Article from:

Reinsurance Section News

August 2005 – Issue 56

SOCIETY OF ACTUARIES

Reinsurance News

August 2005, Issue No. 56

newsletter for members of the reinsurance section

LIFE REINSURANCE DATA FROM THE MUNICH AMERICAN SURVEY

by David M. Bruggeman

Munich American's annual survey, which is conducted on behalf of the Statistical Research Committee of the Reinsurance Section, covers Canadian and U.S. ordinary and group life reinsurance new business production and in force. The ordinary numbers are further subdivided into: recurring reinsurance[1]—conventional reinsurance covering an insurance policy with an issue date in the year in which it was reinsured; portfolio reinsurance—reinsurance covering an insurance policy with an issue date in a year prior to the year in which it was reinsured, or financial reinsurance, and retrocession reinsurance—reinsurance not directly written by the ceding company. Complete survey results are available from the authors upon request. These results may also be obtained at Munich American's Web site at *www.marclife.com* (search Research).

Life Reinsurance Production

Two large deals in 2004 had a great impact on the results of the 2004 life reinsurance survey: one, an acquisition of a major U.S. life reinsurer, the other an acquisition of a direct life operation. First, Scottish Re's acquisition of ING Re's U.S. individual life business was finalized in 2004. This was definitely a major acquisition as ING Re was the number three writer of U.S. new business in 2003. The ING Re acquisition catapulted Scottish Re up to the top position in U.S. recurring production for 2004. It also significantly increased their 2004 portfolio production numbers. The other large transaction occurring in

continued on page 4

[1] Included in the definition of recurring category is business assumed from the direct side of companies that also have a reinsurance division. Business assumed from the reinsurance division would fall under the retrocession category.

CONTENTS

Table 1: Life Reinsurance New Business Production ($U.S. Millions)

	United States			Canada			Total		
	2003	2004	Change	2003	2004	Change	2003	2004	Change
Ordinary Life	1,043,402	1,029,134	-1.4%	93,909	100,357	6.9%	1,137,311	1,129,491	-0.7%
Recurring	213,656	839,203	292.8	35,893	0	-100.0	249,549	839,203	236.3
Portfolio	32,614	31,216	-4.3	1,668	2,921	75.1	34,282	34,137	-0.4
Retrocession	1,289,672	1,899,553	47.3	131,470	103,278	-21.4	1,421,142	2,002,831	40.9
Total Ordinary	25,980	40,668	56.5	131,721	17,041	-87.1	157,701	57,709	-63.4
Total Life	1,315,652	1,940,221	47.5	263,191	120,319	-54.3	1,578,843	2,060,540	30.5

2004 was Swiss Re's acquisition of CNA Financial Corp's individual life business. This represents one of Swiss Re's largest "Admin Re" deals to date and fueled the impressive growth in their 2004 portfolio numbers.

Thanks to the near 300 percent increase in portfolio business, total U.S. life reinsurance increased 47.5 percent in 2004. Canadian business, however, experienced a 54.3 percent decrease in production for 2004. The decrease in the Canadian market is somewhat misleading since much of the decrease stems from group life production—where production returned back to more normal levels after 2003's sizable increase of over 1,200 percent. In the United States, group life production rose 56.5 percent from 2003.

Recurring Business

The purpose of having a recurring category is to show reinsurance of policies written in that same year or, in other words, the "true" new business reinsured from direct writers. The survey tries to remove any double counting of retrocession and block reinsurance from the recurring figures. U.S. recurring production fell for the second straight year in 2004. The slight decrease of 1.4 percent, recorded in 2004, follows the 3.2 percent decrease in 2003. The years of double-digit annual growth in the 1990s have given way to stagnant growth in the 2000s. In fact, U.S. recurring production has increased only 4.5 percent from 2000 to 2004. Meanwhile, Canadian recurring new business grew by a modest 6.9 percent in 2004.

Last year, a couple of trends were noted based on recent years' survey results: (1) stratification among the reinsurers, and (2) the widening gap between the level of the increases/decreases in individual company production (higher highs and lower lows). In looking at the 2004 survey results, these trends are still holding strong.

