

# Rebooting the Retail Savings Insurance Market

Following over a decade of persistently low interest rates, we have seen a substantial increase in interest rate levels, driven by tighter monetary policies by central banks to tame inflation. While a partial reversal in the trend is widely expected, the speed and magnitude of interest rate reductions remain uncertain, and a return to the period of zero/negative rates is highly unlikely. In turn, many insurers have started re-thinking about their product strategy to capitalize on a more normalized interest rate environment. We share later in this document how reinsurers can help with two variations of protected savings in the European market.

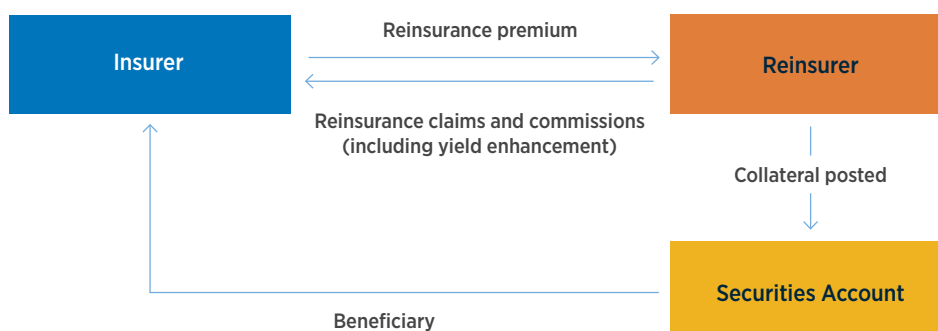
## Fixed-Return Guarantee Savings Products

The fixed-return guarantee provides the policyholder with a return equivalent to a risk-free investment plus a spread based on the investment strategy of the (re)insurer over a certain period.

During the zero/negative rate period, the minimum fixed-return guarantees offered in the European insurance market were similarly low, with policyholder upside largely dependent on profit sharing distributed by the insurers. As rates increase, it becomes more appealing for insurers to offer products with a guaranteed minimum return. Fixed-return guarantee savings products allow insurers to offer more appealing guarantees compared to those provided by the banking sector. In addition, such products may provide attractive tax benefits. However, to avoid costly capital charges, insurers must use complex investment approaches to provide such guarantees. This may be operationally undesirable or even unfeasible for some insurers. Reinsurance partners provide a viable alternative.

The strategic tool of reinsurance is applicable to savings products with guarantees, whether they are fixed-term or open-ended. Reinsurance for guaranteed savings products involves transferring a bundle of new policies acquired over a specific period to a reinsurer; in doing so paying close attention to regulatory policyholder protection requirements on coverage/tied assets and asset segregation. This allows insurers to eliminate the market risk exposure arising from the embedded guarantees, while avoiding the use of complex investment strategies or derivative trades.

**Illustration of a possible reinsurance structure**



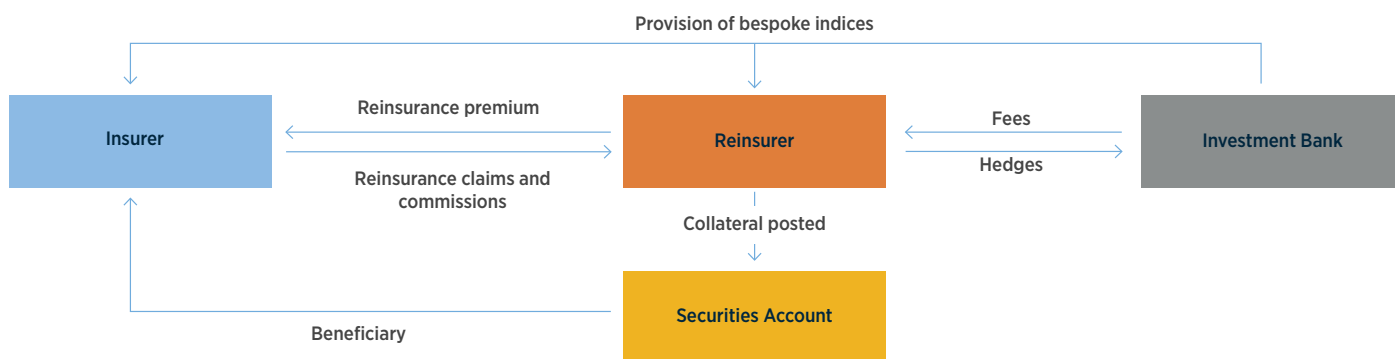
# Indexed Linked Savings Products

The indexed-linked saving products are invested in popular market benchmarks or custom multi-asset indices provided by reinsurers or investment banks.

