsurers do not have benchmarks, which indicates they will attempt to accommodate every company they work with.

Due to the lack of additional responses, it is not known what the remainder of the US market is doing, but based on informal discussions with some of the non-respondents it is apparent that their focus is on larger insurers. Obviously, reinsurers can bring in significant amounts of new reinsurance business if they do one deal with a very large insurance company, versus multiple deals with many smaller insurers.

Another point to keep in mind is that no matter how small the company is, it is the potential for significant amounts of assumed business – at a profit – that attracts a reinsurer into a new treaty arrangement. Of course, some smaller insurers just do not have the marketing capacity to generate enough business, and this may be the primary issue.

Smaller Insurance Company Survey

A separate electronic survey was distributed to smaller insurers (less than $2.5 billion of assets) and all actuaries that are members of the Smaller Insurance Company section. A paper version of the survey was inserted into the check in packets at the May 2011 Life and Annuity Symposium. In addition, the American Fraternal Alliance helped by advertising the survey with their member fraternals.

A total of 26 responses were received. Of the 26, two had assets above the $2.5 billion maximum, and one company was eliminated because they only sold a small amount of group life. This left 23 valid responses received.

Who responded and how many indicated they have had reinsurance challenges?

Participating companies were asked to identify themselves so that follow-up interviews could be conducted. The mix of those that provided their name and agreed to a follow-up interview was – 6 Fraternal, 6 Life and 1 Health company. No attempt was made to identify the other 10 companies.

Of the 23 responses, 12 indicated they have had reinsurance challenges and 11 indicated they have not had reinsurance challenges. The two companies that had assets above the survey limit both said they have had no reinsurance challenges.

How large are the companies and how much business was issued and ceded?

Total combined assets as of December 31, 2009 for the 23 companies was $13.9 billion. The 4 largest companies averaged $1.9 billion of assets, and the average asset size of the remaining 19 companies was $332 million.

Data was collected to measure new individual life business issued in 2007 – 2009 and inforce as of December 31, 2009 – direct and ceded. Results are shown in Tables 4-7.

Table 4
Direct New Business Issued 2007-2009

Average	Challenges	No Challenges
Policy Count - per Year per Company	4,377	6,033
Face Amount - per Year per Company (000)	$394,739	$387,911
Face Amount - per Policy	$90,181	$64,294

In table 4 we see that the challenges group issued about the same amount of new business, but their count was much lower and average face amount is much higher than the no challenges group (highlighted in red). During the 4 follow-up interviews with companies from the no challenges group we found that 3 sell guaranteed issue and simplified issue plans, so that appears to be one reason for the lower averages.

Table 5
New Business Ceded 2007-2009

Average	Challenges	No Challenges
Policy Count - per Year per Company	1,025	700
% of Count Ceded (% of table 4)	23%	12%
Face Amount - per Year per Company (000)	$140,361	$61,420
% of Amount Ceded (% of table 4)	36%	16%
Face Amount - per Policy	$136,991	$87,683

Table 5 shows that the challenges group ceded more policies, at higher cession amounts than the no challenges group. Again, this may be explained by the more extensive use of guaranteed issue and simplified issue plans by the no challenges group, but the challenges group clearly used reinsurance more than the no challenges group.

4 out of 12 companies in the challenges group did not cede new business in the three year observation period, but 3 out of the 4 have ceded inforce.

Table 6
Direct Inforce as of 12/31/2009

	Challenges	No Challenges
Policy Count	681,295	767,397
Face Amount (000)	$38,441,329	$36,373,492
Average Face Amount	$56,424	$47,399

Table 7 Ceded Inforce as of 12/31/2009		
	Challenges	**No Challenges**
Policy Count	**77,740**	**268,168**
% of Count Ceded	**11%**	**35%**
Face Amount (000)	**$10,870,602**	**$10,558,396**
% of Face Amount Ceded	**28%**	**29%**
Average Face Amount	**$139,833**	**$39,372**

Table 6 and 7 again show that the challenges group has higher average policy sizes, and is ceding fewer policies at much higher average face amounts. (Note: Two of the no challenges companies did not provide their ceded inforce counts. Their counts were estimated for purposes of combining the data.)

What retention amounts are used?

Companies were asked to provide their maximum per policy retention amounts. The average retention for the challenges group is $194,000, and the average for the no challenges group is $220,000.

Why is reinsurance used?

