A CONSUMER'S GUIDE

What You Need to Know About...

Reinsurance

Reinsurance
Reinsurance is, in simplest terms, insurance for insurance companies. Insurance companies use reinsurance to cede a percentage of their financial risk to other insurance companies for diversification, to manage unexpected sizable death claims, and to accommodate large face amounts that exceed their retention. Most reinsurance transactions take place behind the scenes – policyholders and producers are rarely aware these transactions occur and the presence of reinsurance does not affect the insurance company's ability to pay the death claim. With that being said, producers should be aware of circumstances where reinsurance may affect underwriting:

- When a client has or is applying for a large amount of life insurance.
- When a client is involved in aviation or has a special avocation.
- When a client is a "high profile" individual such as a celebrity or a professional athlete.
- When a client is older (70+) and/or represents a substandard risk/rating.

Retention
One of the first things insurance professionals should be aware of when considering an insurance carrier is the carrier's capacity, also known as retention. Retention refers to the maximum amount of coverage that a carrier can accept on a single life without contractually involving its reinsurers. A carrier's retention ranges from as low as $500,000 to as high as $20 million. Carrier retention typically falls within the $1 million to $5 million range. Retention also varies on older applicants; after a certain age (often 70), the retention may be reduced, and above a particular age (80 to 90+), carriers do not have retention at all and must work with their reinsurers in order to issue a policy. Further, carriers often have a lower retention on rated individuals or individuals who represent a substandard risk (e.g. table D or table H).

Automatic Reinsurance
Automatic reinsurance refers to an agreement insurance companies have with their reinsurers on applications that exceed their retention. Agreements vary, but in general, automatic reinsurance allows individual insurance companies to offer death benefits as high as $50 million by automatically sharing the risk with their reinsurers at a specified face amount. Cases that fall within "auto limits" do not need to be sent to the reinsurers for review. Contractually, reinsurers accept the underwriting decision made by the writing company and the risk is shared based upon the reinsurance agreement. Automatic reinsurance agreements only pertain to coverage applied for or placed with an individual carrier – they do not include coverage inforce or applied for with other carriers. Auto reinsurance capacity, as is with individual carrier capacity, is generally reduced at older ages and for individuals who represent a substandard risk.

Jumbo Limit
Jumbo limit is the allowable amount of insurance that can be inforce and applied for at any one time. Most carriers have a jumbo limit of $65 million, though some limits are much lower. Once the amount of coverage in-force and applied for exceeds the jumbo limit, carriers are contractually obligated to involve their reinsurers. This involves sending the pending application to the reinsurance underwriters for review ("facultative reinsurance"). In these cases, reinsurers have the ultimate say on the underwriting decision.

Facultative Reinsurance
Facultative reinsurance refers to applications that are not acceptable by the writing company or are not included in the reinsurance agreement and therefore must be sent to the reinsurers for review. In these instances, the reinsurers are not obligated to accept the risk or even make an offer. They have the option to decline or rate the case as per their guidelines. Examples of cases that generally require facultative review include individuals who are a higher risk due to aviation activity, a specific avocation, or high-profile individuals such as professional athletes. If the risk is acceptable by the reinsurance company, the death benefit may be limited depending on the capacity of the reinsurer. The policy is issued on the writing carrier's paper, but the entire death benefit is the liability of the reinsurer at claim time. Facultative reinsurance can be an excellent option, especially on cases that would ordinarily cause a declination by the writing carrier. Facultative reinsurance must be used once the amount of insurance in-force and applied-for exceeds the carrier's jumbo limit.

Super Pool/Capacity Plus
Over the past several years, several life insurance companies have put together agreements with large reinsurance companies to create a super pool allowing a total line of insurance to exceed the jumbo limit. These super pools have the potential to be as much as $140 million. Super pools can be a good opportunity on cases where the jumbo limit has been exceeded. Super pools also allow producers to work with just one carrier versus multiple carriers when searching for capacity, but at the same time allow for built in diversification as the risk is spread across all of the reinsurers participating in the pool. Best case scenarios involve young, healthy, and wealthy individuals. In order to qualify for super pool capacity, a formal application is generally required to lock in available capacity.

Being informed on your large jumbo cases may save you significant time allowing you to provide the customer service your client deserves.