In recent years, a few large life insurers and reinsurers have successfully turned to the capital markets for collateral financing for redundant XXX reserves. The resulting securitizations – both non-recourse and the more prevalent private placement transactions – have drawn much attention to the converging life insurance and capital markets. These deals also highlight the benefits available to companies that have the ability to tap into the resources of the capital markets.

While the current financial environment is having a significant pricing impact on reserve financing deals, it likely will not alter the inevitable course toward conversion. Life insurers large and small will have to learn how to take advantage of a new way of doing business – whether that means developing financing solutions on their own, or alternatively, working with a reinsurance partner.

Transamerica Reinsurance/AEGON has closed seven capital markets transactions since 2004 – both recourse (private placement) and non-recourse structures – totaling $7.9 billion in collateral financing. These funding structures have been and continue to be an essential component of the coinsurance programs we offer our clients. Furthermore, the experience we have gained in executing these structures enables us to develop “next generation” reinsurance solutions that extend the benefits of new financing programs to companies that may not be able to develop and execute them on their own.

We now offer a Term Notes Program that leverages our expertise in both mortality risk management and capital markets financing. This combination of expertise positions us to deliver advantages over programs offered by investment banks or commercial banks. Our program compares highly favorably to other reserve financing options, most notably in tax efficiencies, lower capital levels for funding the structure and faster release of dividends from the captive company. In addition to (or because of) these benefits, our Term Notes Program also provides clients with:

- Scalable mortality protection
- Operational leverage
- Lower start up costs
- Revenue and earnings growth
- Lower execution risk
- Better return on investment

**Next Generation Reinsurance**

Life insurers have used coinsurance for some time now to address XXX reserve financing requirements, and coinsurance continues to be a viable solution for many
New Options in Reserve Financing (cont)

companies. However, the need for new reinsurance solutions intensifies as companies hold more of the mortality risk and look to maximize top line growth and product profitability. Our new Term Notes Program unlocks value not available to clients in a traditional coinsurance transaction.

The tax reserve advantage: Everyone is familiar with the humpback reserve graph that compares statutory and economic reserves as a way to illustrate redundancy. The tax reserve associated with XXX business follows the steep statutory reserve line. Yet tax reserves do not come into play in today’s coinsurance arrangements, which utilize offshore reinsurance facilities. The new reserve financing programs, which utilize onshore captive facilities, feature tax efficiencies that can positively impact product performance.

Less trapped capital: A captive facility that funds the reserve credit trust is an essential component of all recent reserve financing solutions. The amount of capital that an insurer needs to place in the captive is the single biggest determinant of return on investment. Because of our distinct expertise in evaluating and quantifying mortality risk, our program requires lower levels of capital than programs involving either investment banks or commercial banks. This means our clients have less capital trapped in the structure – capital that can be put to use elsewhere.

Lower execution risk: Ease of execution is another key benefit of the Term Notes Program. Transamerica Reinsurance purchases the notes, facilitates program execution and performs many of the analytical prerequisites utilizing internal expertise without the need for third parties. This significantly reduces the number of parties involved in the transaction, leading to lower execution risk and lower upfront costs.

Lower funding minimums: Scale is the biggest reason that many companies cannot participate in structured reserve financing deals. For example, a non-recourse securitization typically requires a minimum funding need of $500 million; a recourse transaction with a commercial bank needs a minimum of $250 million. By comparison, our Term Notes Program is viable for companies with funding needs as low as $50 million. That’s because the system remains open to new blocks of business. As a reinsurer with vast expertise in mortality risk management, we are comfortable aggregating smaller blocks and, in doing so, making the benefits of new reserve financing programs available to many more companies.

Early dividend release: Another advantage of our program is the release of dividends as early as year two of the deal, versus year seven or eight as is standard from investment or commercial bank programs. The early release of dividends reflects our ability to evaluate and quantify mortality risk and thereby ensure the quality of the business housed in the structure.

The new reserve financing programs are complicated and difficult to execute. They demand an exceptional combination of skills, resources, innovative thinking and risk management discipline. But in order to remain competitive and achieve profit goals, companies must have the means to access these programs.

At Transamerica Reinsurance we see the convergence of life insurance and capital markets as an opportunity to strengthen client partnerships with high value solutions. We have made a significant capital investment – both financial and intellectual – in meeting the needs of our clients, and we look forward to sharing the details of our new reserve financing program.