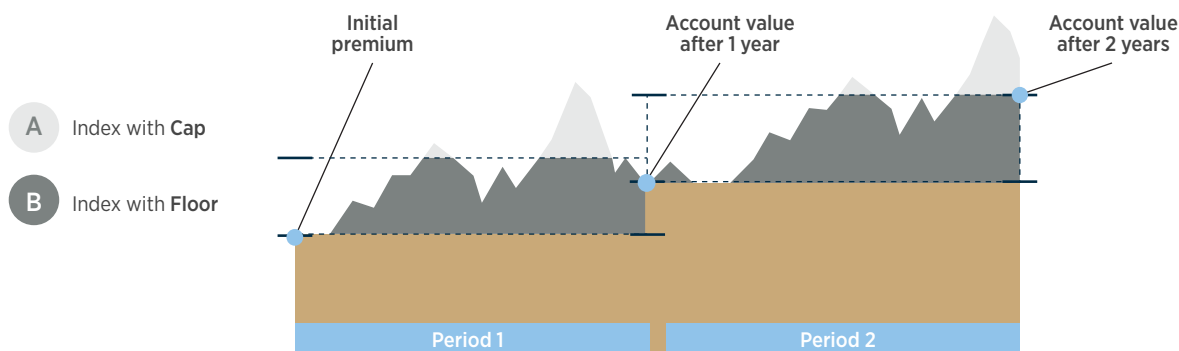
Policyholders are protected against losses on the index investment via a minimum guaranteed return of x% (floor) for an agreed time period, e.g., one year. In turn, the investment is subject to a maximum return (cap), which is determined by prevailing market conditions. At the end of the agreed-upon time period, the return is automatically reinvested for the same time period, again with a minimum x% return and a cap. Similarly to the fixed-return products, recent market conditions have allowed caps to be set considerably higher than in years past, leading to rekindled interest for index-return guaranteed variations. Special features are also enjoying renewed popularity. For instance, the underlying index can be customized to reduce volatility.

For each of these variations, policyholder contract terms range from as low as three up to 15 years or longer. During this term, the reinsurer assumes investment and biometric risks, and implements tailored hedging strategies to manage this risk. Prior to product launch, the reinsurer can support the insurer in designing the products and may offer upfront commissions to alleviate new business strain.

## Illustration of a possible reinsurance structure



## Illustration of a typical index-return variation



# Business Case Study — Indexed Universal Life

Information provided by Swiss Re L&H Continental Europe Transactions

Fixed/indexed savings products can be tailored to appeal to different policyholder preferences. In fact, a product can be a combination of a fixed-return and index-return variations.

As a case in point, Swiss Re supported a German life insurance company to develop a flexible, protected savings product that combines upside potential with downside protection. At its core lies a fixed-return guarantee building block and a built-in guaranteed minimum death benefit (GMDB) rider. From here, policyholders can then opt or switch dynamically (at set intervals) to a strategy with more upside potential through exposure to an equity index via an index-return guarantee variation that still offers policyholders 100% downside protection. For the undecided, an option exists to choose a combination between the fixed-return guarantee and the downside-protected index-return guaranteed exposure. Lastly, policyholders benefit from a cliquet option, also known as a ratchet option. This means that investment gains and interest accrued are locked in to form the new guaranteed floor, which is “ratcheting up” over time. In other words, the floor can move up, but not down.

**“We are proud to have introduced together with our client, a customer-friendly and flexible product that offers good value for money to policyholders. In this product type, Swiss Re’s involvement extends beyond pure product development. As an example, Swiss Re implements and ensures the functioning of the guarantees, including the floor and cap mechanism.”**

— Daniela D’Andrea, Head L&H Transactions Origination, Continental Europe

With a flexible policy length of 12 years, this particular product is catered to meet long-term investment goals and can be set to meet local tax requirements around minimum holding periods. Despite the long-term investment horizon, policyholders maintain flexibility to react and adapt to dynamically changing interest rates and market conditions.

## Gallagher Re’s Service Offering

The team at Gallagher Re has extensive experience in structuring and implementing flow reinsurance covers across a wide range of portfolios and countries. We have particular expertise in designing bespoke covers to suit the risk and solvency needs of our clients. This is then combined with our extensive relationships within the reinsurance industry to achieve optimal terms and prices. Please do not hesitate to contact us if you want to hear more about flow reinsurance.

**Produced by the Global Life & Health Team**

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