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LIFE REINSURANCE DATA FROM THE MUNICH AMERICAN SURVEY

by David M. Bruggeman

Munich American's annual survey, which is conducted on behalf of the Society of Actuaries 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:

(1) Recurring reinsurance:[1] conventional reinsurance covering an insurance policy with an issue date in the year in which it was reinsured,

(2) 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,

(3) Retrocession reinsurance: reinsurance not directly written by the ceding company.

Complete survey results can be found at Munich American's Web site: *www.marclife.com* (look under Publications).

Life Reinsurance Production

The survey shows U.S. reinsurance production dropping 50.6 percent in 2005. All categories of reinsurance in the United States, with the exception of retrocession, decreased in 2005. While a 50 percent decrease in production sounds dramatic, most of the decrease can be traced to the drop-off in portfolio

[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.

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Life Reinsurance New Business Production Results for 2004 and 2005 ($U.S. Millions)

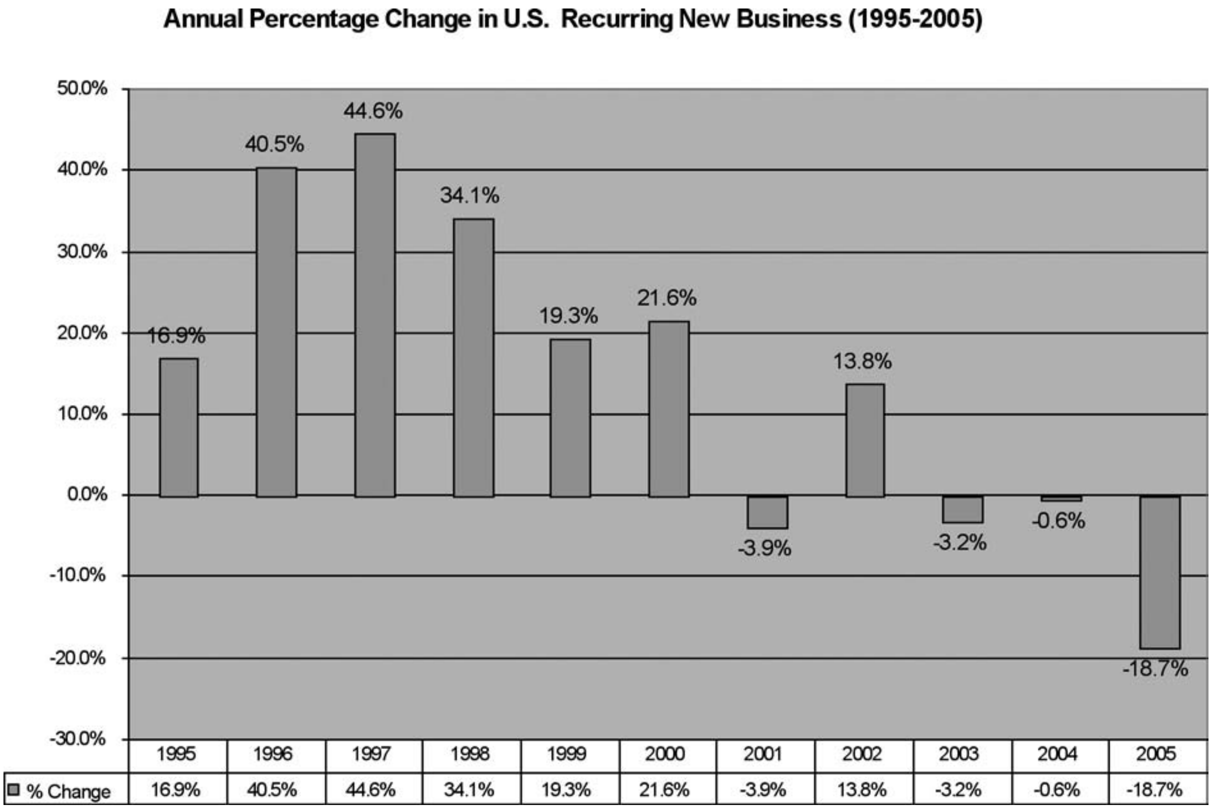
	U.S.			Canada			Total		
	2004	2005	Change	2004	2005	Change	2004	2005	Change
Ordinary Life									
Recurring	1,037,543	843,668	-18.7%	100,357	110,009	9.6%	1,137,900	953,677	-16.2%
Portfolio	831,703	38,743	-95.3%	0	987	100.0%	831,703	39,730	-95.2%
Retrocession	31,249	42,625	36.4%	2,921	7,000	139.6%	34,170	49,625	45.2%
Total Ordinary	1,900,495	925,036	-51.3%	103,278	117,996	14.3%	2,003,773	1,043,032	-47.9%
Total Group	54,400	41,078	-24.5%	17,515	22,245	27.0%	71,915	63,323	-11.9%
Total Life	1,954,895	966,114	-50.6%	120,793	140,241	16.1%	2,075,688	1,106,355	-46.7%

