



Institute
and Faculty
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IFoA Life Conference

Protecting the Balance Sheet:
**Reinsurance Strategies for Mortality and Mass
Lapse Shocks from an international perspective**

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Agenda

- Mass Lapse Reinsurance
- Extreme Mortality Reinsurance

Mass Lapse Reinsurance

Introduction to Mass Lapse Reinsurance

What is Mass Lapse risk and why should you reinsure it



What is Lapse Risk

A 'Lapse' occurs when policyholders terminate their insurance policies prior to maturity, either by ceasing premium payments or surrendering their policies



Key Triggers for a Mass Lapse Event

- Interest rate movements
- Competitors release a product with more compelling features
- Reputation damaged



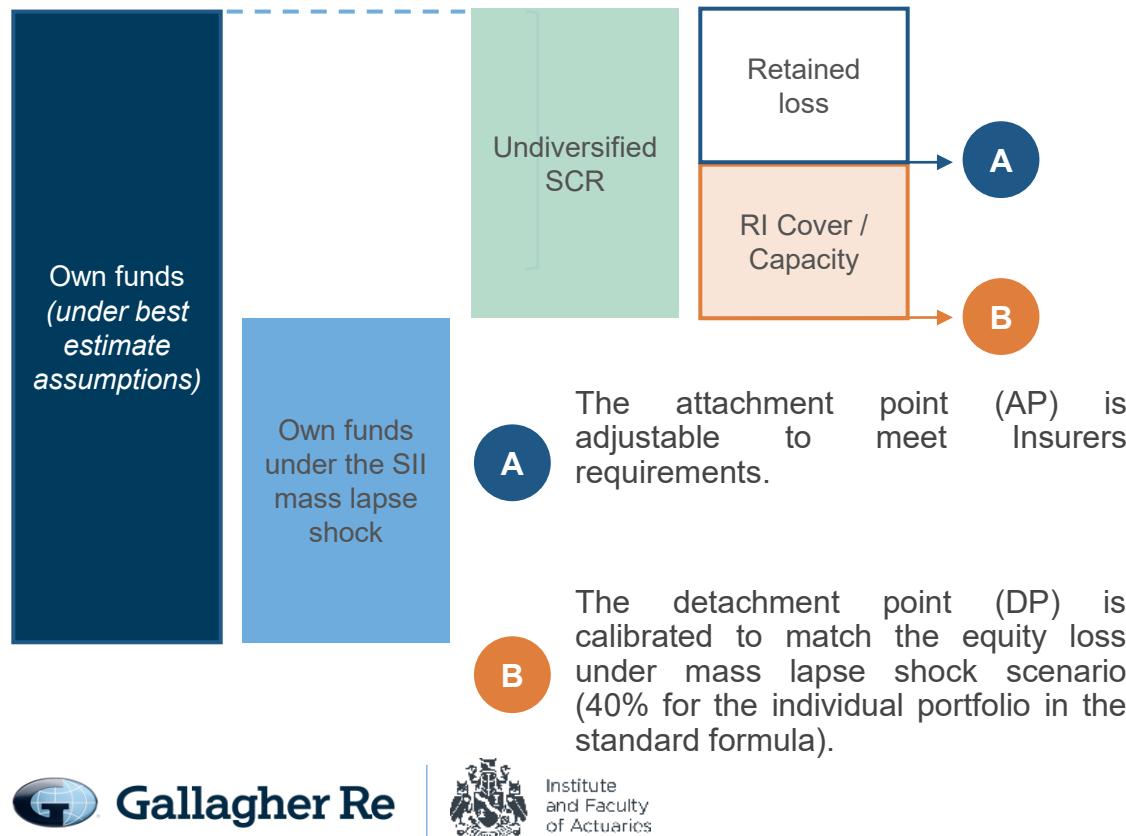
Benefits of Mass Lapse Reinsurance

- Cover tail (but massive) risk
- Free-up capital
- Reduce liquidity strain

Mass Lapse Reinsurance Structure

A non-proportional solution that covers the layer of Mass Lapse loss between the attachment and detachment point, providing SCR relief