Stratification. If we sorted the U.S. reinsurers based on their 2004 recurring new business number, we would see three distinct groups emerge. The first group, comprised of Scottish Re, Swiss Re, RGA, Munich American and Transamerica, are companies who wrote over $100 million in recurring new business. Each of these five companies had individual market shares of 12 percent or more in 2004. Combined, these five companies made up 81.3 percent of the total U.S. recurring market.

The second group is represented by four companies: Generali USA, Canada Life, Employers/ERC and SCOR. Recurring production for these companies in 2004 ranged from $48 billion to $32 billion with market shares in the three percent to five percent range. The group's combined market share for 2004 was 15 percent.

Finally, the third group is made up of companies with recurring production below $20 billion. Each of these two companies had individual market shares under two percent. Combined, these companies made up the remaining 3.6 percent in U.S. market share.

Summing up the total market share of the first two groups reveals that 96.3 percent, or virtually all of the U.S. recurring production, comes from just nine companies. This is quite a contrast from ten years ago, when it took 18 reinsurers twice the number of companies in 2004, to make up 96 percent of the market. Furthermore, in 1994, it took 11 companies to reach the 81 percent market share compared to only five companies in 2004.

Reviewing the production levels of each group member shows just how easy it is to categorize the three groups. This is especially true for the first two

continued on page 6

Table 2: U.S. Ordinary Recurring Reinsurance (U.S. Millions)

	2003			2004		
Company	**Assumed Business**	**Market Share**	**Increase in Production**	**Assumed Business**	**Market Share**	**Increase in Production**
Scottish Re	63,366	6.1%	100.0%	240,258	23.3%	279.2%
Swiss Re	234,308	22.5	-11.7	184,172	17.9	-21.4
RGA	164,172	15.7	40.9	156,431	15.2	-4.7
Munich American Re	108,397	10.4	35.4	131,438	12.8	21.3
Transamerica Re	120,900	11.6	9.7	124,200	12.1	2.7
Generali USA Life Re	58,778	5.6	-20.8	48,483	4.7	-17.5
Canada Life	31,014	3.0	5.6	38,223	3.7	23.2
Employers/ERC	34,157	3.3	-41.6	36,019	3.5	5.5
SCOR Life Re	37,510	3.6	71.4	32,275	3.1	-14.0
Revios Re	17,168	1.6	-30.7	19,758	1.9	15.1
General Re Life	13,892	1.3	-4.9	15,675	1.5	12.8
Optimum Re (U.S.)	1,857	0.2	9.6	2,202	0.2	18.6
Annuity and Life Re	3,530	0.3	93.8	0	0.0	-100.0
GE Ins. Solutions (ERC-Can.)	154	0.0	0.0	0	0.0	100.0
ING Re *	154,199	14.8	19.2	ACQ	ACQ	ACQ
TOTALS	1,043,402	100.0	2.5	1,029,134	100.0	-1.4

* ING Re Business acquired by Scottish Re

Table 3: Canada Ordinary Recurring Reinsurance ($U.S. Millions)

	2003			2003		
Company	**Assumed Business**	**Market Share**	**Increase in Production**	**Assumed Business**	**Market Share**	**Increase in Production**
Munich Re (Canada)	35,524	34.6%	26.7%	42,466	42.3%	30.6%
Swiss Re	30,230	32.2	9.1	31,392	31.3	3.8
RGA Re (Canada)	11,613	12.4	8.7	20,091	20.0	73.0
GE Ins. Solutions (ERC-Can.)	15,284	16.3	19.5	3,258	3.2	-78.7
Optimum Re (Canada)	2,364	2.5	35.1	2,877	2.9	21.7
Revios	1,233	1.3	-47.5	206	0.2	-83.3
Canada Life	618	0.7	18.6	66	0.1	-89.3
General Re Life	43	0.0	138.9	0	0.0	-100.0
TOTALS	93,909	100.0	15.3	100,356	100.0	6.9

groups where a $75 billion production gap exists between the lowest group one company and the top group two company. For the lowest group two company and the highest group three company there was approximately a $13 million gap.