production, which was at an all-time high level in 2004. More alarming is the 18.7 percent decrease in recurring production. In Canada, every category of life reinsurance increased in 2005, resulting in a 16.1 percent overall increase.

U.S. Recurring Business

Not only did U.S. recurring production fall for the third straight year in 2005, the 18.7 percent decrease reported in 2005 was one of the largest decreases ever recorded. Double-digit growth throughout the 1990s has since been followed by decreases in four of the last five years. While the prior year's decreases were minimal, a 0.6 percent decrease in 2004 and a 3.2 percent decrease in 2003, the 18.7 percent decrease in 2005 is substantial. The chart on page 5 shows the annual percentage change in U.S. recurring new business from 1995 to 2005. From 1995 to 2000, the market enjoyed large double-digit growth. These were the "boom" years for life reinsurance when reinsurance pricing was very competitive and direct companies moved to first-dollar quota-share arrangements. When Regulation XXX became effective in 2000, the direct writer's need for surplus relief from the reserve strain kept up the need for reinsurance. The year 2002 appears to be a high-water mark for life reinsurance as production has slowed down in recent years. What happened in 2005 to cause the decrease in recurring new business? There were a couple of things going on in 2005 that could account for the drop. First, some of the top reinsurers undertook major repricing efforts in 2005. The repricing often resulted in an increase in reinsurance rates and thus, some direct companies may have chosen to retain more of their business. Second, direct writers began seeking out and finding alternate financial solutions outside of reinsurance to fund their Regulation XXX reserve strain. When Regulation XXX became effective in 2000, most direct companies turned to the reinsurance industry to provide surplus relief stemming from the new reserve requirements. This worked fine for the first couple of years, but then reinsurance prices began to rise and some of the larger direct companies sought out ways to finance their reserve strain themselves. Once they had found their own solution, the need for reinsurance lessened and they elected to retain more of their business. To note, I think 2005 saw more term business being reinsured on an YRT basis, often excess of retention, than in quite some time.

On page 6 are the 2005 U.S. recurring numbers by company. Included are market share and percentage change from 2004. The companies can easily be divided into three groups: companies with market share of 10 percent and above, companies with



market share between five percent and 10 percent and companies with market share below five percent. There are some noteworthy items to take away from these results.

1) The top group, consisting of five companies (RGA, Scottish, Transamerica, MARC and Swiss), accounted for 76.6 percent of the market share in 2005. If we add the 12.6 percent market share of the next group, which consists of two companies (Generali, Canada Life), we see that the top seven companies accounted for almost 90 percent of the market in 2005. Ten years ago it took twice that many companies (14) to make up 90 percent of the market.

2) Three of the top five reinsurers reported sizable decreases in recurring production in 2005. One reinsurer reported a slight increase and only one reported double-digit growth—an occurrence that was quite common a few years ago. RGA held the top position in 2005 with a 21.7 percent market share. They reported a 17.3 percent increase in recurring production and were, by far, the top writer—leading the number two writer, Scottish, by over $50 billion. Sizable decreases were recorded by Swiss Re (47.2 percent), Scottish (45.5 percent) and MARC (19.9 percent), whereas Transamerica reported a 4.3 percent increase in recurring new business. In total, the top five companies, who made up for 76 percent of the 2005 market, experienced a 22.7 percent decrease in production from 2004 to 2005.

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3) In the second group, both Generali USA and Canada Life experienced nice increases in production. The 27.0 percent increase for Generali and the 17.3 percent increase for Canada life resulted in a 22.7 percent increase for this second group.

THE YEAR 2002 APPEARS TO BE A HIGH-WATER MARK FOR LIFE REINSURERS AS PRODUCTION HAS SLOWED DOWN IN RECENT YEARS.