Illustration of ML Reinsurance Structure under Standard Formula



Simplified Definition of Reinsurance Loss

Step 1: The net loss can be expressed as a percentage of the ML SCR:

Net Loss

$$\text{Net Loss} = \text{ML SCR} \times \frac{\text{Observed Lapse Rate}^{(*)}}{\text{ML Shock in \%}}$$

Step 2: The capacity is the difference between the detachment point DP and the attachment point AP:

$$\text{Capacity} = \text{DP} - \text{AP}$$

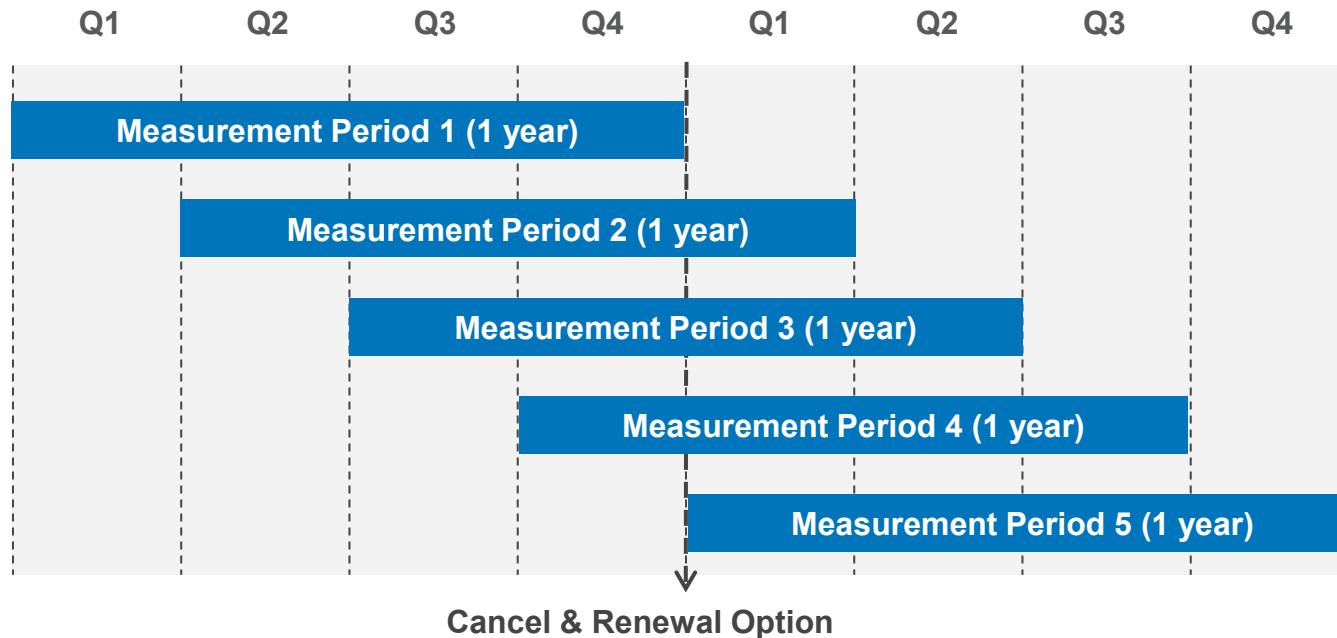
Step 3: The reinsurance claim corresponds to the Net Loss capped by Capacity:

$$\text{Reinsurance Claim} = \text{Min}(\text{Net Loss above AP}; \text{Capacity})$$

() Beyond the Best Estimate (BE) of Lapse Rates*

Measurement Periods

A rolling measurement period structure to include the new business and reduce basis risk with recalibrated attachment/detachment points for each risk period



What does this rolling structure offer?

