REINSURANCE: SUPPORTING STABILITY FOR LIFE INSURERS

QUESTIONS AND ANSWERS

What is life reinsurance?

- Simply put, **reinsurance is insurance for insurers.**
- Reinsurance is a time-tested product — nearly as old as insurance itself — that allows insurers to transfer some of the risks associated with a policy.
- It amplifies insurance. By transferring and lessening its risk, an insurer is better able to provide financial protection products to more people.
- Reinsurance never impacts insurers' obligations to pay policyholders. The direct writer is always on the hook to pay 100% of the benefits owed.

In 2024, **88%** of life insurance and **54%** of annuity contracts were reinsured.

Why do companies use life reinsurance?

- Reinsurance helps life insurers **manage risk and capital**, allowing them to increase capacity and reach more people.
- As more Americans turn 65 every day, demographic trends are driving increasing demand for long-term products that provide retirement security.
- Life insurer products are extremely capital intensive, especially at issuance. When a customer buys a life insurance policy or an annuity, the first premium payment typically does not cover the price of the risk assumed by the insurer. Insurers must provide capital to fill the gap.
- Life reinsurance can help defray some of that cost and free up capital that in turn allows the insurance company to provide more consumers with innovative and affordable retirement security products.

Reinsurance helps life insurers offer **more innovative and affordable products.**

How are consumers impacted by life reinsurance?

- Americans increasingly want steady, guaranteed income, and our business model is built to provide exactly that. Life reinsurance helps us meet those needs.
- Consumers ultimately benefit from the existence of reinsurance — without it, life insurance would be less secure, more expensive and not as widely available.

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How is reinsurance regulated?

- Reinsurance is subject to **robust supervision.** The U.S. has a comprehensive regulatory regime that closely supervises reinsurance transactions, including cross-border transactions.
- All reinsurance contracts, including cross-border ones, are publicly disclosed in the Annual Statement, and many states collect supplementary reinsurance information that gives them even more data.
    - The Annual Statement (Schedule S) required in all 50 states, gives regulators a clear, standardized view of insurers' reinsurance arrangements. It allows states to verify that risks are appropriately transferred, to whom and where the risk is transferred, the amount of collateral backing the transaction and more.

What is "offshore reinsurance" and how is it supervised?

- The U.S. life insurance market is deep and varied but **effectively spreading risk requires a global system.**
- U.S. consumers are also protected by supervisory colleges and cross-border collaboration with non-U.S. regulators, which allows jurisdictions to regulate the insurer and reinsurer, safeguarding policyholders globally.
- The assets backing the offshored risks may not leave the United States. They often remain in the possession of the original life insurer. This is true for asset-intensive reinsurance (AIR) treaties. AIR is when the reinsurer takes on the insurance and investment risks of the underlying assets.
    - Asset retention, with appropriate transparency and disclosure requirements, provides insurers and regulators with visibility into the quality of assets backing the reinsured transaction.

Actual assets stay in the United States with the original insurer.

THE BOTTOM LINE

Reinsurance works. For a century and a half, it has performed a critical, irreplaceable role in the life insurance industry, stabilizing the market and expanding consumer choice.