4) The third group had nine reinsurers garnering a total 10.8 percent market share. Two new entrants are included in this group, Wilton Re and Ace Tempest. Collectively, this group experienced a 14.1 percent decrease in production, due mostly to the GE Insurance Solutions decline.

Now let's go way back in the survey archives and revisit a theory brought up by the authors at that time called the "wave theory." The wave theory went something like this: reinsurers who are successful in increasing their production in a short period of time will ultimately crest, and then see a downturn in production. When the wave "breaks" and the production decreases, another reinsurer steps in to take up the slack, perpetuating the cycle. In the past, the crest of the wave has increased with each cycle, however this element of the theory has not held in the last few years. The chart on page 7 even shows U.S. recurring amounts for the top five writers. Please note that the numbers do include the companies acquired. So the Swiss numbers include Lincoln National

U.S. Ordinary Recurring Reinsurance (U.S. Millions)

Company	2004 Assumed Business	2004 Market Share	2005 Assumed Business	2005 Market Share	Increase in Production
RGA	156,431	15.1%	183,491	21.7%	17.3%
Scottish Re	240,258	23.2%	130,974	15.5%	-45.5%
Transamerica Re	124,200	12.0%	129,600	15.4%	4.3%
Munich American Re	131,438	12.7%	105,294	12.5%	-19.9%
Swiss Re	184,172	17.8%	97,245	11.5%	-47.2%
Generali USA Life Re	48,483	4.7%	61,584	7.3%	27.0%
Canada Life	38,223	3.7%	44,824	5.3%	17.3%
SCOR Life Re	32,275	3.1%	27,796	3.3%	-13.9%
General Re Life	15,675	1.5%	21,559	2.6%	37.5%
Revios Re	19,758	1.9%	17,232	2.0%	-12.8%
Hannover Re	8,409	0.8%	7,467	0.9%	-11.2%
Wilton Re	0	0.0%	6,116	0.7%	100.0%
Optimum Re	2,202	0.2%	5,010	0.6%	127.5%
Ace Tempest	0	0.0%	4,200	0.5%	100.0%
GE Ins. Solutions	36,019	3.5%	1,276	0.2%	-96.5%
TOTALS	**1,037,543**	**100.0%**	**843,668**	**100.0%**	**-18.7%**

(acquired in 2001), RGA's numbers include Allianz (acquired in 2003), Scottish Re's numbers include ING (acquired in 2004), and MARC's numbers include CNA (acquired in 2000). The chart clearly illustrates that the wave theory is still relevant today. The Swiss Re line rides a high wave from 1998–2003 and then drops. The Scottish line increases throughout the years and then drops in 2005. The RGA, Transamerica and MARC lines exhibit the classic wave features with waves cresting higher and higher each year. In RGA's and Transamerica's case, the waves are still rising while for MARC, the wave went down in 2005.

Canada Recurring Business

In Canada, recurring new business increased 9.6 percent. One hundred ten billion dollars was written in 2005 compared to $100.3 billion in 2004. Indications are that Canadian direct life sales were about at the same level in 2005 as in 2004. So even with stagnant direct sales, Canadian recurring reinsurance continued to grow. This is a similar pattern witnessed in the U.S. a few years ago and would imply that Canada's direct writers are reinsuring more life insurance than ever before. Three companies dominated the Canadian market: Munich Re, RGA and Swiss Re. These three reinsurers account for 96.8 percent of the market. Munich Re held a 44.6 percent market share and had a 15.5 percent increase in new business production in 2005. RGA's 56.1 percent increase in recurring new business from 2004 resulted in a 28.5 percent market share and although Swiss Re had a 16.8 percent decrease in recurring production, they still maintained a 23.7 percent market share. Totals for Canadian recurring ordinary reinsurance assumed in 2004 and 2005 are shown in the chart on page 8.