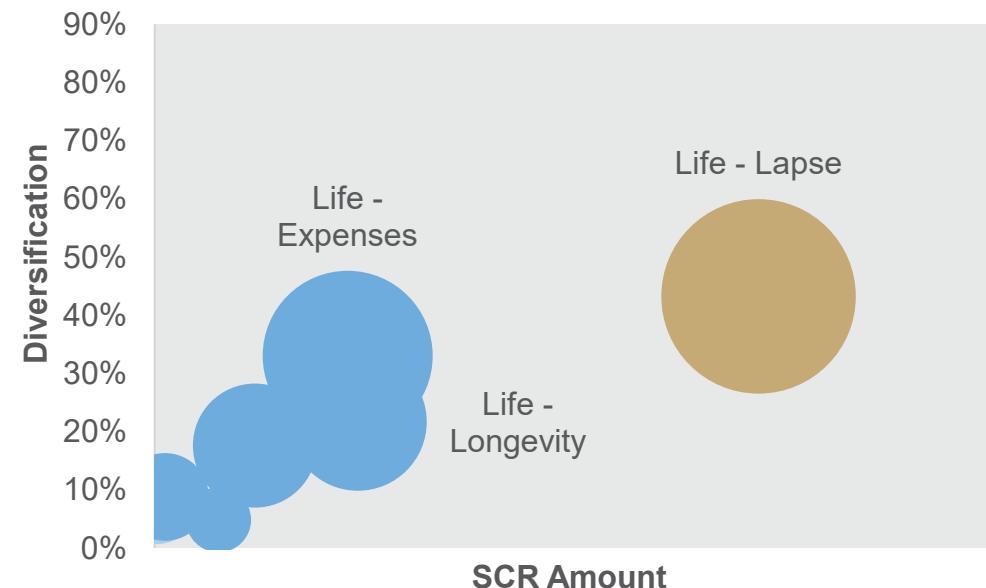
- **Dynamic adaptation to exposure:** It captures both portfolio and economic/non-economic changes over each quarter.
- **Efficient risk management:** For overlapping risk periods, the reinsured claim corresponds to the maximum loss from a Mass Lapse event.
- **Contractual flexibility:** The insurer retains the option to cancel or renew the cover at the end of each calendar year.
- **Long-term protection:** The structure supports multi-year coverage, typically ranging from 2 to 5 years.

Case Study

The structure and impact of a successfully implemented Mass Lapse cover in 2025

SCR and Diversification of the Life Sub-Modules

Poorly diversified



Well diversified

Context:

- Within the cedant's life risk profile, Lapse risk is the primary contributor and offers limited diversification benefits.

Structure & Portfolio:

- Reducing Lapse risk will significantly impact the cedant's SCR.
- The cedant placed a ML cover with an AP of 17.5% and a DP of 40% above the BE.
- The reinsured portfolio consists of individual savings products and retirement products, traditional and unit-linked business.

Impact:

- ~€400 million SCR relief is seen in the cedant's portfolio, leading to an overall SCR reduction of ~€240 million and a SII ratio improvement of ~30%.
- The cover is equivalent to raising of subordinated debt in the amount of ~€500 million, for a cost of capital of <1.25%.

Regulatory Consideration

Following the consultation paper published late last year by EIOPA, they have released an annex providing comprehensive guidance on Mass Lapse Reinsurance



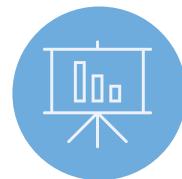
Product Design Considerations

- Measurement period: recognising the 12-month rolling risk period as appropriate
- Claim calculation: should be aligned with Solvency II valuation principles



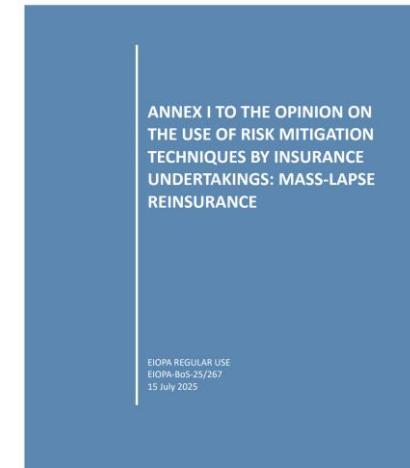
Identification of Basis Risk Sources

- Lapse definition: should fit within the cedants risk management strategy and claim calculation methodology
- Termination rights: avoid structures that allow reinsurers to unilaterally terminate when the treaty is most needed.



