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GC Briefing

An update from the Life Accident and Health Specialty Practice

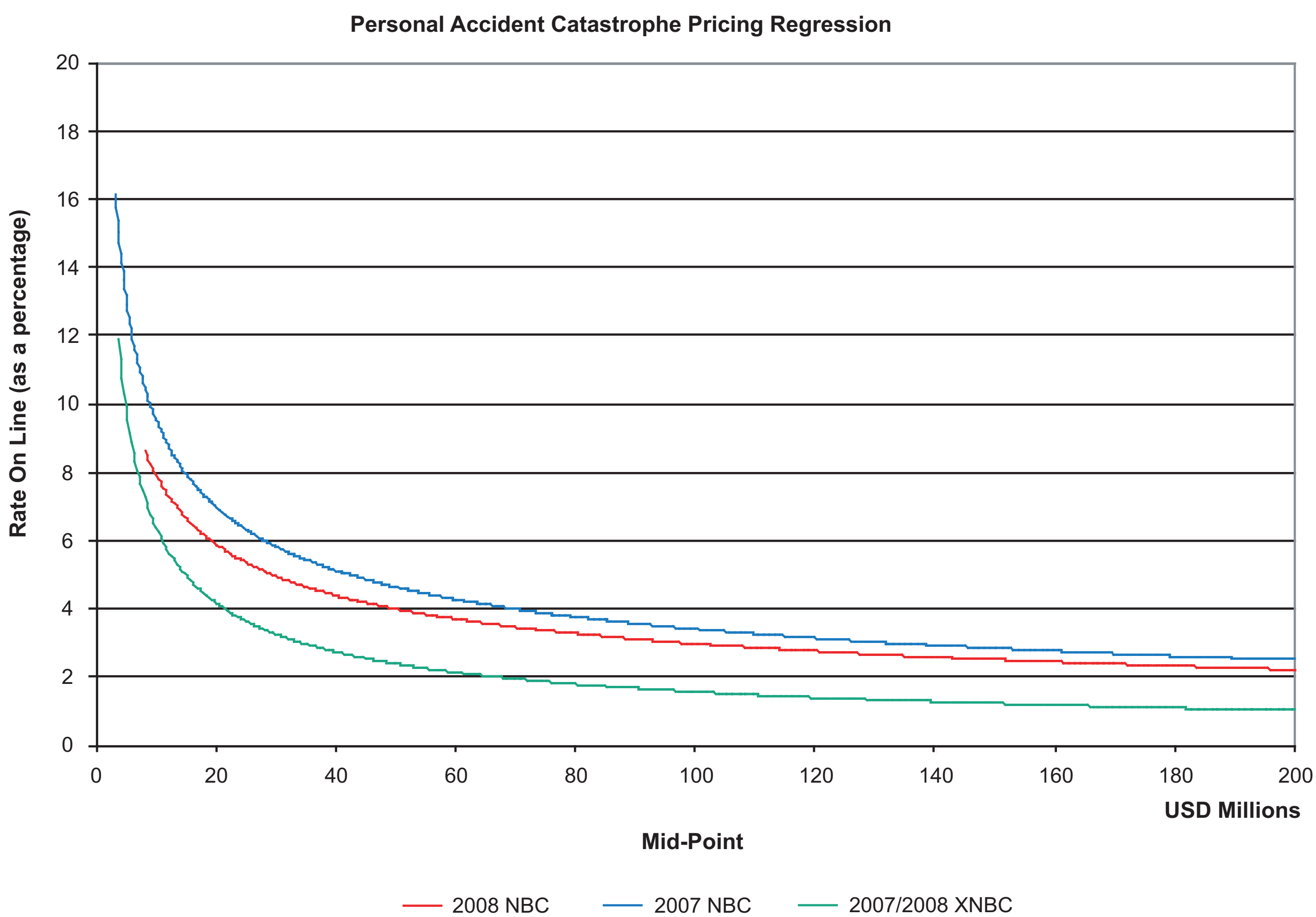
August 2008

Approaching a Natural Floor
Life, Accident and Health Renewals at July 1, 2008

Life, Accident and Health cedent behavior was relatively unchanged at July 1, 2008 renewals. Prices have continued to come down, thanks to several consecutive benign loss years. Rates are beginning to stabilize for some product lines, including medical stop-loss and long-term disability, though the underlying reasons varied with the types of coverage sought. Insurers also are starting to investigate multi-year coverage to protect against volatility and maintain coverage in the event of market discontinuity, and reinsurers have begun to respond.

Personal Accident Catastrophe

Prices continued to drop for personal accident (PA) catastrophe at mid-year renewals, but the rate of decrease is slowing. Cedents have deployed available capital to purchase higher limits (as a result of lower prices), and increased retentions have afforded them this extra flexibility. There was little inclination to secure additional coverage at lower layers, though.



Source: Guy Carpenter & Company, LLC

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Mid-Point	Range of Most Decreases
Under USD50 million	7 percent to 10 percent
USD50 million to USD100 million	8 percent to 10 percent
More than USD100 million	9 percent to 10 percent

Within the PA catastrophe space, the preponderance of cover included full nuclear, biological, and chemical (NBC) terror protection, particularly for insurers with U.S. exposures. NBC prices have declined, especially at lower layers, while XNBC prices are virtually unchanged – effectively reducing the surcharge for complete coverage.

Medical Stop-Loss

Rates came close to the break-even point for medical stop-loss at mid-year renewals. This trend has been driven by several consecutive years of price-softening. Having reached 110 percent to 115 percent of expected claims, prices started to become firmer, as they are approaching what appears to be a natural floor for reinsurers' return on capital.

Accidental Death Carve-Out

The market for accidental death carve-outs is evolving. An initial propensity for programs designed around "ground-up" cover began to give way to structures with deductibles near expected claims. Aggregate deductibles between 90 percent and 100 percent were common. In some cases, they even reached 150 percent, though this was rare. While these higher deductibles can lower the expected cost of cover, they do start to make the programs look more like catastrophe protection.

Long-Term Disability

Direct writers of long-term disability insurance have been looking for growth, leading to an increase in retentions and higher attachment points. They have retained more business in order to push profits higher. Reinsurers showed a salient appetite for long-term disability programs at July 1, 2008 renewals, which is unsurprising, as the underlying business is performing well. For the most part, rates renewed without change from July 1, 2007; terms and conditions were relatively stable as well. In some cases, there were small price decreases.

Term Life Insurance

For term life lines, the trend away from coinsurance has slowed, though it is too early to call it a reversal. Insurers are becoming comfortable holding larger amounts of mortality risk, but they still seek capital efficiencies. As the principles-based approach to determining reserves is perpetually distant – and capital markets competition for managing reserves has slowed in the wake of the subprime mortgage market's collapse and subsequent credit crunch – some insurers are reconsidering traditional coinsurance.

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Multi-Year

Across many lines of business, cedents are beginning to explore multi-year coverage. The reasons for doing so tend to vary. For working layers, longer coverage periods may help protect carriers from market volatility, furthering the purpose of the cover. Multi-year covers also help PA catastrophe cedents maintain coverage in the event of market discontinuity (e.g., a catastrophe with high levels of insured losses). This approach could favor cedents with quota share coverage, as well, allowing them to assume risks on which they might have had to forego otherwise.

Since multi-year coverage is still in its infancy, a standard design has not emerged. Some products offer renewal at identical terms – or using experience-based formulae to determine the renewal rate. The renewal may be automatic or at the cedent's option.

Contcts

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