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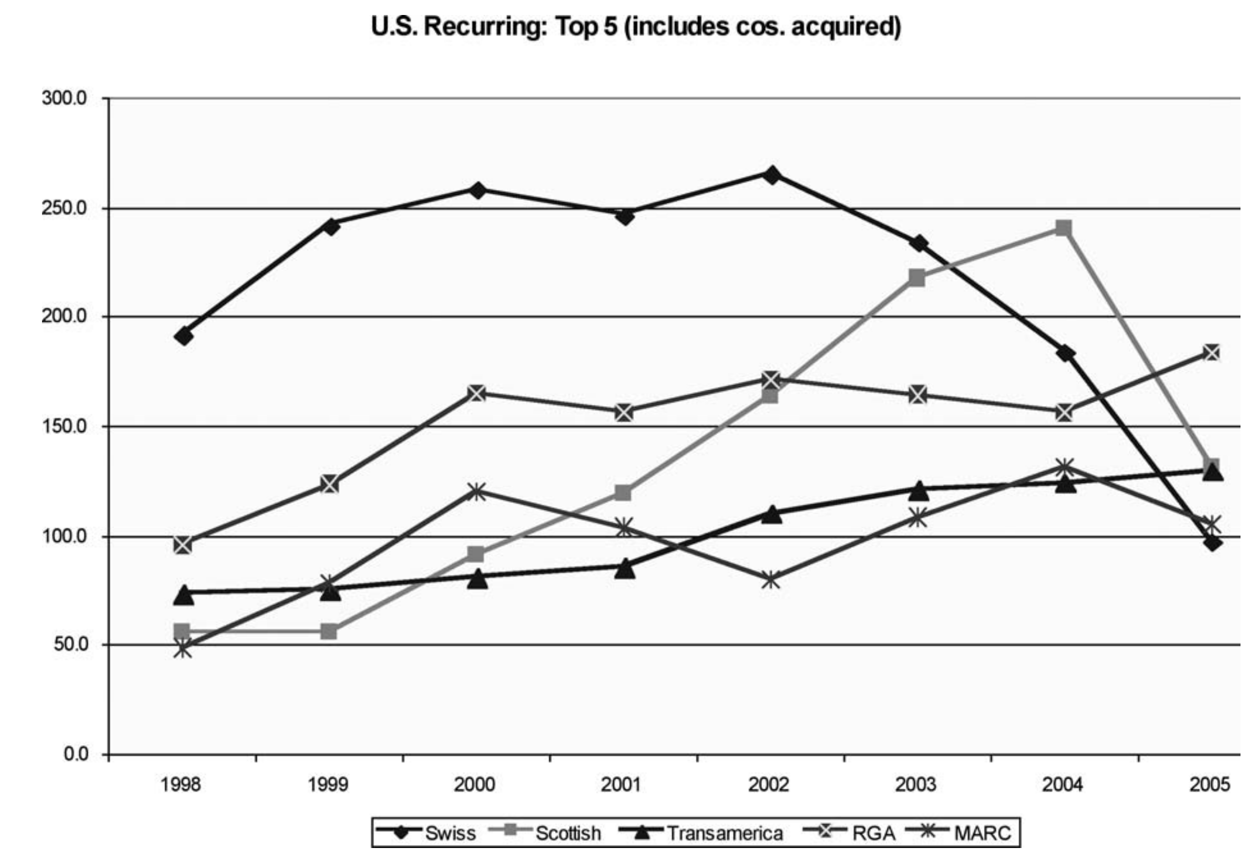


Portfolio and Retrocession Business

In the last two years, U.S. portfolio production reached its highest level ever in 2004 and then dropped to one of its lowest levels in 2005. With two major acquisitions in 2004 (Scottish Re's acquisition of ING Re and Swiss Re's acquisition of the CNA direct block), portfolio reinsurance reached a new high. However, in 2005, portfolio reported its lowest level in 10 years. The 289.3 percent increase reported in the United States in 2004 gave way to a 95.3 percent decrease in 2005. The lack of any mega-mergers or acquisitions in 2005, along with fewer in force block opportunities being offered by the direct writers, were major culprits in the decline experienced in 2005. Canada reported minimal portfolio business in 2005 compared to zero portfolio business in 2004.

Even with the drop in recurring production, U.S. retrocession production rose 36 percent in 2005. The increase can be attributed to retro in force block deals finalized in 2005. In force block deals also helped the Canadian retrocession market show a 140 percent increase in production. It should be noted that the Canadian market is relatively smaller and subject to wider swings in production.

Comparison with Direct Market

Preliminary estimates from the American Council of Life Insurers (ACLI) show U.S. ordinary individual life purchases decreased 2.7 percent from 2004 to 2005. With the sizable drop in U.S. recurring new business of 18.7 percent, the percentage reinsured level reached an eight-year low of 47.0 percent. This marks the first time since 1997 that the reinsured percentage has fallen below 50 percent. The percentage reinsured reached a high of 61.8 percent in 2000, but has since steadily declined the last three years.