Balance Sheet Impact

- SCR release: permitted if best practices and effective risk transfer is respected
- Risk margin: confirmed that it can be recognized for the duration of the treaty or even longer provided that cedants are able to demonstrate the replacement capacity and its costs



1. We are a sales and marketing company dedicated to providing excellence in risk management services to our clients. 2. We support one another. We believe in one another. 3. We acknowledge and respect the ability of one another. 4. We push for professional excellence. 5. We can all improve and learn from one another. 6. There are no second-class citizens—everyone is important and everyone's job is important. 6. We're an open society. 7. Empathy for the other person is not a weakness. 8. Suspicion breeds more suspicion. To trust and be trusted is vital. 9. Leaders need followers. How leaders treat followers has a direct impact on the effectiveness of the leader. 10. Interpersonal business relationships should be built. 11. We all need one another. We are all cogs in a wheel. 12. No department or person is an Island. 13. Professional courtesy is expected. 14. We ask someone to do something you wouldn't do yourself. 15. We support each other. 16. We support our sales and marketing. We work together. 17. We happen without each other. We are a team. 18. We are a team—joined together—not dictated. 19. Fear is a

EIOPA Guidance on ML Reinsurance

Gallagher Re Perspective

July 2025



Market Context

Mass Lapse Reinsurance in Europe.



30+ transactions completed in Europe, deploying over €6+ billion in capacity.



15+ reinsurers active in the European market with growing appetite.



Total capacity ranges from [€100 million to €2 billion], tailored to client needs.



SII ratio improvements of 5 – 50 percentage points, depending on balance sheet size and diversification. Key sensitivities (e.g. spreads, interest rates) are also effectively managed for certain players.

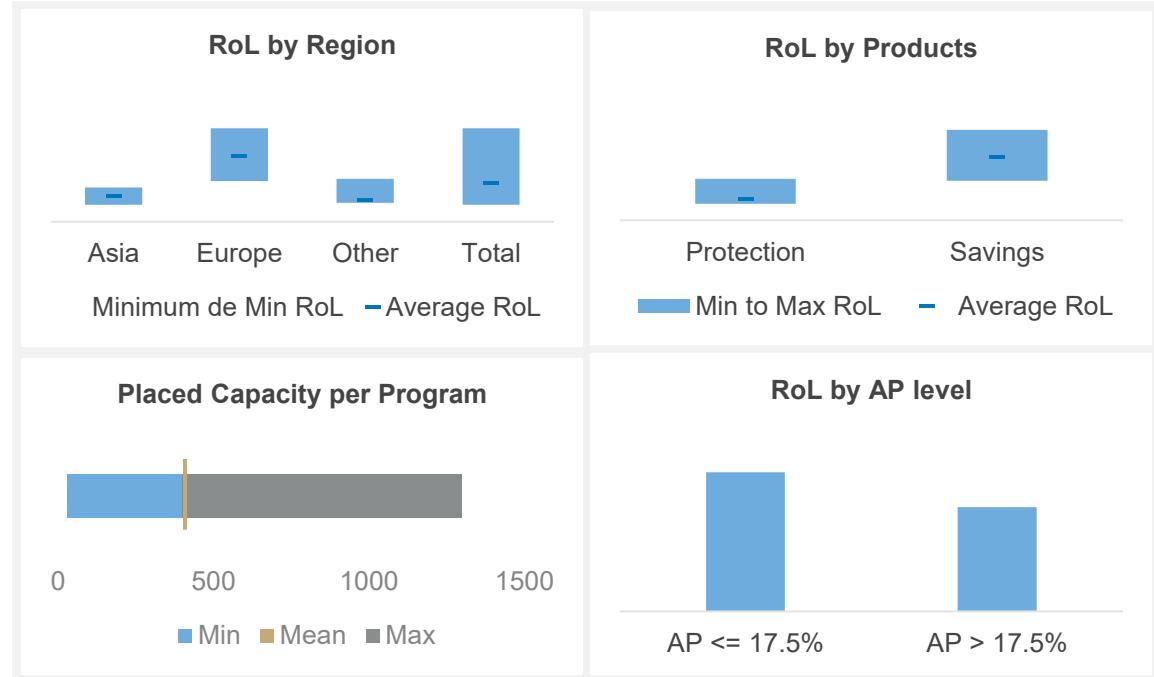


Equivalent cost of capital: 0.7% - 2.5%, depending on Mass Lapse (ML) SCR diversification and Rate on Line (RoL).



