

Reinsurance Impact on Underwriting



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Field underwriting even more important in 2010

- Clients older
- Amounts larger, Wealth transfer
- Sell the client properly
- Ask medical
 - Help set expectation
 - Better discussion with underwriter
 - Order evidence sooner
- You don't have a relationship with the reinsurer

What conditions are insurable

- Heart
- Cancer
- Inflammatory Bowel Disease
- Diabetes
- MS

- Most clients get standard offers!!

What is Reinsurance?

- A Reinsurer is a company that accepts risk from a direct, or selling company
- The reinsurer takes a portion of the premium and accepts a portion of the risk
- The name on the contract and the responsibility for the contract is the direct company

When do we 'go to reinsurance'

- Automatic
 - From \$1
 - OR
 - Automatic Excess
- Facultative
 - For a lower offer

Definitions

- Ceding Company

The insurance company that passes risk to the reinsurer

- Coinsurance

Both parties retain some risk

- Retrocessionaire

Reinsurers for reinsurers

Definitions

- Automatic Reinsurance
 - Direct company underwrites, Reinsurer accepts a percentage of risk based on the underwriting of the direct company
- Facultative Reinsurance
 - Direct company seeks underwriting input from the Reinsurer, usually looking for a lower underwriting rating

Definitions

- Automatic Excess

- Reinsurer takes risk on a standard basis up to a certain amount, beyond the retention of the ceding company

- Facultative Excess

- Beyond Automatic Excess limits, the reinsurer underwrites the risk for large amounts before accepting the risk

History

- First treaty- 1370- shipping
- First company- 1843- Cologne
- 1990's started in North America with large amounts of first dollar reinsurance on life

- Source- Munich Re

1990

- Policies were written by the direct company, with only the direct company identified
- Direct companies mostly kept all risk up until their retention
- Reinsurers held only less than 1% of the risk in the market

What changed

- In the 1990's Reinsurers started accepting a portion of the risk from \$1, on an automatic basis
- They have increased the amount of risk taken on an auto basis

2010

- Policies still written by the direct company, with only the direct company identified
- Direct companies mostly keep only a small percentage of all mortality risk
- Reinsurers hold 70+% of the market
 - Was a bit higher but has come down

For Both Parties to Benefit

The direct carriers are depending on the reinsurers to step to the plate for their proportion at claim time.

The reinsurers are counting on the direct writers to approach underwriting with the same zeal they would have had they retained the entire risk.

The reinsurers are assuming that the direct carriers will investigate claims with the same diligence as they would have had they retained the entire risk.

What Else do Reinsurers Offer

- Case Consultation
 - We can call their Docs or UW's to discuss
- Research
 - Millions is spent on rating manual development and mortality research
- Discussions across Individual Insurance as needed.

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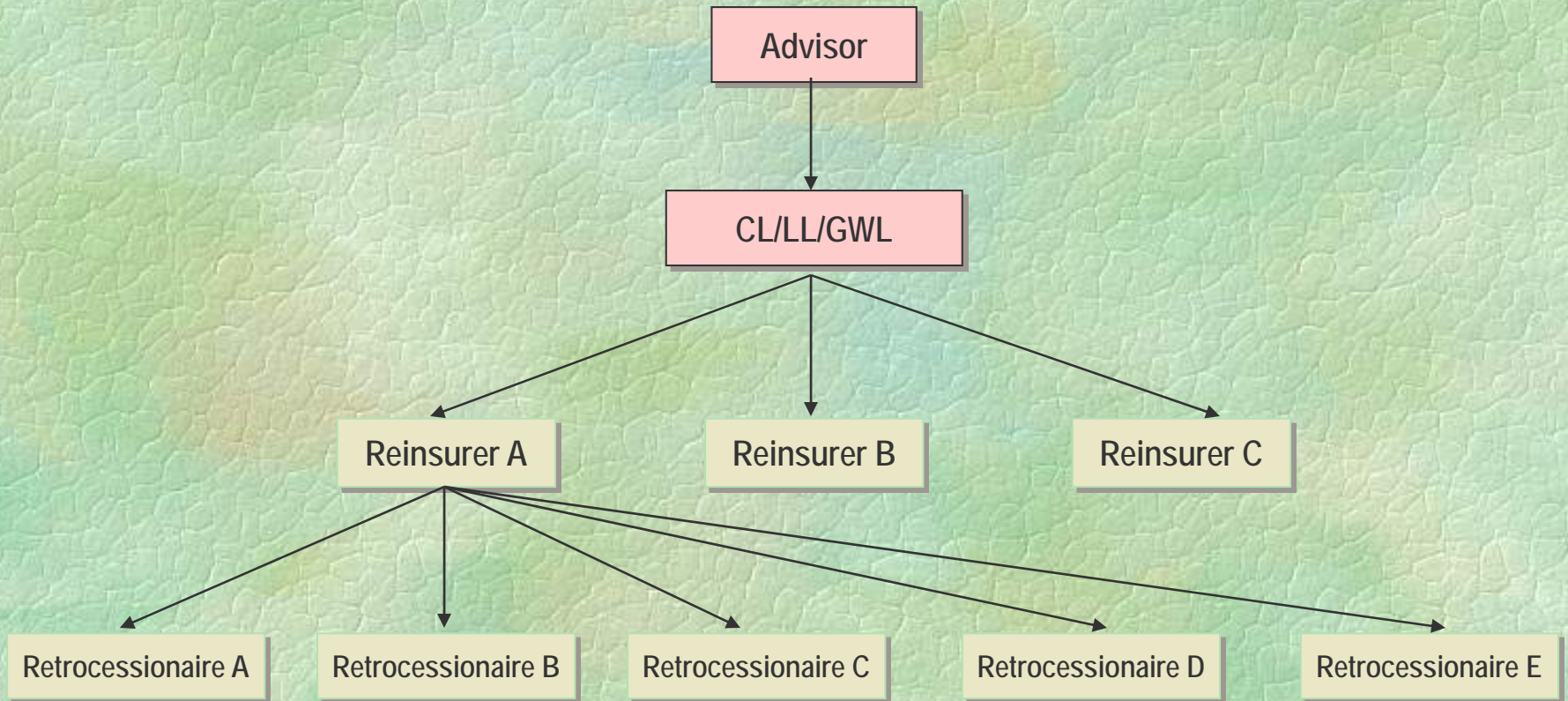
Risks with large cases

