

WHO'S WHO IN GROUP DISABILITY REINSURANCE?

by Tom Penn-David

For many of us who have worked in the individual side of disability reinsurance, the group disability reinsurance market has often seemed like a giant bowl of alphabet soup. Unlike individual disability reinsurers, who might be called Paul Revere or Swiss Re or Cologne Re or Munich Re, group disability reinsurers might be some combination of IDR, DRMS, D&H, JHA, DART, DRUM, ADRUS, GRP, DCG or some other set of initials. In recent years this menagerie of initialed reinsurers has reduced in number as consolidation has taken its toll (much as in the individual market). Now that the latest consolidation has seen the transmogrification of ING into RGA, perhaps it is a convenient time to describe who does what in the group disability reinsurance market and how much of it they do.

A few caveats are appropriate before proceeding. The definitions of which products are offered by which reinsurer and the brief histories of market players are based on the author's experience in the market augmented by other sources. Premium and reserve numbers are extracted from statutory reports but categorization is based on the author's estimates. While efforts have been made to verify descriptions with market participants, the author is responsible for any errors of interpretation contained in this article.

To mis-quote Julius Caesar, "Omnia Group Disability Reinsurance divisa est" into quota share and excess reinsurers. Quota share and excess reinsurance arrangements can be used both to share risk and to cover the cost of services provided by the reinsurer. Excess reinsurers typically provide reinsurance coverage above a specific attachment point and tend to reinsure the largest 20 or so group disability insurers. However, in some situations (for instance many facultative cases), they offer quota share reinsurance as well. Quota share (or turn-key) reinsurers generally provide smaller disability insurers with a complete range of services from product design, marketing, rating and underwriting through policy administration and claims adjudication. In return for these services, they assume a quota share of every policy written.

There are three each of excess and quota share LTD reinsurers currently, with a new entrant pending in the excess market (Swiss Re). The three active excess reinsurers are RGA Re, Munich Re and Gen Re. The three active quota share reinsurers are Assurant, Reliance Standard and Hartford Group Reinsurance Plus. Reinsurance managers are associated with two of the excess reinsurers (The Smith Group with Munich Re and the former JHA, Inc. with Gen Re) and two of the three quota share reinsurers (DRMS and CDS with Assurant and Reliance Standard respectively). However, with the exception of the Smith Group/Munich Re relationship, all other managers are owned by the reinsurer for whom they provide management.

There are three strands that wind through the history of the LTD reinsurance market (note that we are referring to the market as LTD

even though other group disability products such as short term disability (STD) and disability benefits law (DBL) are assumed from time to time). There were companies such as Northwestern National (now, ING Reliastar) or (in the past) Swiss Re who provided group reinsurance as pure capacity reinsurers. Then, there were companies such as Unum, Hartford and Reliance Standard who saw turn-key reinsurance as a logical alternative distribution system for their core LTD product. And finally, there have been entrepreneurs such as John Hewitt or Mike LaChance who have founded disability reinsurance pools as a way to meet market demand for capacity.

While several organizations and pools, including IDR (Integrated DisAbility Resources), DCG (Disability Consulting Group), DRUM (Disability Reinsurance Underwriting Managers) historically provided quota share disability reinsurance, there are three that remain active in the quota share reinsurance market. Note that the "excess" reinsurers do provide significant amounts of quota share reinsurance and that the quota share reinsurers do sometimes provide excess reinsurance. However, we are distinguishing between the two groups of reinsurers based on the primary basis for the reinsurance that they offer. The three active quota share reinsurers today are the following (in descending order of assumed reinsurance premium):

DRMS/Assurant – Disability Reinsurance Management Services (DRMS) was founded as an independent reinsurance pool manager in 1993. In 1998, the organization was purchased by CORE, an absence management company and in 2001 Assurant (then Fortis) acquired CORE and DRMS. In staff and reinsured premium, DRMS appears to be the largest of the group disability reinsurers. Originally, DRMS managed a series of pools (DART) that shared LTD risk among a number of participants. However, in recent years, all business that is managed by DRMS is assumed by Assurant companies (Union Security Insurance Company and Union Security Life Insurance Company of New York). DRMS has recently entered the group life reinsurance market.