The surveyed companies were asked to identify the reasons they purchase reinsurance, and asked to mark every reason that applies. Table 8 shows the reasons listed in the survey and the number of companies that marked each reason – sorted according to the total number of responses for each reason.

Table 8 Reasons for using individual life reinsurance		
Reasons	**Challenges**	**No Challenges**
Limit per policy risk	10	11
Control claim fluctuations	6	10
Get facultative underwriting support	8	6
Gain access to reinsurer's underwriting manual	7	5
Gain access to underwriting expertise (eg. develop application and underwriting approach)	7	5
Gain access to reinsurance actuaries (assumptions)	3	4
Increase market share (turnkey products)	6	1
Increase market share (sales at higher amts.)	5	2
Offer lower premiums	6	1
Gain access to Re actuaries (product design, other than assumptions)	4	2
Gain access to reinsurer's medical staff	3	2
Capital management (surplus relief or XXX reserve coverage)	2	2
Increase market share (allow for sales at additional issue ages)	1	1
Other (To encourage member ship with us – as we have face limits)	1	0

The reasons given appear to follow a fairly normal pattern compared to insurers of any size. However, it is interesting that far more companies in the challenges group indicated they used reinsurance to help increase market share and offer lower premiums (highlighted in red). This again may explain why that group is using reinsurance more than the no challenges group.

<u>What types of reinsurance are used?</u>

Companies were asked to identify all types of reinsurance they are using. Table 9 shows the types of reinsurance indicated in the survey and the number of companies that marked each type.

Table 9 Types of Ongoing Individual Life Reinsurance		
Reinsurance Type	**Challenges**	**No Challenges**
YRT - Excess of retention	**9**	**10**
YRT - Quota Share	**4**	**1**
Coinsurance - Excess of retention	**6**	**7**
Coinsurance - Quota share	**6**	**5**
Bulk or individual accidental death benefit Treaty	**5**	**5**
Catastrophic risk coverage	**2**	**2**

Note: No one selected surplus relief, XXX reserve relief or stop-loss coverage. In the "other" category, one said 100% coinsurance, two said facultative only and one said no reinsurance was in place.

<u>Has your company experienced reinsurance challenges?</u>

At this point in the survey we asked companies if they have experienced challenges of any kind in the process of purchasing individual life reinsurance. 12 companies indicated they have had challenges purchasing reinsurance. Reasons were listed in the survey, and companies were asked to rank those reasons or provide their own specific response. Table 10 shows the survey reasons sorted according to the average rank for the 12 companies that indicated they had challenges.

Table 10 **Rank of Challenge Reasons Companies Selected**
1. Price of reinsurance was too high so we did not accept the quote.
2. Reinsurer was slow to respond to initial inquiry (or did not respond at all).
3. Reinsurer took too long to provide a quote.
4. Quote was never received, because projected sales were too low.
5. Quote was never received, but no reason was given.
6. Reinsurer wanted a lower retention schedule.
7. Reinsurer was not comfortable with risk, underwriting or staff expertise.
8. Reinsurer wanted a quota share treaty (percentage of every policy issued).
9. Reinsurer wanted recent mortality and/or persistency studies but none were available.

Additional comments from the challenge companies included: One company that said fees were too high because direct writers' sales were low, two companies that said low volume was the issue, and one company that said they had unique types of risks and contract language disputes.

Out of 11 companies that indicated they did not have any challenges, 9 provided the following comments.

- Have gone directly to reinsurers and have been able to obtain what we needed.
- No problems with reinsurance, have 2 reinsurers, and have had those for a number of years.
- We use an affiliated off-shore reinsurer.
- We offer relatively small amounts of insurance, and we retain a portion of what we issue.
- Haven't used reinsurance, but do not feel it would be a problem to obtain.
- We issue small amounts and retain 100%.
- We have not had any issues in the purchase of reinsurance, our current reinsurers are willing to take on our risk and have essentially no questions.
- Mostly small face amounts at this time; not aware of issues for getting reinsurance for the rest as needed (i.e. contracts already in place).
- We issue small amounts and retain 100%.

The following list shows general comments provided voluntarily by the survey respondents that experienced challenges. The prioritized issue list in Table 10 and the voluntary comments below highlight the experiences of the companies that have had challenges. No reasons appear to dominate the responses. Instead, it is evident that each situation is fairly unique. The fact remains that most companies in the challenges group overcame the challenges, or they don't currently use reinsurance.

