

## **LIFE INSURANCES AND THEIR INFLUENCES ON REINSURANCES**

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**ABSTRACT:** *Life insurance is an insurance concluded for a long period of time and reinsurance shall have to be a long-term reinsurance, otherwise the direct insurer may lose its hedge through reinsurance before the insurance agreement expires or pay an inadequate sum for the reinsurance with the insurance premiums it receives. In the case of life insurances, reinsurance agreements include provisions answering to the direct insurer's need to benefit from long-term protection. In life insurances, almost all reinsurance agreements are proportional agreements, the greatest weight being held by surplus agreements.*

**KEY WORDS:** *life insurance, reinsurance, portfolio, protection*

Life insurances have characteristics that influence reinsurances. These characteristics are:

- Long period of insurance;
- The insurance shall be concluded for a fixed amount;
- Accumulation of capital.

### **1. LONG PERIOD OF INSURANCE**

Assignor's portfolio adjustment depending on these alterations of the reinsurance agreement demanded by the reinsurer can only be made through the termination of insurance agreements.

Therefore, in the case of life insurances, reinsurance agreements include provisions answering to the direct insurer's need to benefit from long-term protection.

Not all types of insurances are adequate for a long-term protection. Excessive damages disproportional agreements for protection against risk accumulations cannot be concluded for long periods because their provisions depend on the structure of portfolio, which shall be altered in time.

Proportional reinsurance is not usual for life insurances and occurs only in filling-in standard reinsurance forms.

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## **2. INSURANCE FOR A FIXED AMOUNT**

Life insurances are concluded for a fixed amount without partial damages.

Life insurance covering the risk of invalidity and paying the pension includes reinsurance agreement that may be similar to an excessive damage protection.

## **3. ACCUMULATION OF CAPITAL**

The sum that has to be initially reinsured does not depend on the insured sum but on the risk sum.

If this difference is not significant in the case of risk insurance with premiums periodical payment when the insured amount equal to the risk sum at the beginning of the insurance, the situation changes when it equals the payment of a sole premium. The risk amount is smaller than the insured sum requiring a bigger initial reserve.

## **4. PROPORTIONAL REINSURANCE**

In life insurances, almost all reinsurance agreements are proportional agreements, the greatest weight being held by Surplus agreements.

Proportional agreements guarantee the covering period, the insurance agreement and the division of luck between insurer and reinsurer because risk division, established at the beginning of the agreement between insurer and reinsurer remains unaltered until the insurance agreement expires, making it easier to equitably establish the reinsurance premium.

In the case of proportional reinsurance, reinsurer takes part in the alterations and amendments made to initial insurance. This applies also to the increases of insured sum due to the application of dynamic adjustment cause with a great importance in the circumstances of a high inflation rate.

Proportional agreement stipulates a minimum amount below which reinsurance does not work anymore. Such solutions serve to the simplification of management with limited effect on the reinsurance relation.

## **5. WITHHOLD FOR EVERY RISK SEPARATELY**

In life insurances, in establish withholding the size of the risk amount is important that the insurer may withhold in case of an insured event. In order to be able to calculate exactly the withholding, actuarial patterns have been used with various degrees of complexity.

Mathematic theory has to operate with simplified patterns that would follow simple objectives and multifunctional influence factors have to be analyzed only to the extent it is necessary.

All actuarial patterns have the same objective: establishing the results of the portfolio retained by the direct insurer. Simple patterns generally suppose that damages be independent excluding accumulation of occurred risks - for instance, an accident.

Therefore, in establishing the withholding, one shall consider several commercial reasons and its own experience rather than actuarial calculations.

When reinsurance seeks other purposes beside the homogenization of portfolio, other criteria are considered in order to establish the withholding.

If reinsurance is seen as a financing source, the following requirements have to be considered:

- The reinsurer has to be able along with the reinsurance to solve the current financing problems
- The amount of premiums withheld by the insurer has to give it the possibility to cover its current and anticipated expenses.

In this case, an adequate solution is establishing an initial withholding at a low level and fast increasing it in order to reach an adequate level for the financial possibilities of the insurer.

In case of major standard risks from the medical field, compound risks, the ones due to age and insured person at the conclusion of the insurance, the insurer shall want to withhold as less as possible because these are the bad risks leading to big fluctuations of results.

In case of insurances giving the insured person the opportunity to increase the insured amount, the insurer shall establish the initial withholding to such a level that after the increase of the insured amount, the maximum limit of the sum it may withhold is not exceeded.

One may consider the supposes decrease of the risk sum for the main insurance and the increase of its own withholding value in time.

Additional services leading to the increase of the risk sum in case of death like for example - accidents additional insurance, have to be considered when establishing the withholding.

If both the death risk and the invalidity risk appear in an insurance agreement, separate withholdings have to be established for the two risks. In practice both risks are insured to the same extent, the assigned sum being established depending on the risk that requires a higher degree of reinsurance.

In case of insured person's death, all the policies concluded for it become outstanding. In order to establish withholding in such cases, the insurer has to consider all the insurance agreements concluded for the same insured person with their related death insurances.

This shall be made with the help of the database, such risk accumulations being able to be determined under the name of risk accumulation control.

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