

## The Changing role of Life Reinsurance

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### Agenda



1. The basics – Reinsurance 101
2. The market – last 10 years
3. The players – past and history
4. Demand drivers today

## The Basics



- Reinsurance: the insurance of insurance risks
- Used for:
  - Volatility management
  - Per life/per building/per region capacity expansion
  - Capital management – write more business
- Risk sharing form:
  - Excess: Insurer cedes business over it's retention
  - Quota share: Insurer cedes business within it's retention

## The Basics

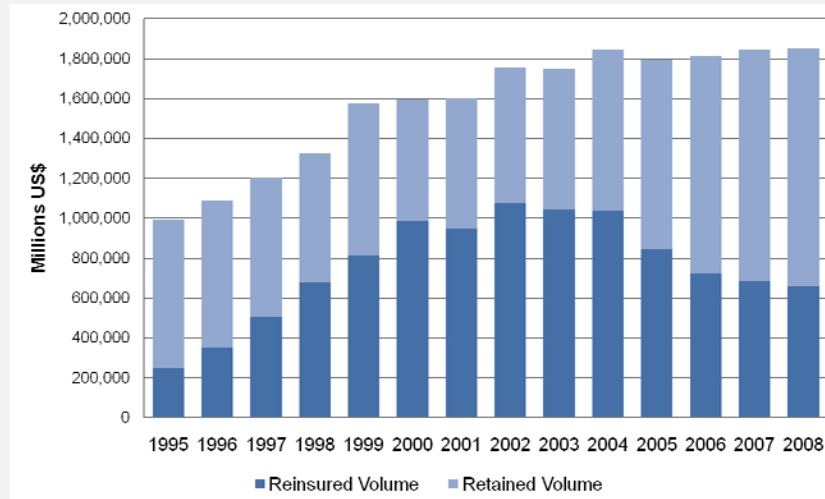


- How is reinsurer bound to risks?
  - Automatic – reinsurer agrees to be bound “automatically” as long as insurer is following its prescribed practices and risk fits agreement parameters
  - Facultative – for business outside of agreement parameters, reinsurer evaluates the risk on its own and determines whether it accepts it or not
- How is reinsurance priced? Reinsurer evaluates:

<b>Historical company experience</b>	<b>Underwriting criteria, practices, procedures &amp; experience</b>
Product distribution	Target market
Distribution by risk class, sex, age, etc	Reinsurer's experience with company or like companies
Claims practices of company	Underlying product attributes

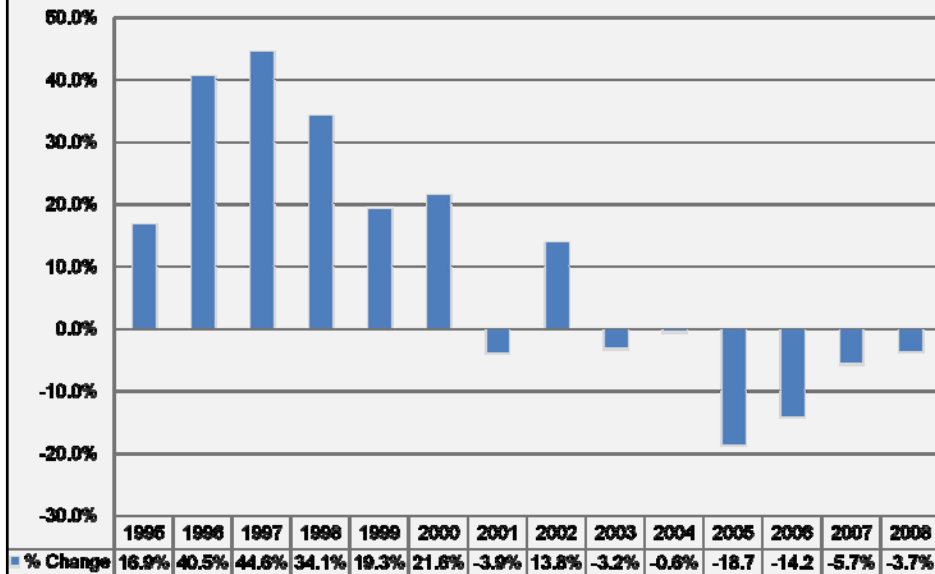
## The Market

### US Life Insurance market: New Business Face Amount



## Annual Percentage Change

### U.S. Recurring New Business (1995-2008)

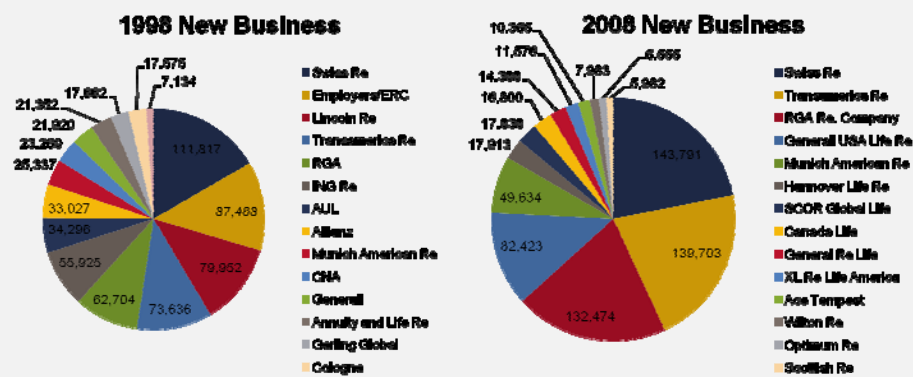


## What drove the growth and decline?



Growth from 1996-2004	Decline since 2004
Introduction of new underwriting classes	Emerging experience
Access to early data	Access to large quantities of data
Growth ambitions of Life Reinsurers	Reinsurer consolidation
Oversupply of Reinsurers	Margin strengthening by Reinsurers
XXX reserve requirements for Level Term business	Access to cheap capital in 2005-2008
Long term nature of business	Deteriorating relationships

