

Carving Out a Niche

Group life reinsurance slowly returns to normal after the upheavals caused by 9/11.

by Meg Green

In the decade since the terrorist attacks of Sept. 11, 2001, killed nearly 3,000 people, the group life reinsurance industry has evolved and stabilized, according to leaders of RGA's U.S. group reinsurance business unit.

Immediately following the attacks, rates for catastrophic group life reinsurance coverage jumped three to four times what they were before the attacks, said Jim Rathburn, senior vice president of group life, accident and disability insurance. Some primary life insurers stopped buying catastrophic cover altogether because of that rate hike and the lack of availability in the market, he said.

"There was significant impact right after 9/11 in terms of rates charged

for catastrophic cover and also a capacity issue—the number of reinsurers in the marketplace and the amount of coverage they could afford," Rathburn said.

That's changed today, with more capacity and more competitive rates, he said.

While rates "haven't returned to pre-9/11, they are certainly closer than they were in the years right after 9/11," Rathburn said.

One new product, known as accident carve-out, emerged after 9/11 as a more affordable alternative to traditional catastrophic group life reinsurance. Accident

carve-out coverage allows primary writers to "carve out" the accidental death risk while keeping more predictable mortality risks, such as death from sickness, disease and natural causes. It also allows primary writers to get coverage not only for catastrophic risk but also for volatility, or the number of accident claims they have in a portfolio, Rathburn said.

Accident carve-out business is not as popular as it was immediately after 9/11, but it's still being sold today, Rathburn said.

Another change to the marketplace impacted life warranties, which are similar to deductibles and are expressed in terms of the number of individual deaths associated with an event, said

Alden Skar, vice president and managing actuary for RGA's U.S. group reinsurance business.

Before Sept. 11, a life warranty could have been triggered by as few as two deaths. For example, a wife and husband killed in a car accident may have triggered a life insurer's life warranty catastrophic coverage, Skar said.

"We would view that today as not truly catastrophic," Skar said.

As a result, life warranty triggers have been increased to at least three deaths, or sometimes as many as five or 10 deaths related to a single event.



NEW ALTERNATIVES: The sudden loss of almost 3,000 lives on 9/11 prompted the development of a new product, called accident carve-out insurance, according to Jim Rathburn, senior vice president of group life, accident and disability insurance for RGA Reinsurance Co.

The terrorist attacks impacted the actuarial side of the group life reinsurance business in two ways, Skar said: risk concentration management and pricing sophistication for catastrophic covers.

"We learned a lot about 9/11 with the World Trade Center and the amount of concentration that was in those two buildings," Skar said. "That has carried over...and it's still important for everyone to continue to monitor their concentrations very carefully."

Before Sept. 11, the insurance industry paid less attention to the details of modeling risk. That's changed today, as the industry has gotten better about matching risk to price, Skar said.

One more change is that life

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reinsurers like RGA have become much more attuned to their own risk concentrations, Skar said.

"As a result, we may limit the amount of exposure we would offer to a particular street address or particular state or ZIP code," Skar said. "Prior to 9/11, there was less attention to where those concentrations were."

Both Skar and Rathburn said it's premature to discuss how the recent spate of devastating earthquakes would impact the group life reinsurance industry.

"What you can conclude is (that) there were dramatic changes in the industry after 9/11," Skar said.

For example, he said, the earthquake and tsunami last March in Japan could have global impact.

"The question is, Will a Japanese event have some impact across the world and in the U.S.?" Skar said. "I think the industry has to be cognizant (that) earthquake and tsunami

risks are not only risks in Japan. What would happen if something similar in nature and scope happened in the Pacific Northwest? If there were 25,000 deaths in the Pacific Northwest, I suspect that would have a dramatic impact on the industry."

During the financial crisis of 2008 and early 2009, and continuing to the present, A.M. Best has viewed the rating outlook of the life reinsurance market as stable, according to a February 2011 A.M. Best Co. Special Report.

"In general, life reinsurers accept less risk on both sides of the balance sheet than their primary counterparts," the report added. **BR**

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RETHINKING EXPOSURE: A new understanding of risk concentration caused fundamental changes in the life reinsurance segment after 9/11, said Alden Skar, vice president and managing actuary for RGA's group reinsurance division. "Prior to 9/11, there was less attention to where those concentrations were," Skar said.