Most Regulators, fully acknowledge and recognize the transactions carried out.

Key Drivers of Mass Lapse Pricing: Gallagher Re's Global Benchmarking

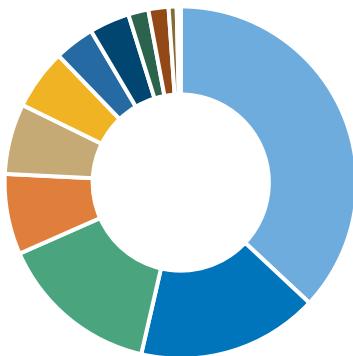


All presented figures are based on placed treaties only
Attachment point is the additive percentage of cumulated lapses above Best Estimate Assumption

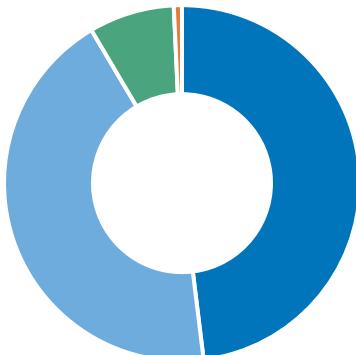
Reinsurance Market Appetite

We have secured up to 2 billion in capacity available for deployment per transaction.

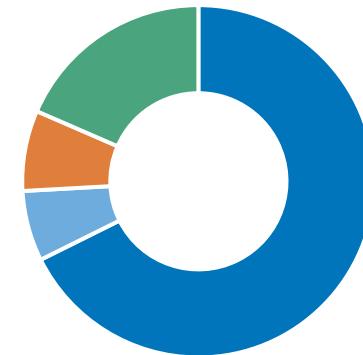
Capacity by Reinsurers



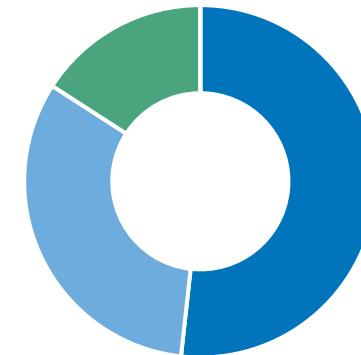
Capacity by Credit Rating



Capacity by Region



Capacity by Price Profile



■ AA
■ AA-
■ A+
■ A

■ EU
■ Non-EU
■ Member
■ States
■ Bermuda
■ North
■ America

■ Aggressive
■ Competitive
■ Followers

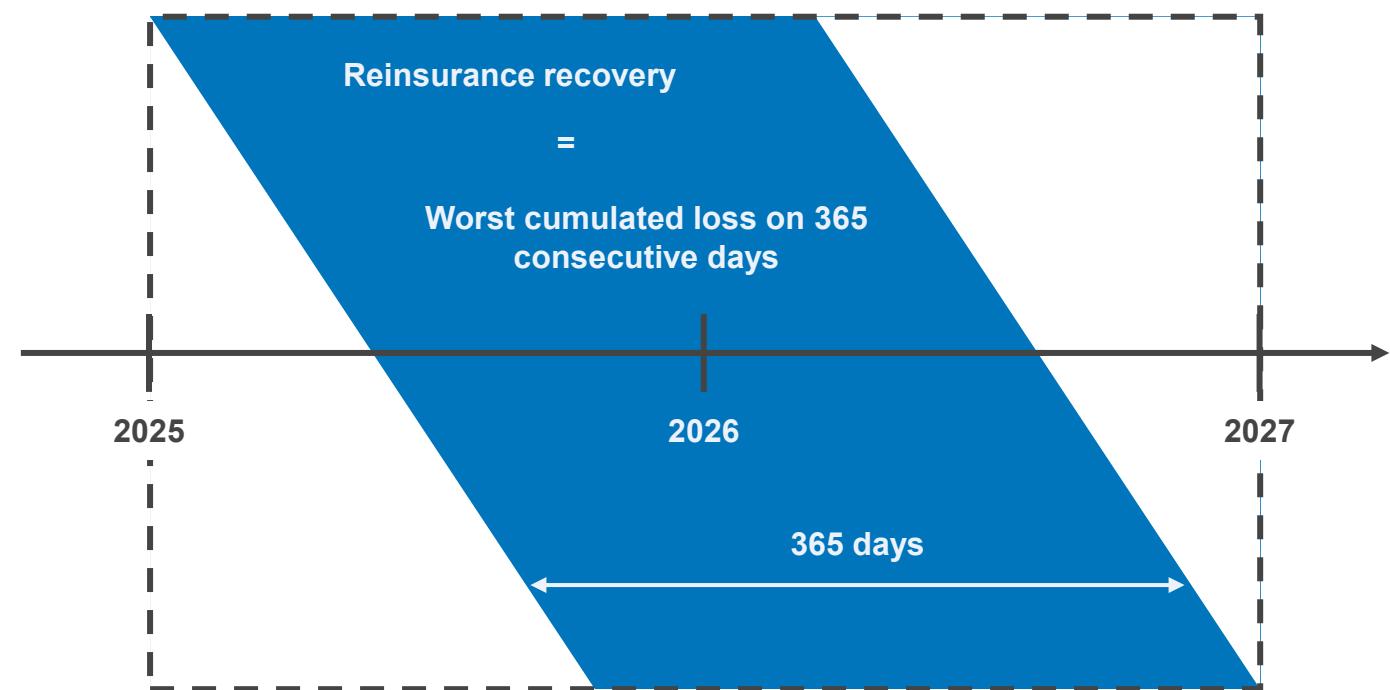
Extreme Mortality Reinsurance

Introduction to Extreme Mortality

A non-proportional coverage designed to protect the cedant against significant deviations in underlying Mortality risk, providing relief in Catastrophe Life SCR and risk margin relief

Key Features

- Portfolio scope:** Covers both retail and group life insurance.
- Coverage duration:** Two-year coverage addressing mortality deviations based on the worst experience within any 365-day period.
- Risk period:** Includes all claims arising within a cumulative 365 consecutive days span.
- Cancellation option:** Flexibility to cancel and renew coverage at the end of the first year.
- Claims basis:**
 - Determined by the actual experience of the portfolio.
 - Alternatively, based on a population mortality rate, adjusted for age and gender distribution of the underlying insurance population.



