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

Underwriting for Financial Results

Reprinted from the May 2004 Messenger newsletter

As a primary life insurer, you underwrite individuals in order to determine premiums to charge for the mortality risk you assume. You base underwriting decisions on factors such as build, blood pressure and family history.

In an analogous manner, Transamerica Reinsurance underwrites its client companies in order to determine reinsurance premiums for the risk we assume. We base our underwriting decisions on factors like our assessment of the quality of underwriting management, adherence to published guidelines, underwriting audit results and client mortality studies. We also consider product design, target market and the influence of distribution on the sale process.

In both cases, when underwriting protocols are working effectively, actual mortality results will likely align with pricing expectations. But underwriting is not a science, and none of us work in a laboratory.

Why Mortality Experience Varies

Transamerica Reinsurance recently analyzed a cross section of its client companies with similar underwriting profiles – product, market, distribution system and underwriting guidelines – and found significantly varied mortality experience. In broad terms, the source of disconnect should trace to one or more of four reasons:

1. The quality of lives in the population being underwritten
2. The underwriting filter
3. The application of the filter
4. Post underwriting review of claims

But a more subtle, overarching factor also needs to be considered: financial incentive. As primary insurers continue to cede significant percentages of their portfolio’s mortality risk via first dollar quota-share reinsurance, the link between underwriting performance and managing mortality experience weakens.
Measuring Your Underwriting Operation

Transamerica is not questioning the professionalism of its clients’ case underwriters but rather the emphasis that company management places on mortality results in defining and implementing an underwriting philosophy. A good barometer of a company’s prospective underwriting results is the measurement parameters set by management to monitor the underwriting process.

In many companies, underwriting operations are measured by turnaround time, agent satisfaction, the number of “exceptions” that are granted outside of guidelines and placement ratios. If these are the areas of emphasis, mortality results can play “second fiddle” to factors that can be proactively measured in the short run.

It is a recognized fact that companies have outsourced mortality to reinsurers; as a result, they have less financial incentive to manage mortality performance. However, losing sight of the long-term implications of the underwriting process will eventually undermine the company’s competitive position. If the results are unfavorable, the price of reinsurance will go up as a result, and the direct company’s price will go up in response.

Changing Risk Relationship

A company’s underwriting philosophy is important because underwriters apply these values in their day-to-day work in order to achieve certain results. When management makes mortality results a key underwriting measure, mortality improves. Experience data demonstrates time and again that when companies keep significant mortality risk for their own benefit, they have much better mortality results.

What needs to happen internally to move towards a more favorable underwriting environment? Client companies need to consider the nature of first dollar quota-share and how the risk/reward relationship changes when the reinsurer is a partner on every single policy written.

Often reinsurers assume up to 90 percent of the mortality risk. Client companies need to recognize that reinsurers have a large financial stake in both partners’ ultimate success, and they need to let their reinsurers help manage the way their underwriting shop measures selection of risks.

Addressing Underwriting in the Treaty

We believe much can be achieved by working together more closely, openly sharing information – including mortality results – and periodically revisiting the reinsurance treaty. Transamerica Reinsurance can assist its clients with underwriting baselines and mortality benchmarking based on the clients’ perceived peer group. We can identify needed changes to underwriting guidelines to reach desired sales and mortality targets.

In the past, reinsurers have not used the reinsurance treaty to address underwriting requirements, opting instead for a policy of encouraging companies to follow favored underwriting protocols with regard to preferred underwriting guidelines, age and amount requirements, selecting appropriate underwriting manuals and determining liability for policies that do not meet the requirements for automatic reinsurance. Presently, reinsurers – including Transamerica – have reevaluated this implicit approach and are looking to utilize treaty terms to formalize underwriting protocols.

The word “partnership” has become a cliché in the world of business, but it is the only way to define the unique risk relationship that a reinsurer shares with its customers. As long as this partnership is managed appropriately, the direct writer and the reinsuring company can each achieve top line growth while both attain bottom-line profitability goals.