- We have tried to look for alternate sources of reinsurance so we can get more competition in quotes but have not found another reinsurer. We have modified product design and pricing to be more acceptable to reinsurers.
- We had a reinsurer who reinsured at 100% a group of life products that we were selling. We eventually closed the block to new sales because we could not achieve their desired sales volumes. They charged fixed costs high enough that we could no longer certify that it would pass the illustration regulations. Our sales in the last 3 years have been small because we have not yet figured out a good strategy to make our own sales. Our management felt burned by the process.
- Quotes were very high because we could not produce the flow the reinsurer needed above our retention amount. We have not found a solution.

- Our primary business is acquisition of closed blocks. Sometimes have need for coverage on larger policies acquired; sometimes want to terminate unnecessary reinsurance inforce (admin issue). In general we have been able to negotiate agreeable terms with compromises on each side, although in some instances professional reinsurers have been inconsistent in maintaining very small blocks. Only 1-2 companies are supportive of us. We have considered surplus relief, but the volume has been too small for professional reinsurers, even though we have indicated a willingness to pay steeply if needed. Fortunately, our contacts with those other than professional reinsurers and our own creativity/efforts have made the need for surplus relief unnecessary to date.
- We were not able to overcome this challenge. As a Fraternal Benefit Society our goals are to provide for final costs while offering as many benefits as possible. We continue to increase our benefits but cannot offer larger face amounts or get reinsurance for higher face amounts.
- Continued to work with reinsurers until we got satisfactory results.
- New plans were grandfathered into existing treaties.
- The risk which the reinsurer did not want to assume is for a closed block of business, and our organization has decided that it is willing to assume this risk.
- Our challenge was facing the fact that the size of our company (i.e., the number of new issues needing reinsurance) was not large enough (sufficiently profitable) to satisfy two large reinsurers.
- We are currently working on developing mortality and persistency studies. In the meantime we are working with reinsurers we have done business with in the past. We have not overcome the other challenges.
- Over the last 5 to 10 years we have changed who our primary reinsurers are. The companies we used for many years all wanted to deal with only larger companies. So far we have been able to find new reinsurance outlets to take our business.

Follow-Up Interviews

Of the 23 companies that responded to the survey, 13 indicated a willingness to participate in follow-up interviews. The intent of the follow-ups was to clarify survey responses and to ask additional questions that would provide a more in-depth understanding of each company's reinsurance experiences.

Of the 13 companies that provided contact information and agreed to a follow-up interview – 8 were from the "reinsurance challenge" group and 5 were from the "no reinsurance challenge" group. Follow-up interviews were conducted with 5 companies from the "reinsurance challenge" group and 4 companies from the "no reinsurance challenge" group were either interviewed or they provided written answers to our follow up questions. The questions, along with a copy of each company's survey responses, were sent to each person prior to the interview.

The follow-up questions were:

1. How many states do you actively market in?
2. Do you have currently approved life products in all the states where you write business?
3. What type(s) of life products do you offer(universal life (UL), whole life (WL), term, other)?
4. Who performs life underwriting when an application is received (staff underwriter, reinsurer, consulting underwriter, automated expert underwriting system, etc.)?
5. Do you use a full medical application?
6. Do you have access to a professional underwriting manual? If not, how do you decide which applications to accept/reject or determine an appropriate substandard level?
7. What other underwriting tools do you use? Paramedicals? Medical Information Bureau (MIB)? Pharmacy database? Other?
8. Do you have system capabilities for self-administering ceded reinsurance?
9. Do you have dedicated life claims staff?
10. Describe/explain the impediments you (or your staff) have experienced with reinsurers during the product development stage. In that process, what hurdle (if any) seems to be a showstopper?
11. What have you changed or adjusted in your procedures and/or product line because of having difficulty obtaining reinsurance (such as changes in product design, underwriting practices, issue guidelines, etc.)?
12. Does your company produce an annual mortality study or actual-to-expected claims report?
13. When was the last time you were contacted by a reinsurance company?

Table 11 shows the general responses we received, and for those companies that had challenges Table 12 shows the specific impediments and changes or adjustments they made because of the challenges they were faced with.