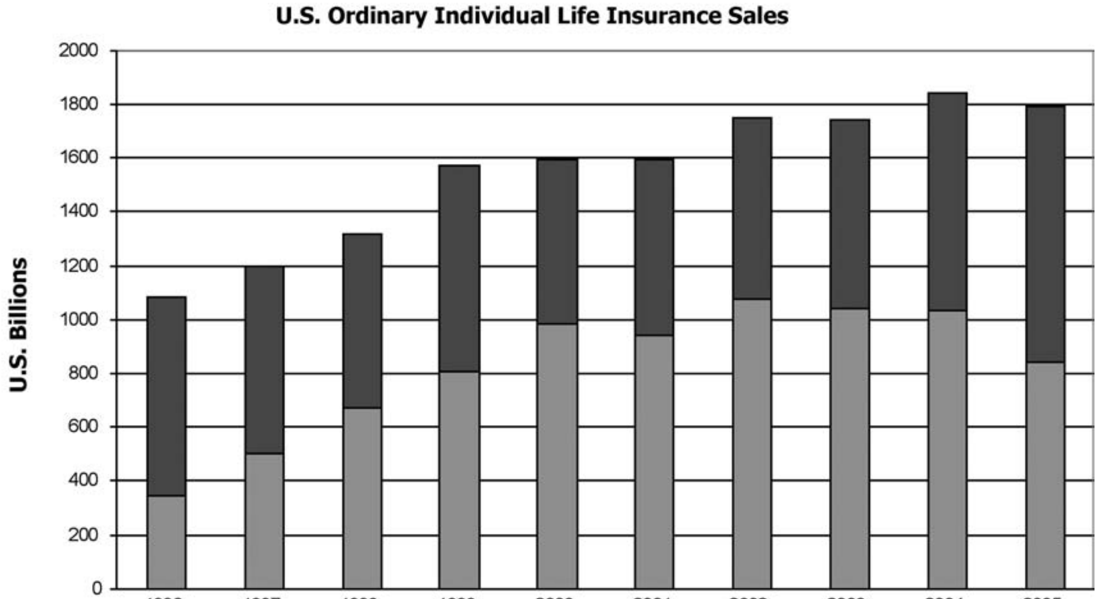
The graph on page 9 compares ordinary life new business totals with the recurring life reinsurance totals for the United States.

Conclusion

The year 2005 was quite a year for life reinsurers, especially in the United States. Major repricing efforts and the direct writer's ability to find alternate XXX reserve financing solutions were contributing factors to the drop-off in U.S. ordinary recurring production. In addition, the slow-down of M&A activity and fewer in force block opportunities led to record lows for portfolio reinsurance. Only retrocession business enjoyed an increase in production. It

Canada Ordinary Recurring Reinsurance ($U.S. Millions)

	2004		2005		
Company	Assumed Business	Market Share	Assumed Business	Market Share	Increase in Production
Munich Re (Canada)	42,466	42.3%	49,034	44.6%	15.5%
RGA Re (Canada)	20,091	20.0%	31,354	28.5%	56.1%
Swiss Re	31,382	31.3%	26,115	23.7%	-16.8%
Optimum Re (Canada)	2,877	2.9%	3,282	3.0%	14.1%
Revios	206	0.2%	191	0.2%	-7.3%
General Re Life	0	0.0%	19	0.0%	100.0%
Canada Life	66	0.1%	14	0.0%	-78.8%
GE Ins. Solutions (Can)	3,258	3.2%	0	0.0%	-100.0%
TOTALS	**100,346**	**100.0%**	**110,009**	**100.0%**	**9.6%**



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
% Reinsured	32.1%	42.1%	51.3%	51.5%	61.8%	59.2%	61.5%	59.7%	56.2%	47.0%
Amt Retained	739	696	645	763	609	653	675	705	809	952
Amt Reinsured	350	507	679	811	985	947	1078	1043	1037	844

is difficult to predict what will happen in 2006, but some factors that may influence the 2006 results include:

1) We saw three of the top five U.S. reinsurers report sizable decreases in new business production in 2005. Will another year of decreasing production be acceptable to these companies?

2) Wilton Re and ACE Tempest Re entered the life reinsurance market in 2005 and XL Re has announced their entry into the market as well. What impact will these new players have on the market?

3) Principles-based reserving may be on the horizon, but Regulation XXX won't be going away in 2006. Will direct writers look to reinsurers for reserve strain relief or will they seek alternate solutions?

In closing, we would like to thank all of the survey participants for their support with the survey.

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. ✺

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