On August 9, 2011, SCOR SE, a global reinsurer with offices in more than 31 countries, acquired substantially all of the life reinsurance business, operations and staff of Transamerica Reinsurance, the life reinsurance division of the AEGON companies. The business of Transamerica Reinsurance will now be conducted through the SCOR Global Life companies, and Transamerica Reinsurance is no longer affiliated with the AEGON companies.

While articles, treaties and some historic materials may continue to bear the name Transamerica, AEGON is no longer producing new reinsurance business.

**Archive Materials**

**Preparing for the Low Interest Rate Scenario**

Reprinted from the October 2009 Messenger newsletter

A wise actuary once said that we spend much more time on risks that we understand than on risks we’re not comfortable with. For example, actuaries spend hours calculating mortality and lapse rates, but we typically treat interest rates as a “standard assumption.” After all, interest rates are environmental factors outside of our control and difficult to predict.

Given the current financial environment, this approach is no longer sufficient. If we begin with the hypothesis that interest rates will remain low for a sustained period, what are the implications for products on the drawing board today or for business on our books?

**Term with Guaranteed Level Premiums**

Interest rates are invisible to term life policy-holders but play a critical role in the profitability of term life blocks. The decline in investment yields since 2007 is having an impact on the performance of this life insurance segment.

Level premiums in early durations pay for higher mortality in later durations, in effect pre-funding mortality. If companies start to lower their interest rate assumptions, this would mean higher premiums on new business.

Carriers may also need to adjust performance expectations on existing business if early duration premiums fail to generate the necessary funds to cover future claims. To cover mortality expenses, companies would need to tap into surplus or other funds to make up the difference.

Companies post reserves assuming that the interest on those funds will generate at least a portion of their own future requirements, and XXX-related level premium term reserves increase rapidly over the first half of the policy’s duration. A one percent decline in interest rates can mean as high as a six percent increase in reserving costs on 30-year policies. As rates remain low, companies may need to strengthen their reserves.
Cash Value Products
Interest rate guarantees on permanent products are either implicit (e.g., cash value of whole life) or explicit (e.g., minimum crediting rates in a UL fund). In either case, changes in interest rates have a significant impact on product performance. It would appear that cash value policies priced with traditional interest rate assumptions may need to be repriced.

Permanent products priced in the previous higher interest rate environment will be more valuable to policyholders, which should increase persistency. These policies could become even more attractive to the secondary market, further increasing persistency. If low interest rates continue, companies may find earnings compressed as they are required to provide more capital for guarantees and cash values and, ultimately, claims.

It is uncertain how long current market conditions will last – and there are no easy answers. The choice for many carriers is to charge higher premiums on new business, reduce policy performance or accept smaller profits on the business (or a mix of the three). Ignoring the situation and using the standard assumption is the least acceptable.

In working with a reinsurance partner, direct writers may be able to mitigate the impact of this new environment on new and in-force business. No one can create earnings from an underpriced block, but Transamerica Reinsurance has the product development and reinsurance expertise that can help carriers make the most of this situation.