Table 11
"Combined" Responses to Survey Follow-Up Questions

	Challenges	No Challenges
1. How many state licenses do you have?	20	41
2. Approved products in all states?	Yes	Yes
3. Product types	Term, WL, UL, ROP Term, ISWL	UL, Term, WL, GI&SI WL, ISWL
4. Staff underwriter?	Yes	Yes
5. Full med app?	Yes	Yes—except simplified issue
6. Underwriting manual?	Yes	Yes
7. Underwriting tools?	Varies by company—limited U/W up to full U/W	All U/W tools used (except with GI&SI)
8. Self-administration of reinsurance?	Yes	Yes
9. Claims staff?	Yes	Yes
10. Impediments	See Table 12	na
11. Changes due to reinsurance	See Table 12	na
12. Mortality study?	None or limited	Yes
13. Reinsurer contact frequency	Occasional visits	Frequent visits

Table 12 Responses to Questions 10 and 11	
Impediments	**Changes**
Volume was low, per policy expenses were high, resulting low profit on a turnkey product.	**Lowered maximum issue limit & quit selling turnkey plan.**
Most business is acquired blocks. Challenge has been either finding excess reinsurance or recapturing amounts within corporate retention limit.	**None—acceptable arrangements were found or risk limits were compromised.**
Volume issues were the biggest hurdle.	**Moved to smaller face amounts, but not just because of reinsurance.**
Not enough reinsurance for more than one reinsurer, but have had no cost issue yet.	**None**
Non-guaranteed term rates were too high; and a reinsurance audit led to underwriting issues—vague guidelines in treaty.	**Delayed implementation of the product; adjusted underwriting approach after the reinsurance audit to comply with treaty requirements.**

Summary and Solutions

What does all this say about access to reinsurance for smaller insurers?

The low response rate to the survey, in general, does imply a possible lack of interest from the reinsurer and the smaller insurer side of the issue. It is likely that the reinsurers that did not reply simply are not interested in the small company market, leading to their decision to skip the survey. However, there is at least one reinsurer out there that is very willing to work with smaller insurers, and another that will when the right deal comes along. The researcher knows from his own experience that other non-responding reinsurers will also do business with smaller companies when the right opportunity presents itself.

Does the low response rate from smaller insurers mean that there is no issue? That is certainly a possibility, but the survey responses show that challenges are out there. Of course, all business deals may present challenges, and it is evident from the numbers that even the companies within the challenges group have found ways to deal with the market as it currently exists.

So, one "solution" is—keep trying. There is a limited reinsurance market for smaller insurers. As one of the reinsurers pointed out during the follow-up interview, smaller insurers may sometimes have to pay a little more for their reinsurance versus the larger companies who can demonstrate that they have very low and stable mortality results, but with careful product development those costs can certainly be priced into a sellable product.

A second "solution," since we know there is a reinsurance market for smaller insurers, is to make sure you are prepared when you approach the market for reinsurance placement. As the researcher I am including this point not because the research indicated it as an answer, but more from my own experience. Don't be reluctant to seek the help of a broker; and if you do approach the market on your own, make sure you are prepared. Appendix 1 shows a list of things you may want to consider preparing before you ask for a quote. Reinsurance actuaries, just like all actuaries, love getting too much information. The more you can provide up front, the better the negotiations may progress.

Another possible "solution" is a pool approach for smaller insurers. During discussions and interviews, the researcher heard of two instances where development of pools has been attempted. One was an attempt by the American Fraternal Alliance (then the NFCA) to get some of the larger fraternals to set up a risk-sharing pool for smaller fraternals. However, it is the understanding of the researcher that this idea didn't come to fruition. Another attempt to set up a small company reinsurance pool was made around 2005 by a consulting actuary. At least two reinsurers were approached with the idea, but again the attempt did not gain any momentum.

While attempts to establish a small company reinsurance pool have been made, this idea remains a potential solution. The following structure for a pool might work if the right people and companies support the approach:

1. Use a standardized full medical application and provide specific instructions to be used during the marketing process.
2. Develop two or three standardized life products, pre-filed for use in all states, that are available only for policies ceded into the pool (e.g., WL, 10-year term, 20-year term, UL).
3. Each specific company, once approved by the pool reinsurers, would be allowed to put its logo and company-specific information on the pool application and products.
4. Use a TPA for all underwriting and claims.
5. Allow each company to issue and administer the policies on their system once the issue decision has been made by the TPA. This is an important point for most companies, but especially for fraternals who want to make sure they are connected with and engage their clients in their specific fraternal endeavors.
6. A decision would have to be made regarding ongoing administration of the reinsurance, including reinsurance premium billing, settlements and quarterly reporting. It is likely that only the very smallest insurers will not be able to handle the administration issues.

Appendix 1

Things to Think of and Prepare Before You Approach the Reinsurance Market

The following is a suggested list of information you should consider providing prior to asking a reinsurer to provide a reinsurance quote.

