



FLOW REINSURANCE

Accelerating consumer demand for annuities has enabled companies to significantly grow sales. Several top annuity writers are leveraging flow reinsurance to increase competitiveness, control new business strain, manage capital and improve profitability.

Whether a carrier seeks to enter the annuity market or expand their presence within it, flow reinsurance is proving to be a powerful tool. Without it, some carriers may find it challenging to establish or maintain their competitive place in the market.

How it works

Flow reinsurance uses prearranged treaties to transfer the risk on a quota share of new business sales. Annuity reinsurers typically have specialized investment capabilities, are structured for more efficient use of capital and employ tax strategies that can be leveraged by carriers to improve performance metrics. Annuities' relative simplicity and low underwriting risk make them an appealing liability for both established reinsurers and new entrants, which are all actively pursuing new annuity business, leading to an exceptionally competitive market that offers attractive terms to ceding companies.

Flow reinsurance functions in several unique ways to support a direct writer's competitive position. As a capital management tool, it reduces required surplus and new business strain, thereby maintaining balance sheet capacity for sales growth. The upfront allowances commonly provided by reinsurers may exceed the direct writer's acquisition costs, leading to improved profitability. The combination of accelerated earnings and a reduced capital base substantially enhances a carrier's return on investment.

A tool for greater flexibility

Flow arrangements are usually viewed as long-term partnerships by both direct writer and reinsurer. As these arrangements often include an option for the direct writer to adjust the quota share ceded over time, they can offer the flexibility needed to achieve evolving financial objectives.

A reinsurance partner can collaborate at multiple points in the product life cycle, including product development support, distribution intelligence, competitive crediting rates and investment expertise. Putting all these elements together, a flow reinsurance partnership can help a direct writer offer a highly competitive product, manage capital efficiently and improve profitability, all while providing the flexibility to manage their financial position.



Flow Reinsurance: A Practical Example

Suppose a direct writer seeks a way to improve competitiveness on a current or new product while managing strain and maintaining or improving profitability. The following table illustrates how reinsurance can help.

Reinsurance Strategy	Production (\$M)	Retention	Strain at Issue* (\$M)	Internal Rate of Return	Present Value of Distributable Earnings (\$M)
No Reinsurance	\$100	100%	\$5.0	8.5%	\$1.4
With Reinsurance— No Change in Sales	\$100	50%	\$2.5	14.2%	\$1.7
With Reinsurance— 25% Sales Increase	\$125	50%	\$3.1	14.2%	\$2.1

*The impact of reinsurance on strain at issue has been leveled.

- In the first line, the carrier is retaining all the business expected to be sold at current pricing levels.
- The second line illustrates the type of improvements that could be achieved by reinsuring 50% of new business sales. We have assumed that 80% of the reinsurer’s ceding commission is used to improve product competitiveness, and the remaining portion is used to mitigate strain.
- The last line indicates the potential for increased sales resulting from improvements in product competitiveness.
- A carrier’s independent results are dependent on the product design, investment guidelines, target capital, ceding commission structure and other company specifics.

In both cases, by using reinsurance the carrier’s upfront strain is reduced and profitability on the retained business is improved.

Finding the right partner

The task of identifying a reinsurance partner that will offer an arrangement tailored to the carrier's requirements can be daunting. Structural features are often complex, and financial terms can vary widely. It can also be difficult to identify the risks and benefits of each component in a proposed structure, and the ways to mitigate or maximize them.

Most organizations, whether they are traditional life insurance companies, mutual companies or fraternal, can benefit from having an experienced advocate working on their behalf.

Why Gallagher Re

Gallagher Re's Life Solutions team is a dedicated ally from start to finish. We devise and orchestrate a seamless response to each client's challenges, and faithfully represent their interests to the market. We have the experience and market knowledge critical to delivering the right reinsurance solution for each situation. We listen to our client, and then put in place a disciplined process that ensures their objectives are met while identifying elements that increase value and/or reduce risk.

Our team specializes in asset-intensive liabilities with a focus on assisting carriers that seek to improve the performance of their product lines. We are also connected to experts throughout the Gallagher organization, so wherever you are in the world, you get the best advisory, analytical, and product expertise we have in our business focused on and dynamically applied to your business—fast.

GROW SALES/REVENUE

MAXIMIZE PRODUCT
COMPETITIVENESS

ACCESS NEW DISTRIBUTION
CHANNELS OR
MAINTAIN SHELF SPACE

IMPROVE CAPITAL MANAGEMENT

ENHANCE ROE/IRR



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