

A.M. Best Special Report: U.S. Life Reinsurance Market Ponders What's Next

by Business-Wire

OLDWICK, N.J.--(BUSINESS WIRE)--In its recently released special report on the life reinsurance marketplace, the A.M. Best Co. states that consolidation in recent years has eliminated a number of marginal players that were not fully committed to life reinsurance. The remaining players, then, for the most part were large, with scale advantages and solid new business momentum, and thus little was thought to be gained through further major merger activity. A.M. Best further believes that additional consolidation among smaller companies was well within the realm of possibility but was not expected to have a significant impact on the industry.

Things have changed upon entering the latter half of 2006. Scottish Re Group Ltd. (Scottish Re) (Cayman Islands) reported a sharp, unexpected second-quarter loss, triggering rating downgrades by A.M. Best as well as similar actions from other credit rating agencies. Scottish Re, in turn, announced its intent to explore alternatives that included a possible sale of the company.

As capacity now is likely to be reduced further at a time when more capacity may be demanded, it would seem to be an ideal climate for new entrants. However, A.M. Best does not expect any will emerge. First, there is a significant barrier to entry, as life reinsurance is very capital intensive. Investors may be more wary of funding a new entrant in this market.

Paradoxically, at the same time that the number of players is shrinking, competitive pressures are building for life reinsurers. Moreover, A.M. Best believes alternative solutions to traditional reinsurance will continue to emerge, thus competing directly with reinsurers for certain types of capital relief business. Over time, therefore, A.M. Best believes the life industry may become increasingly less reliant on reinsurance for capital management solutions.

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