1. Provide a copy of the basic policy form and riders you want included in the reinsurance treaty. If state specials are significantly different, make sure you provide those as well.
2. Provide premium rate tables and policy fees/factors used to calculate policy premiums.
3. Have available an actuarial report on the product development and pricing results and assumptions, should the reinsurer ask for it.
4. A copy of the application and state specials if different.
5. A copy of your actuarial state filing memorandum provides a good product summary for the reinsurance pricing actuary—along with reserving methods and information about underlying guaranteed elements.
6. A summary of your underwriting rules and methods.
    a. Height/build chart
    b. Cholesterol level chart
    c. A chart showing additional requirements. This usually varies by issue age and amount applied for and includes requirements for paramedical exam, full medical exam, MIB, attending physician statement (APS), X-ray, treadmill, etc.
    d. The size of your underwriting staff and the level of authorization for each underwriter (i.e., face amount maximums each underwriter can authorize).
    e. If you are new to the reinsurer, set up a conference call between the reinsurer's underwriter and your chief underwriter. If you use a medical director or contract with a doctor for your more challenging cases, get them involved too.
7. Information regarding your claims staff is important. The number of claims processors and their level of experience are important.
8. Make sure you have some idea of the type of arrangement you are looking for (YRT, coinsurance; excess or quota share) and communicate that preference to the reinsurer. They may suggest alternate approaches, but it is very helpful to provide a starting point. Some companies even let the reinsurers know what YRT rates or coinsurance allowances they are looking for, and this helps provide a framework for the negotiations.
9. Provide information about how your product will be marketed (e.g., captive agents, brokers, direct marketing, etc.) and provide an estimate of the first two to three years of production. If possible, the production estimates should provided by issue year, age range, gender, underwriting class, average face amount and projected net amount at risk for universal life business.

10. Perform mortality and persistency studies on your in-force business and pass that information on to the reinsurer. Make sure you let them know the level of underwriting and product types included in the in-force so that consistency is maintained. You may think your data is not credible, but any piece of information that can provide comfort for the reinsurance pricing actuary is helpful, and the information might lead to lower rates or allowances.

Appendix 2
Copy of Reinsurer/Broker Survey

SOCIETY OF ACTUARIES

RSVP 1/27/11 Reinsurance Company Survey

The Society of Actuaries' Committee on Life Insurance Research, together with the Smaller Insurance Company and Reinsurance Sections invite you to participate in a Reinsurance Company survey.

To participate, please complete the survey by Thursday, January 27th. Responses will be analyzed and a report summary will be prepared for posting on the SOA website.

We recommend you print the full survey prior to completion so you can review the questions and gather any applicable statistics. There are 18 questions and the survey should only take 10-15 minutes to complete once your statistics are available. *(Note that all text boxes will accept unlimited text, or you can copy/paste any prepared documentation you feel is pertinent to the subject matter of the survey question*.)

Hause Actuarial Solutions, Inc has been selected to analyze the results and conduct follow-up interviews. Your responses will be kept confidential. (No attributions will be made, but respondents will be listed as participants in the final report which will, as appropriate, be widely disseminated in professional literature.)

Should you have any questions, please contact Ronora Stryker at rstryker@soa.org. Should you collaborate with others in developing answers to the survey, please only submit one response.

Thank you for participating in this initiative.

All respondents are encouraged to answer all survey questions if possible. Responses to the survey will be submitted to the Society of Actuaries office and will be kept confidential. Only compiled results will be made available to a working group for the research project.

Responses will not be identifiable by company name to this committee. The survey requests your contact information for the purpose of following up with you for additional information or clarification and distributing the final report to you. Any follow up will be conducted by SOA research staff or Hause Actuarial Solutions, Inc. consultants and will also be kept confidential.

For the best viewing of the survey, please maximize your browser window.

1. Which best describes your business?

- Reinsurance Company
- Reinsurance Broker

2. Does your company have minimum benchmarks that must be met before doing business with a direct writer of individual life insurance?

- Yes
- No

3. If yes, please indicate the benchmark(s) your company uses and the specific statistic (mark all that apply):

- a. Company ratings (indicate specific rating agency used and minimum level required)

- b. Minimum company size (total assets)
- c. Minimum company size (total premium inforce)
- d. Minimum expected annual new busines volume for each treaty or by company (net amount at risk assumed)
- e. Minimum expected annual new business volume for each treaty or by company (premium assumed)
- Other

4. If your company does not have a minimum benchmark, are there other guidelines followed before you will work with a smaller direct writer (e.g. market share, type of treaty)?