Hartford GRP – Hartford's Group Reinsurance Plus (GRP) operation was founded in 1995 as an alternative distribution channel for Hartford's group disability, group life and AD&D products. They provide full turn-key services for group life and disability. Although they are backed by The Hartford and its Group Benefits Division, GRP is a distinct business unit with a dedicated management team and staff. Business is assumed by Hartford Life and Accident Insurance Company.

Custom Disability Solutions (CDS)/Reliance Standard Life (RSL) - Custom Disability Solutions has a long history in the group disability reinsurance business dating back to the late 1960's.

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They have been affiliated with several organizations such as Miele & Associates, Unum Reinsurance, Duncanson & Holt, IDR and most recently, Reliance Standard. CDS specializes in working with carriers to grow their group disability business with offerings that include full turnkey services and reinsurance risk assumption options from full quota share to limited risk excess. They are a division of RSL, which assumes the risk on business managed by CDS.

There are three active excess disability reinsurers. Ranked roughly by LTD reinsurance premium, they are:

RGA Re – RGA acquired the group reinsurance business of ING Re (Reliastar) business in 2010. Under their original name of Northwestern National, the operation was one of the oldest group specialty reinsurers. RGA reinsures group medical, life, accident and disability business as well as certain specialty lines like Industrial Aid (property and liability coverage for airplane owners). They are primarily known as an excess LTD reinsurer but they often have sizable quota share treaties although they do not offer full turn-key services. Business was assumed by Reliastar Life Insurance Company (and Reliastar Life Insurance Company of New York) and is currently being novated to RGA Reinsurance Company.

Munich Re/Smith Group – Munich Re's group reinsurance operation has a fairly long history (established in 1961) but they were not a player in the LTD market until 1992. Munich Re was a participant in the D&H and IDR reinsurance pools and, in 2000, established a relationship with the Smith Group, an independent reinsurance manager founded by Nick Smith in 1993. Munich Re reinsures group life, accident and disability as well as being one of two active reinsurers of individual disability. They primarily offer excess LTD reinsurance. Business is assumed by Munich American Reassurance Company.

Gen Re - The group disability reinsurance operation of Gen Re evolved from an MGU relationship between John Hewitt & Associates

(JHA), Portland, Maine and The Cologne Life Re of America, Stamford, Connecticut in the late 1980s. JHA managed the independent DRUM disability reinsurance facility, of which Cologne was a member. In 1996, Cologne acquired a majority ownership in JHA, and Cologne Re merged with Gen Re around that same time. JHA became a wholly owned subsidiary of Gen Re in 2001, and Gen Re today reinsures group life and group disability, and is the other active reinsurer of individual disability income, as part of its Group & Specialty Reinsurance Division. Business is assumed by General Re Life Corporation, a Berkshire Hathaway Company.

In April 2011, the NAIC made the 2010 Schedule S available. Schedule S - Part 1 - Section 2 includes reported assumed Accident & Health reinsurance statistics for each of the assuming entities. All types of accident and health business are comingled and the reported "Type of Reinsurance Assumed" field provides a limited basis to differentiate various types of A&H business. The table below is based on the author's familiarity with disability reinsurance cedents as well as knowledge of which ceding companies do and do not write disability insurance.

Note that these estimates exclude all disability assumed from insurers domiciled outside of the U.S. Also, there are material A&H accounts that cannot clearly be identified as to type of business covered. Note also that it appears that ING Re's treaties were undergoing novation to RGA Re throughout 2010. The premiums and reserves in the table below are the summed totals of identified accounts for both companies. However, both premium and reserves are lower than estimated values for ING Re in 2009 and it is possible that some material volumes are still included in the aggregate totals that are ceded from Reliastar to RGA Re prior to novation.

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Reinsurer	IDI Premium	IDI Reserves	LTD Premium	LTD Reserves
DRMS	-	-	192,481,537	498,338,465
RGA Re	-	-	82,833,387	456,817,701
Munich Re*	249,445,482	458,463,439	82,562,037	248,835,421
Hartford GRP	-	-	60,505,543	254,442,544
CDS	-	-	50,408,033	170,238,231
Gen Re	31,710,238	126,268,049	22,768,973	112,667,378
Totals	281,155,720	584,731,488	491,559,510	1,741,339,740

(*) Munich Re reserves are 2009 values since 2010 data was not available.