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

Strategic Considerations for PBR
Reprinted from the December 2006 Messenger newsletter

Up to now, much of the focus of the discussion around principles-based reserves (PBR) has centered on how reserve redundancies associated with some product lines may benefit. What has received less attention is what these calculations will communicate to stakeholders.

Under today’s formula-based reserve (FBR) model, companies are allowed to modify reserve requirements under Regulations Triple X and AXXX through company-defined X-factors. While not left completely to the company actuary to define, much of the effect that these X-factors can have on required reserves depends on somewhat arbitrary judgment calls based on projected experience.

In contrast, PBR will require much more discipline in order to calculate reserves that accurately reflect the overall risks in each product. This will likely involve considerably more peer review to validate the appointed actuary’s position. And regulators will use PBR to scrutinize the reserve calculations at a level unseen today to ensure the company can adequately cover its short-term liabilities. All of this should lead to a higher degree of confidence that the reserves accurately reflect each product’s unique risk profile – and through this the overall risk tolerance of the issuing company – than we currently have under the Triple X/X-factor calculation.

But this increased confidence will likely introduce an entirely different set of questions. Rating agencies and investors will have the information to ask comparative questions and even product specific questions. For example, as embedded value results became public for European companies, they became and have remained an investor focus. Rating agencies also use a company’s embedded value in setting capital requirements. The new information divulged in PBR will be irresistible as a risk assessment tool for these organizations.

It has been historically difficult to compare product-by-product business quality under FBR methodology. The introduction of PBR will likely change this, first by allowing a product comparison among different companies. The natural extension is a comparison of a company’s new-business PBR to its inforce FBR. Here’s where it gets interesting. Once PBR is in place, a line of business will have the older business on FBR and the most recent business on PBR. Two companies in the same line of business will hold the same FBR for the older business; however, they
PBR has the potential to raise transparency and provide stakeholders with another financial strength metric that, when combined with a company’s financial statements, provides a clearer picture of the company’s governance. The resulting myriad of questions that this may fuel from rating agencies and investors is daunting. Poor handling of these questions could result in poorer ratings or outlooks, which in turn could affect sales prospects and the cost of capital. In addition, this increased transparency will facilitate reverse engineering of products and reduce the ability to hide cross subsidies to the extent they exist. Cell pricing will have to stand on its own. Consistent with the increasing prevalence for “market consistent valuation,” these questions should rationalize pricing and spur product design.

We look forward to discussing with our clients the ways we can work together to create more competitive and valuable products for their consumers.

What impact will PBR have on a poor performing product?
- Continuing the status quo: This is likely unacceptable. There will be increased urgency to address a poor performing product under PBR than FBR.
- Exiting the market: For a mainstream product like term life, is this realistic?
- Closing the current product design and introducing a new product design: This is the only sustainable solution. However, the experience of the company is difficult to overcome in the assumption setting of the new product without being able to demonstrate changes in disciplines materially improving the new assumptions over experience. Many insurers will likely find making these disciplinary changes onerous at best.
- Using coinsurance: Many insurers already have ready access to support that can materially improve mortality, underwriting and lapse assumptions through their reinsurers. Through a reinsurance treaty, the insurer has the ability to improve projected mortality on new products while providing the ceding company the time necessary to improve its own experience internally. In some circumstances, the reinsurer can even help direct companies design their new products to minimize required PBR while simultaneously improving its ability to tap its target market.