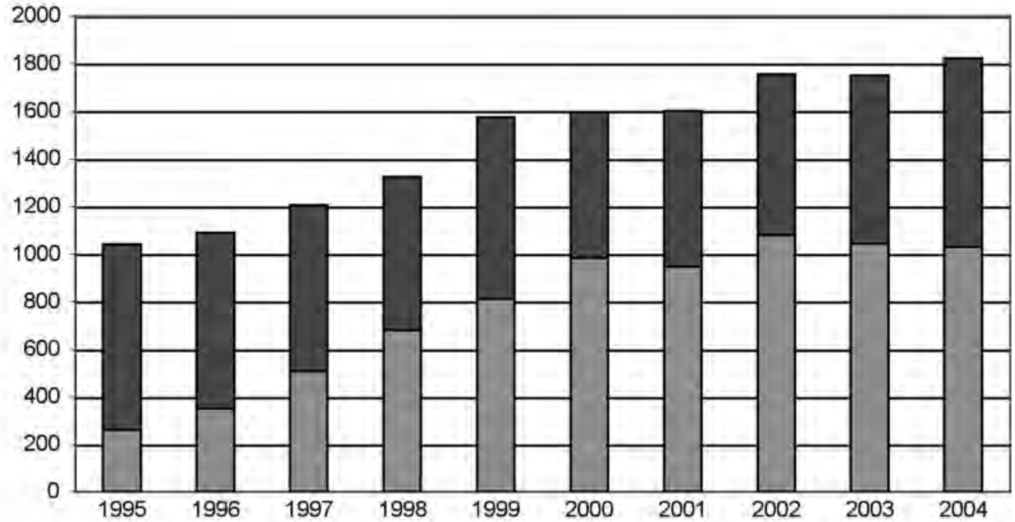
In Canada, it took just three reinsurers (out of the seven active reinsurers surveyed) to account for over 90 percent of the 2004 market share. Munich Re, Swiss Re and RGA Re made up 93.6 percent of the Canadian recurring new business market in 2004.

Higher Highs and Lower Lows. As noted earlier, the total recurring markets have remained relatively stable over the last few years, especially in the United States. However the level of increases/ decreases in each individual company's production has widened over the years. With a 1.4 percent decrease in total production in 2004, the overall U.S. recurring market was basically at the same level as 2003. Yet there were two companies who reported increases of $20 billion or more and two companies reporting decreases of $10 billion or more. Munich American reported a $23 billion increase. Factoring in ING Re's numbers, Scottish Re had a $22.7 billion increase in 2004 recurring production. On the flip side, Swiss Re experienced a $50.1 billion decrease in recurring business and Generali USA reported a $10.3 billion decrease.

Even in Canada, where the market is much smaller than the U.S. market, wide production swings were evident. Two companies reported increases of $8 billion or more: Munich Re ($9.9 billion) and RGA Re Canada ($8.5 billion). One company, GE Insurance Solutions (ERC-Canada), posted a decrease of $12.0 billion. So three reinsurers out of the seven surveyed in Canada, or 42 percent, experienced sizable swings in recurring production from 2003 to 2004.

Totals for U.S. and Canadian recurring ordinary reinsurance assumed in 2003 and 2004, as well as percentage changes are shown in Table 2 and Table 3 which are respectively on pages five and six.

Figure 1: U.S. Ordinary Individual Life Insurance Sales



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
% Reinsured	25.1%	32.1%	42.1%	51.3%	51.5%	61.8%	59.2%	61.5%	59.7%	56.5%
Amt Retained	778	739	696	645	763	609	653	675	705	792
Amt Reinsured	261	350	507	679	811	985	947	1078	1043	1029

Portfolio and Retrocession Business

The 2004 portfolio results were heavily influenced by the acquisition activity of Scottish Re and Swiss Re. As a result, total portfolio production rose 236.3 percent in 2004. In the United States, a 292.8 percent increase was reported. In Canada however, no portfolio business was reported in 2004.