5. If your company has a minimum benchmark, what is the source of the requirement?

- Board of Directors mandate
- Executive decision
- Company guidelines
- Other, please elaborate

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6 For the companies that meet the benchmark(s) indicated in question #3, does your company have internal criteria on which it sets the level of services or type of agreement allowed?

- ☐ Yes
- ☐ If yes, please specify the criteria based on Premium Ceded
- ☒ If yes, please specify the criteria based on Face Amount Ceded
- ☐ If yes, but other criteria is used, please specify the criteria and amount.
- ☐ No

7. Please Indicate the Types of Reinsurance Treaties you routinely participate in with direct life insurance companies that are above and below the internal criteria. Please use the No Criteria column if applicable. (mark all that apply)

Types of Treaties	Above Criteria	Below Criteria	No Criteria
a. YRT - Excess of retention (cede amounts in excess of the company's stated retention using YRT rates)	☐	☐	☐
b. YRT - Quota share (cede a percentage of each policy issued, and retain an amount up to the company's stated per policy retention, using YRT rates)	☐	☐	☐
c. Coinsurance - Excess of retention (cede amounts in excess of the company's stated per policy retention using the direct company's rates with allowances)	☐	☐	☐
d. Coinsurance - Quota share (cede a percentage of each policy issued, and retain an amount up to the company's stated per policy retention, using the direct company's rate with allowances)	☐	☐	☐
e. Surplus relief	☐	☐	☐
f. XXX reserve relief	☐	☐	☐
g. Bulk or individual accidental death benefit treaty	☐	☐	☐

Types of Treaties	Above Criteria	Below Criteria	No Criteria
h. Catastrophic risk coverage (including AD Carve-out)	☐	☐	☐
i. Stop Loss coverage	☐	☐	☐
j. Others, please elaborate ______	☐	☐	☐

8. Please use 2009 data consistent with the Munich Re Survey to provide statistics required in questions 9 and 10. If your information is more readily available by your latest fiscal year; please indicate the fiscal year period in the following text box.

______

9. Indicate the total amount of new business premium and face amount assumed in the 2009 fiscal year from companies above and below the internal criteria.

	Above Criteria	Below Criteria	No Criteria
New Business Premium			
New Business Face			

10. Indicate the total amount of face amount in force as of the end of 2009 from companies above and below the internal criteria.

	Above Criteria	Below Criteria	No Criteria
Face Amount in Force			

11. In addition to providing reinsurance coverage, what additional complimentary services does your company provide to companies with total assets above and below the internal criteria? (Check all that apply)

	Types of Services	Above Criteria	Below Criteria	No Criteria
	a. Use of proprietary underwriting manual	☐	☐	☐
	b. Facultative support and/or access to underwriting staff	☐	☐	☐
	c. Access to medical staff	☐	☐	☐
	d. Access to actuarial staff	☐	☐	☐
	e. Product design and pricing support	☐	☐	☐
	f. Development of underwriting guidelines	☐	☐	☐
	g. Reinsurance placement	☐	☐	☐
	h. Administrative Services	☐	☐	☐
	i. Claims Adjudication Services	☐	☐	☐
	j. Other, please elaborate			

12. In addition to providing reinsurance coverage, what additional non-complimentary (with additional charge) services does your company provide to companies with total assets above and below the internal criteria? (Check all that apply)

Types of Services	Above Criteria	Below Criteria	No Criteria
a. Use of proprietary underwriting manual	☐	☐	☐
b. Facultative support and/or access to underwriting staff	☐	☐	☐
c. Access to medical staff	☐	☐	☐
d. Access to actuarial staff	☐	☐	☐
e. Product design and pricing support	☐	☐	☐
f. Development of underwriting guidelines	☐	☐	☐
g. Reinsurance placement	☐	☐	☐
h. Administrative Services	☐	☐	☐
i. Claims Adjudication Services	☐	☐	☐
j. Other, please elaborate			

13a. For companies above the internal criteria, indicate which of the following problems, challenges or situations you have experienced in the process of setting up reinsurance treaties. (Rank according to frequency or importance, with 1 being the most important or frequent. Please just click on line and then drag to position you wish.)