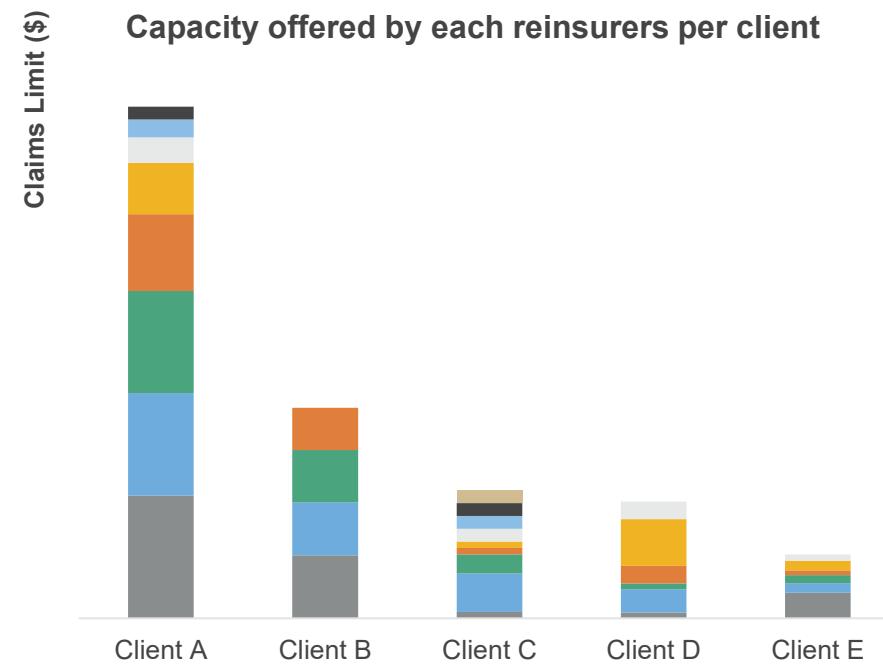
Global Experience

Using relationships across the globe, we are able to place a significant amount of capacity at a competitive price even through unprecedented pandemic events

Highlights

- **Global footprint** - clients in the UK, Cont. Europe, Latam, Asia.
- **Diversified Reinsurance Panels** - average number of reinsurers per placement is 6, increasing competitive tensions during the placement phase ensuring our clients get best in class terms and conditions.
- **Expanding Capacity** - experience in placing a range of claims limits, sourcing more than USD 450m of claims limit per year. We have also actively developed new entrants and greater limits in the market.
- **Bespoke Coverage** - extensive experience in placing both indemnity and parametric based covers.
- **COVID experience** - over the covid and lockdown period, through our good relationships with the market, we were able to maintain pricing levels for our clients. Despite some reinsurers exiting the market. After this period, we have been able to introduce and placed several new programmes into the reinsurance market. During COVID, Gallagher Re issued regular pandemic newsletters, giving the latest view of experience and developments to help inform our clients and their senior management. Gallagher Re also built a pandemic model to project our client's potential COVID loss.

A wide existing reinsurance panel illustrated on 5 clients



Case Studies

Our global operating model enables us to use cross-regional experience to support our clients in negotiating the best terms

UK



- Large US life insurer with an established UK operation
- Purchased for capital optimisation purposes
- Traditional indemnity-based cover, with a 12-month loss window
- AP at 198% of best estimate
- Rate-on-Line <1.1%
- End-to-end broking services, from consulting on the benefit reinsurance can bring to the balance sheet, designing the cover, finding capacity, negotiating good terms, contract wording and placement

Japan



- Multi-national insurance company with significant local market share
- The cover has a duration of 24 months, with the loss window covering any 12-month period within that window
- AP at 125% of best estimate
- Claims limit 5bn JPY
- Rate-on-line <1.2%
- Gallagher Re provided advice and support to both the group and subsidiary, who had different needs, we were able to ensure the structure and placement met those needs

Belgium



- Large Belgian life insurer in with a significant mortality exposure
- Purchased for a mix of risk mitigation and capital relief on an indemnity basis
- Rate-on-Line <1.8%
- Active cover >7 years
- Over the years, we have changed the cover to meet the clients' changing needs and negotiated down the premium to give better value for money

France



- Large global insurance group, with significant pandemic exposure in France
- Purchased for SII CAT capital relief
- Parametric trigger, with a 12-month loss window
- The cover is split into two layers, attaching at 125% of best estimate
- Rate-on-Line <1.6%
- Active cover >6 years
- Conducted an analysis of the basis risk for the internal model, and have updated as the risk has evolved

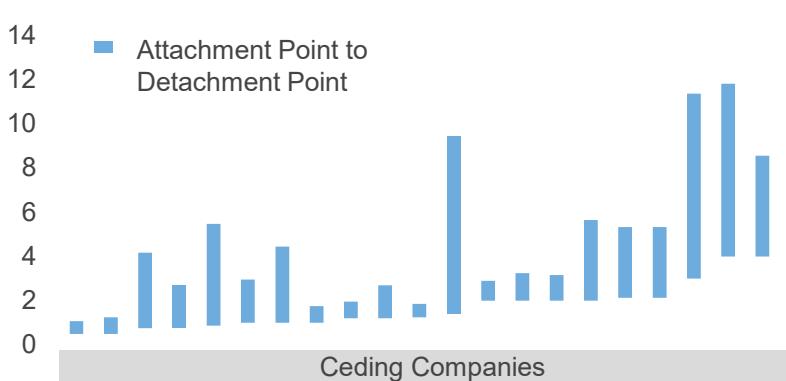
Benchmarking

Leveraging Gallagher Re's extensive expertise over the years, we can provide comprehensive benchmarking studies for Extreme Mortality cover