- Management of large case by the advisor is key
- Beware of shopping the market and locking up capacity

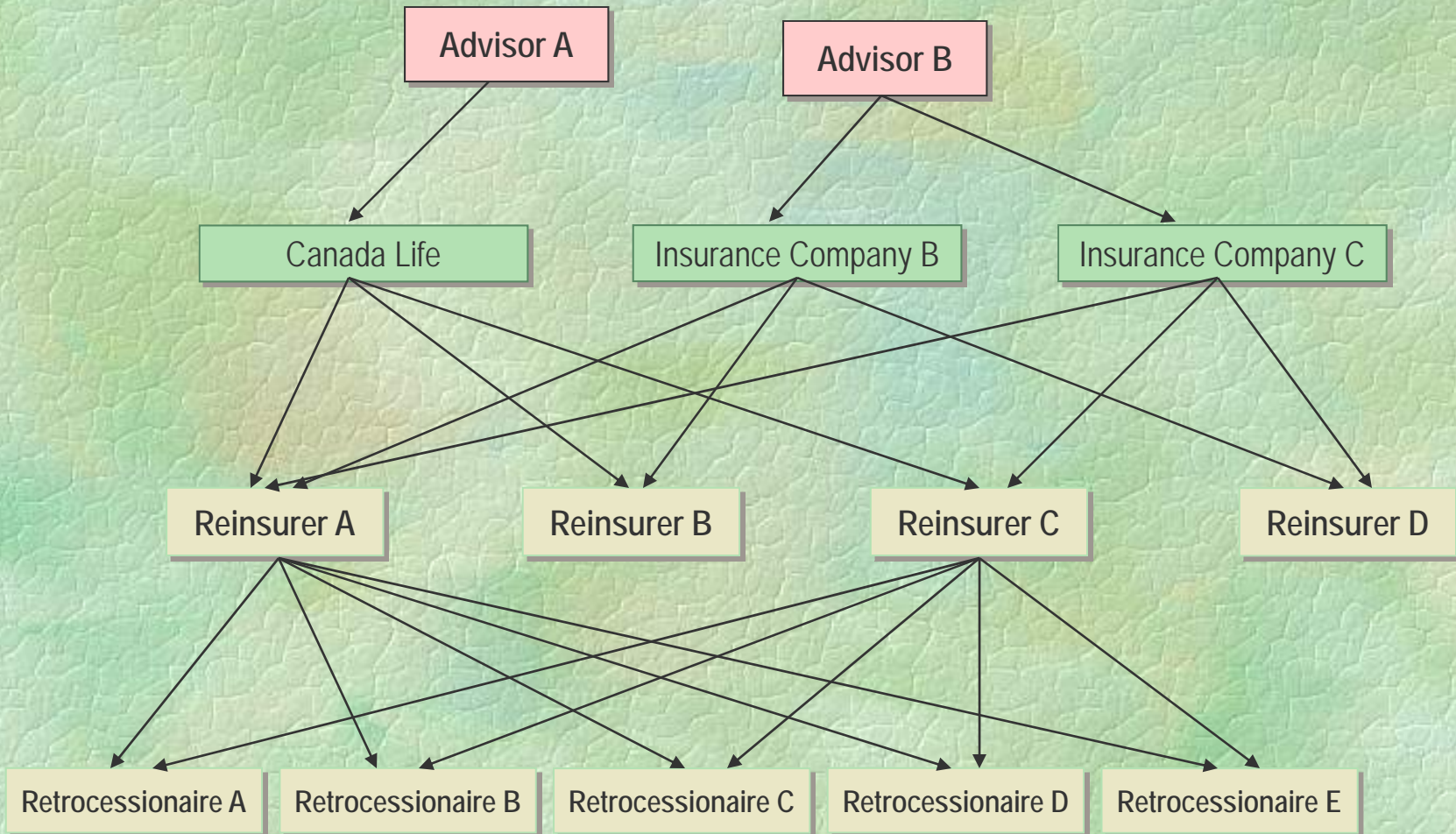
Positioning your case for underwriting

- Avoid going to more than one direct company at the same time
- Capacity is finite and is compromised if more than one direct company is approached at the same time.

Positioning your case for underwriting



Positioning your case for underwriting



Facultative

- Usually policy must be minimum size
- Sometimes a company must facultative shop any offer above a certain rating or certain age
- File or summary sent to reinsurer where it is underwritten
- Decision sent back to direct company

Facultative hot tip

- If a ceding company requests a facultative opinion from a reinsurer, the direct company withdraws whatever offer was there
- There is a chance that the reinsurance offer will be worse and then that early offer will not be available

In Summary

- Reinsurers are value added partners
- An important part of the industry
- A step removed from the advisor, so field underwriting even more important
- With the same information all companies will get same decision from the reinsurer