a. Company was slow to respond to questions (or did not respond at all)
b. Mortality, persistency or expense information was not readily available
c. Expected sales volume was low, so quote was never provided
d. Company would not accept a quota share treaty (wanted excess of retention)
e. Company's retention schedule was too high
f. Company did not accept our quote
g. Other, please elaborate

13b. For companies below the internal criteria, indicate which of the following problems, challenges or situations you have experienced in the process of setting up reinsurance treaties. (Rank according to frequency or importance, with 1 being the most important or frequent. Please just click on line and then drag to position you wish.)

a. Company was slow to respond to questions (or did not respond at all)
b. Mortality, persistency or expense information was not readily available
c. Expected sales volume was low, so quote was never provided
d. Company would not accept a quota share treaty (wanted excess of retention)
e. Company's retention schedule was too high
f. Company did not accept our quote
g. Other, please elaborate

13c. If there is no criteria, indicate which of the following problems, challenges or situations you have experienced in the process of setting up reinsurance treaties. (Rank according to frequency or importance, with 1 being the most important or most frequent. Please just click on line and then drag to position you wish.)

a. Company was slow to respond to questions (or did not respond at all)
b. Mortality, persistency or expense information was not readily available
c. Expected sales volume was low, so quote was never provided
d. Company would not accept a quota share treaty (wanted excess of retention)
e. Company's retention schedule was too high
f. Company did not accept our quote
g. Other, please elaborate

14. Please provide examples of how your company was able to overcome any reinsurance challenges experienced. If any challenges were not overcome, please note this as well.

15. In light of the challenges faced, do you feel generally that you will increase or decrease your emphasis on companies below your internal criteria?

a. Increase emphasis
b. Decrease emphasis
c. Neither increase or decrease
d. Not applicable - no criteria

16. Please indicate if you are willing to participate in a 15-20 minute follow-up telephone interview. The intent of follow-ups is to clarify responses (if needed) and possibly dig deeper into potential answers to the issues that have been identified. Thank you for your participation in this survey!

- Yes
- No

17. Contact information for Person Completing Survey

Name:

Company

Work Phone:

E Mail:

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Appendix 3
Copy of Smaller Insurer Survey

SOCIETY OF ACTUARIES

RSVP 6/10/11 Smaller Insurance Company – Reinsurance Survey

The Society of Actuaries' Committee on Life Insurance Research, together with the Smaller Insurance Company and Reinsurance Sections invite you to participate in a reinsurance survey.

To participate, **please complete the survey by Friday, June 10th.** Responses will be analyzed and a report summary will be prepared for posting on the SOA website. If you are a consulting company, please notify your clients about this opportunity. If you will be responding for more than one client company, please send an email to Jan Schuh at jschuh@soa.org. You will only be allowed one survey response per company and per email address.

There are 16 questions and the survey should take 10-15 minutes once you have prepared your statistics. (Note that all textboxes will accept unlimited text, or you can copy/paste any prepared documentation you feel is pertinent to the subject matter of the survey question.)

Hause Actuarial Solutions, Inc. has been selected to compile the results and conduct follow-up interviews. Your responses will be kept confidential. No attributions will be made, but respondents will be listed as participants in the final report which will, as appropriate, be widely disseminated in professional literature.

Should you have any questions, please contact Ronora Stryker at rstryker@soa.org . Should you collaborate with others in developing answers to the survey, please only submit one response per company.

Thank you for participating in this initiative.

All respondents are encouraged to answer all survey questions if possible. Responses to the survey will be submitted to the Society of Actuaries office and will be kept confidential. Only compiled results will be made available to a working group for the research project.

Responses will not be identifiable by company name to this committee. The survey requests your contact information for the purpose of following up with you for additional information or clarification and distributing the final report to you. Any follow up will be conducted by SOA research staff or Hause Actuarial Solutions, Inc. consultants and will also be kept confidential.

For the best viewing of the survey, please maximize your browser window.

1. Which best describes your business?

- a. Insurance company
- b. Actuarial consultant, responding on behalf of: (Note: Please insert the insurance company name in the text box)

2. Indicate the size of your company (or client company), in total assets, as of December 31, 2010 (page 2, column 3, line 26 of your statutory statement).