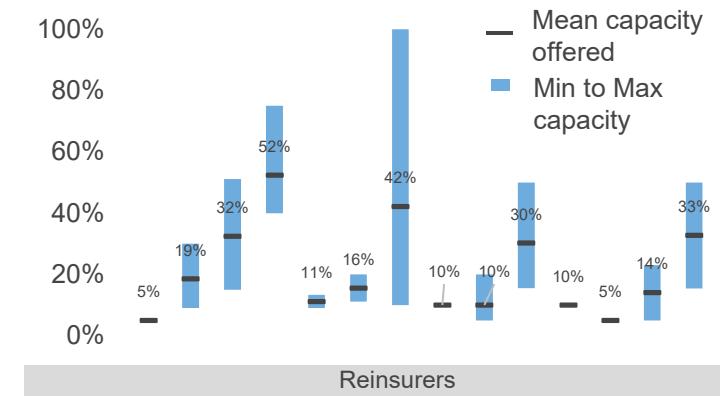
Reinsurance programme comparison

- Assessment of the structure, including retention levels and capacity.
- Analysis of capacity offered by each reinsurer within the market

Structures Placed



Capacity Offered per Reinsurer

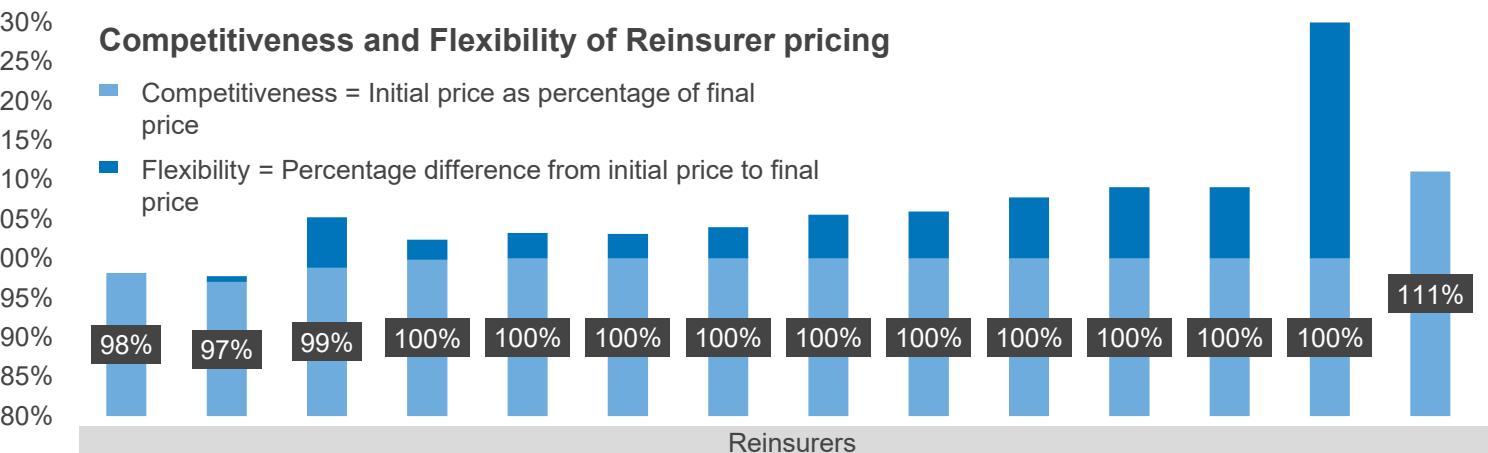


Reinsurer pricing comparison

- Comparison of final offering terms (FOT) and alignment to FOT.
- Analysis of reinsurers' pricing competitiveness.

Competitiveness and Flexibility of Reinsurer pricing

- Competitiveness = Initial price as percentage of final price
- Flexibility = Percentage difference from initial price to final price





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Thank you

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