Financial Reinsurance Solutions

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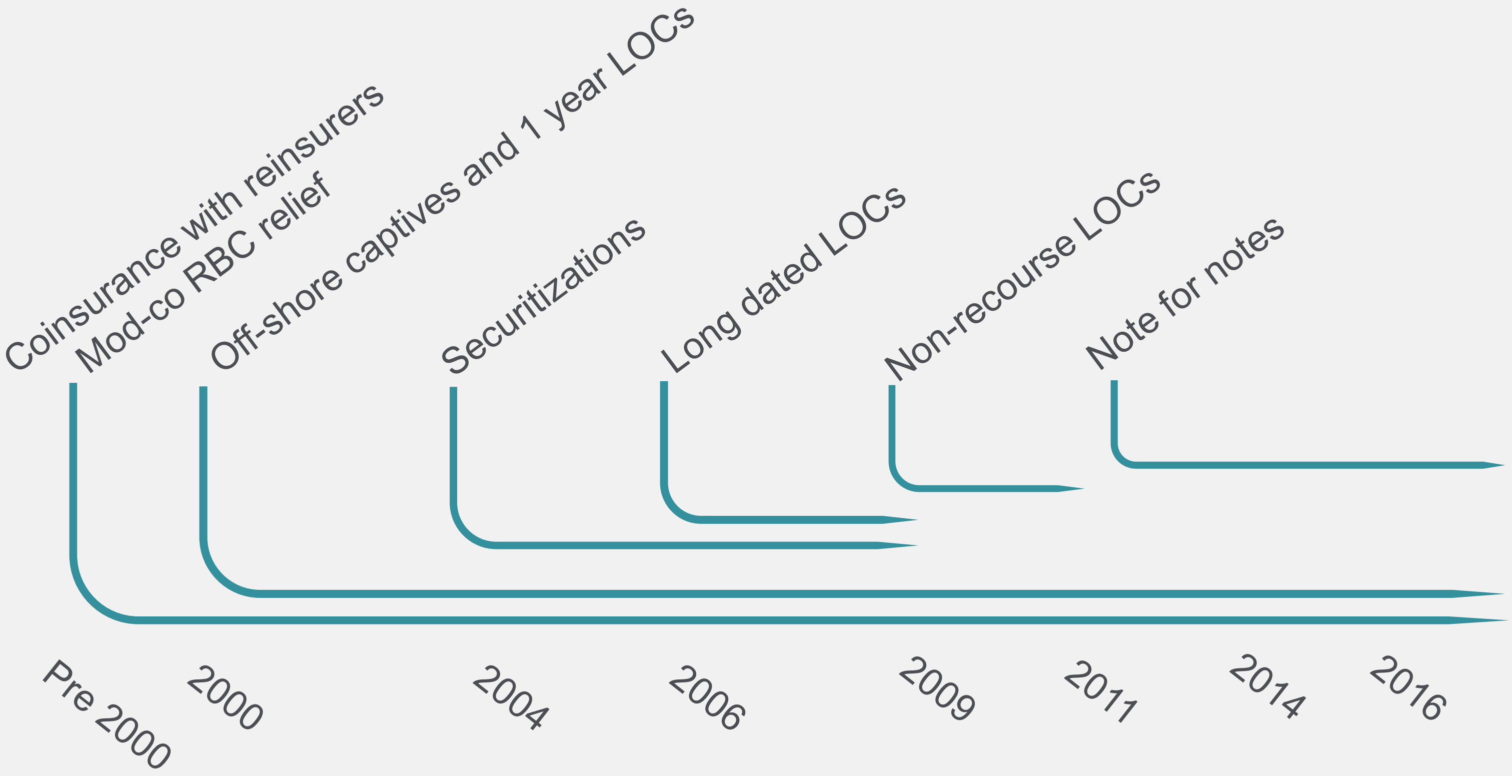
Financial reinsurance

- Financial reinsurance can be defined as the use of reinsurance that is financially motivated as opposed to managing risk
- Types of financial reinsurance deals in the US
  - Reserve financing
  - New business statutory surplus strain
  - RBC relief
  - Cash financing
- Financial reinsurance can be applied to different lines of business including
  - Individual and group life
  - Annuities, health, disability

History of individual life financial reinsurance



Financial reinsurance

- Key motivations for using financial reinsurance
  - Increase dividends to holding company
  - Improve return on capital for certain products
  - Capital and tax management /optimization
  - Cash financing
- Key constraints in structuring financial reinsurance transactions
  - Statutory risk transfer SSAP 61r and A791
  - Other regulatory requirements such as AG48
  - Rating agency

Financial reinsurance structures

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Captive reinsurance

- Using a captive allows an alternative asset to be treated as an admitted asset
- This allows the ceding company to replace equity capital with reinsurance capital
- Captives have been primarily used for xxx/axxx excess reserve financing but can also be applied for other businesses that have non-economic reserves or capital

Direct reinsurance

- Direct reinsurance between cedant and Munich Re using coinsurance funds withheld provides cedant with RBC and surplus relief (reserve credit)
- Modifed coinsurance (“mod-co”) and YRT provide cedant with RBC relief only
- Mod-co and coinsurance funds withheld can also provide cedant with upfront ceding commission which can be structured as a loan

Unlike traditional reinsurance, both structures have an expected final financing tenor and the net cost is the risk charge.