After years of steady declines in production, the U.S. retrocession market rebounded in 2003 with an impressive increase of 29.7 percent. But U.S. retrocessionaires were unable to duplicate 2003's increase in 2004. Instead, retrocession production dropped 4.3 percent in 2004. The smaller Canadian retrocession market, which is more prone to volatility, reported a 75.1 percent increase in 2004. This follows a 33.3 percent decrease in 2003. If we combine the two markets, we see that retrocession production was approximately at the same level in 2004 as in 2003—with only a small 0.4 percent decrease reported.

Comparison with Direct Market

Preliminary estimates from the American Council of Life Insurers (ACLI) show a 4.2 percent increase in U.S. ordinary individual life purchases in 2004. With the direct market up and the reinsurance market down, the percentage-reinsured level dropped from 59.7 percent in 2003 to 56.5 percent in 2004. Thus, while the percentage-reinsured level dropped for the second straight year, the majority of U.S. life insurance purchases continue to be reinsured. The contributing factors to the high level of percentage reinsured seen over the past five years have been: (1) competitive reinsurance pricing, and (2) the direct company's reliance on reinsurers to relieve reserve strain from XXX term products. With reports of rising letters of credit (LOC) costs coupled with LOC capacity issues, reinsurers and even some direct companies are exploring alternative ways to finance the reserve strain. Whatever the solution, it will need to allow for the reinsurers to continue providing competitive pricing if the high percentage-reinsured levels experienced over the last several years are to be maintained.

Figure 1 compares ordinary life new business totals with the recurring life reinsurance totals for the United States.

continued on page 8

Life Reinsurance Data... from page 7

Table 4: Life Reinsurance In Force ($U.S. Millions)

		U.S.			Canadian			Total	
	2003	2004	Change	2003	2004	Change	2003	2004	Change
Ordinary Life									
Recurring	4,790,945	4,858,002	1.4%	544,488	634,439	16.5%	5,335,433	5,492,441	2.9%
Portfolio	621,569	1,356,486	118.2	433	406	-6.2	622,002	1,356,892	118.1
Retrocession	241,069	227,213	-5.7	17,989	21,903	21.8	259,058	249,116	-3.8
Total Ordinary	5,653,583	6,441,701	13.9	562,910	656,748	16.7	6,216,493	7,098,449	14.2
Total Group	157,852	148,389	-6.0	148,909	168,028	12.8	306,761	316,417	3.1
Total Life	5,811,435	6,590,090	13.4	711,819	824,776	15.9	6,523,254	7,414,866	13.7

Life Reinsurance In Force

Total life reinsurance in force increased 13.7 percent in 2004. This compares to increases of 14.1 percent in 2003, and 16.5 percent in 2002. The U.S. total life in force increased 13.4 percent and the Canadian market in force grew by 15.9 percent in 2004.

The in force survey results for 2003 and 2004 are summarized in Table 4.

David M. Bruggeman, FSA, MAAA, is an assistant vice president and actuary with Munich American Reassurance Company in Atlanta, Ga. He can be reached at *dbruggeman@marclife.com*.

Conclusion

There's no denying that U.S. ordinary recurring business has leveled off. Since 2000, reinsurance production has increased 4.5 percent while the direct insurance market has increased 14.2 percent. in 2004. Large direct writers sought out their own financing solutions for XXX reserve strain instead of relying on reinsurance for relief in 2004. As a result, many of these companies have increased their retentions or moved from a first dollar quota share basis to an excess basis, thus ceding out less reinsurance. The level of success of these programs should bear out in next year's survey results.

Given the rapid consolidation of the life reinsurance industry over the past few years, it was only a matter of time before there were new entrants to the market. Formed in December 2004, newcomer Wilton Re has announced that they will focus on U.S. traditional mortality business and life insurance runoff solutions. Also, ACE Tempest Re has recently shown interest in individual life reinsurance. While it is too early to predict the impact these newcomers will have on future survey results, the fact that there are new entrants indicates the continued potential of the reinsurance market.

Finally, we would like to thank all of the survey participants for their support. ✷

DISCLAIMER:

Munich American Reassurance Company prepared the survey on behalf of the Society of Actuaries Reinsurance Section as a service to section members. The contributing companies provide the numbers in response to the survey. These numbers are not audited and Munich American, the Society of Actuaries and the Reinsurance Section take no responsibility for the accuracy of the figures.