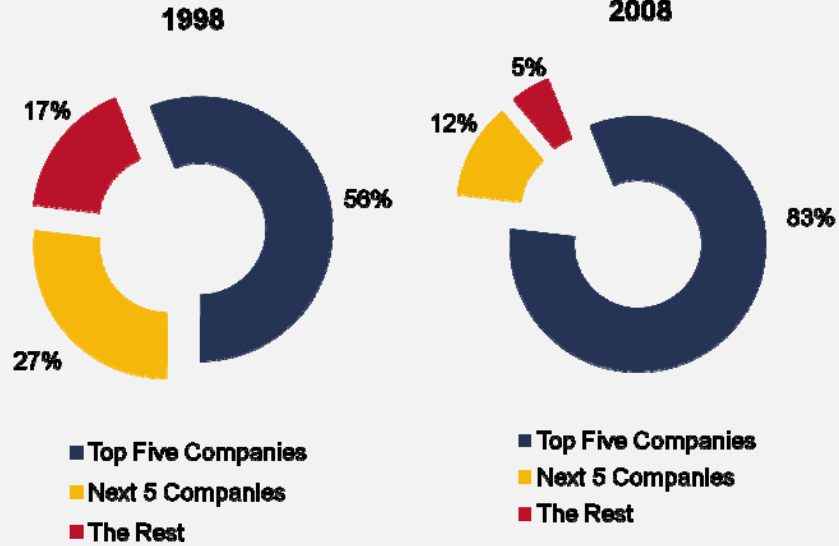
## The players – Individual Life New Business



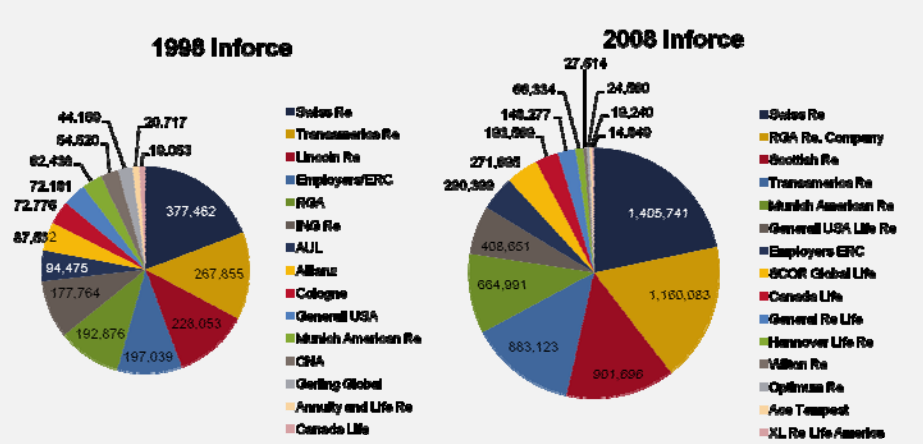
Reinsurer Consolidation:

8 of top 14 Reinsurers from 1998 are no longer writing business or have been acquired

**Impact of Consolidation:  
Top 5 own the New business market**



**The players – Individual Life inforce**



Top 5 now control more than 77% of the inforce  
Total inforce has more than tripled over 10 years

## Market summary: Consolidation drives discipline



- Impact of Market concentration of top 5 reinsurers:
  - Market discipline
    - Margins are thin but reasonable
  - Data is king
    - Top 5 have a huge competitive advantage
      - Large credible base of claims data to mine
  - Capital, before Financial Crisis, was adequate
    - Players left are in it for the “long haul” and almost all are “professional” reinsurer
  - Less overall market capacity on a per life basis

## Demand drivers: The Crisis has changed the landscape



- Insurers looking for more capital support
  - 3 ways to “raise” capital
    - Raise equity
    - Raise debt
    - Lower the need for capital
  - All have been impacted by the crisis
- Statutory reserves in excess of true economic reserves need funding and there is not a lot of capital out there
- Large case capacity still in demand, but less so as large case sales (temporarily) reduced

## **Demand drivers: The Crisis has changed the landscape**



- Insurers looking for more than traditional mortality/risk protection
  - Capital financing
  - Asset risk sharing
  - Innovative structuring to achieve greater flexibility
  - Product, distribution and risk management consulting
  - Seminars, webinars, educational/training opportunities

## **The future of Reinsurance.....**



- Capital financing/support likely to abate as crisis passes and capital markets re-open
- Risks Reinsurers will be asked to support in the future:
  - Longevity protection – people outliving their wealth – will be a huge new source of demand
  - LTC and older age health management products (critical illness, catastrophe medical, etc)
- Data and data analytics – the best wins
- Globalization of the Insurance industry will be led by Reinsurers