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

Understanding Reinsurance Expenses
Reprinted from the September 2005 Messenger newsletter

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The life insurance industry has traditionally used conservative mortality pricing to help compensate for expense costs, especially on the front end. As we continue to see margins pressured, direct companies should reexamine their cost structure to correctly identify and allocate expenses. As you rely on your reinsurers for risk and capital relief, it is important for us to understand more about your cost structure and vice versa.

To achieve adequate and equitable expense assumptions, a reinsurer must consider the various types and levels of services it provides to both internal and external clients. Expenses that a reinsurance company incurs differ in both their nature and magnitude from those of the direct-writing company. This article examines the reinsurance side of expenses and discusses some of the factors influencing these differences. The underlying expense types are grouped within the larger categories of acquisition versus maintenance expense.

Acquisition Expense

• Deal pricing and setup: These expenses reflect the costs associated with pricing deals and setting up the documentation and administrative network for won deals. While these costs are mostly fixed, larger more complex deals require more time and resources and therefore generate higher expense.

• Facultative underwriting: Expenses are per underwritten case, but total costs do not necessarily relate to the size of the deal. Depending upon the client’s underwriting needs, a small deal can generate more facultative submissions than a large deal.

• Marketing: A reinsurer’s marketing effort is generally a fixed cost that is not related to the size of any particular deal.

Maintenance Expense

• Claims administration: While expenses are incurred on a per claim basis, claims administration costs vary based on the level of reinsurer participation in the ceding company’s claims process.
• **Treaty administration:** Reinsurance is usually on a “self-administered” basis, where the ceding company creates its own cession data and submits it to the reinsurer in an electronic format. This data includes all the transactional records needed for accounting, financial reporting and valuation. Hence, the magnitude of reinsurance administration expense is related more to the reporting capabilities of the ceding company rather than the size of the deal. A large deal from a client with excellent reporting can be less expensive to administer than a small deal from a client with problematic reporting.

• **Actuarial functions:** Expenses are generally fixed, but the extra due diligence required for the financial reporting and valuation of a large complex deal often generates additional expense.

• **Auditing:** Reinsurers incur the costs of periodic client visits such as underwriting audits that assess the quality of ceded business and treaty compliance audits which verify that premium calculations and other financial data adhere to contract provisions. Typically, expenses related to audit functions are fixed; however, since larger and more complex deals require more attention, their audits are more costly.

• **Operations overhead:** Standard business costs such as human resources, employee benefits, office space and equipment are treated as fixed.

Many of the reinsurer’s expenses are of a fixed nature; however, special consideration is needed for expenses that vary by volume and deal complexity. Such expenses are not simple multiples of volume, premium or policy count. Instead these expenses level off at larger deal sizes and reach a maximum.

In other words, if a deal belongs in the large expense “bucket”, it won’t cost twice as much to administer as a deal that is twice that size — in fact, their expenses may be identical. Therefore, a reinsurer can offer better prices (all else being equal) for “super large” deals as expenses reach their per-deal limits and are spread across larger volumes.