3. Indicate the total number of individual life insurance policies your company issued in each of the last three calendar years.

a. 2010

b. 2009

c. 2008

4. Indicate the total number of individual life insurance policies your company ceded to professional reinsurers in each of the last three calendar years.

a. 2010

b. 2009

c. 2008

5. Indicate the total individual life face amount your company issued in each of the last three calendar years.

a. 2010

b. 2009

c. 2008

6. Indicate the total individual life face amount your company ceded to professional reinsurers in each of the last three calendar years.

a. 2010

b. 2009

c. 2008

7. Indicate the gross total individual life insurance risk your company has inforce, as of December 31, 2010.

a. Number of policies:

b. Face amount:

8. Indicate the total individual life insurance risk your company has ceded to professional reinsurers, as of December 31, 2010.

a. Number of policies:

b. Face amount:

9 Please indicate your company's maximum retention amount.

10. During your tenure with the company, what reasons has your company had for procuring individual life reinsurance (check all that apply)? (Please note that if any of the services were provided by a reinsurance broker in the process of arranging reinsurance on behalf of your company, you should mark that service as well.)

- [ ] a. Limit per policy risk
- [ ] b. Control claim fluctuations
- [ ] c. Offer lower premiums

- [ ] d. Increase market share (allow for sales at higher face amounts)
- [ ] e. Increase market share (allow for sales at additional issue ages)
- [ ] f. Increase market share (gain access to new product designs)
- [ ] g. Capital management (surplus relief or XXX reserve coverage)
- [ ] h. Gain access to reinsurance actuaries (for help with your own product design, other than assumptions)
- [ ] i. Gain access to reinsurance actuaries (for mortality or other assumptions)
- [ ] j. Gain access to underwriting expertise (develop application and underwriting approach)
- [ ] k. Gain access to reinsurer's underwriting manual.
- [ ] l. Get facultative underwriting support.
- [ ] m. Gain access to reinsurer's medical staff
- [ ] n. Other

11. Please identify the types of ongoing individual life reinsurance contracts you currently have inforce with professional companies (mark all the types that apply).

- [ ] a. YRT - Excess of retention (cede amounts in excess of the company's stated per policy retention, using YRT rates)
- [ ] b. YRT - Quota Share (cede a percentage of each policy issued, and retain an amount up to the company's stated per policy retention, using YRT rates)
- [ ] c. Coinsurance - Excess of retention (cede amounts in excess of the company's stated per policy retention, using the direct company's rates with allowances)
- [ ] d. Coinsurance - Quota share (cede a percentage of each policy issued, and retain an amount up to the company's stated per

policy retention, using the direct company's rates with allowances)

- e. Surplus relief
- f. XXX reserve relief
- g. Special purpose reinsurance vehicle with LOC facility
- h. Bulk or individual accidental death benefit treaty
- i. Catastrophic risk coverage (including AD Carve-out)
- j. Stop Loss Coverage
- k. Others, please elaborate

12. Has your company experienced challenges of any kind in the process of purchasing individual life reinsurance?

- Yes (Skip to Question 14)
- No (Answer question 13, but not question 14)

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13. If the answer to Question 12 is no, indicate which of the following responses best fits your situation regarding the purchase of reinsurance.

- We issue only small amounts of life insurance and retain everything we issue.

- Our company is affiliated with a larger company, and reinsurance is handled by our parent company.
- We use an affiliated off-shore reinsurer for risk sharing.
- Other reason - please elaborate

14. If the answer to Question 12 is yes, indicate which of the following challenges fit your situation regarding the purchase of Reinsurance (Rank according to importance. Please just click and then drag to position you wish. If a situation does not apply, please drag below "response k").

a. Reinsurer was slow to respond to initial inquiry (or did not respond at all).
b. Reinsurer took too long to provide a quote.
c. Quote was never received, because projected sales were too low.
d. Quote was never received, but no reason was given.
e. Reinsurer wanted recent mortality and/or persistency studies but none were available.
f. Reinsurer was not comfortable with risk, underwriting, or staff expertise.
g. Reinsurer wanted a quota share treaty (percentage of every policy issued).
h. Reinsurer wanted a lower retention schedule.
i. Price of reinsurance was too high so we did not accept quote.
j. Other reasons - please elaborate
k. Challenge does not apply in our situation.

15. Please provide examples of how your company was able to overcome the reinsurance challenges experienced. If any challenges were not overcome, please note this as well. Note: There is room for an unlimited amount of text.

16. Please indicate if you are willing to participate in a 15-20 minute follow-up telephone interview. The intent of follow-ups is to clarify responses (if needed) and possibly dig deeper into potential answers to the issues that have been identified. Thank you for your participation in this survey!

- Yes
- No

17. Contact information for Person Completing Survey

Name:

Company

Work Phone:

E Mail:

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