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Life Reinsurance From The Munich American Survey

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DISCLAIMER:

Munich American Reassurance Company prepared the survey at the request 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.

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:

- (1) Recurring reinsurance¹: 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 are available from the authors upon request. These results may also be obtained at Munich American's Web site: www.marclife.com look under Research.

Life Reinsurance Production

At first glance, it may appear that life reinsurance production in 2001

continued the recent trend of growth—after all, looking at the totals summarized below, a healthy 31.0% increase was reported (U.S.: 30.0%, Canada: 47.9%). However, if we dig a little deeper into the numbers, we see quite a different picture. The impact the Swiss Re acquisition of Lincoln Re had on the 2001 results was very significant. If we exclude the Swiss Re portfolio business attributable to the Lincoln Re purchase, we see that in the U.S., every reinsurance category except group experienced a decrease in production. This is quite a contrast to the Canadian numbers which had double-digit increases in every reinsurance category. Excluding the Lincoln portfolio business, the 31.0% overall increase becomes a 7.4% decrease (US: -8.8, Canada: 17.6%).

Below are the life reinsurance production results for 2000 and 2001:

Life Reinsurance New Business Production (\$U.S. Millions)									
	United States			Canadian			Total		
	2000	2001	Change	2000	2001	Change	2000	2001	Change
Ordinary Life									
Recurring	985,466	933,101	-5.3%	51,827	59,177	14.2%	1,037,293	992,278	-4.3%
Portfolio	157,394	569,066	261.6%	12,218	35,353	189.4%	169,612	604,419	256.4%
Retrocession	47,519	25,141	-47.1%	736	1,431	94.4%	48,255	26,572	-44.9%
Total Ordinary	1,190,379	1,527,308	28.3%	64,781	95,961	48.1%	1,255,160	1,623,269	29.3%
Total Group	20,430	46,767	128.9%	4,103	5,930	44.5%	24,533	52,697	114.8%
Total Life	1,210,80	1,574,075	30.0%	66,884	101,891	47.9%	1,279,693	1,675,966	31.0%

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.

Recurring Business

Because the survey attempts to remove any double counting of retrocession and block reinsurance from the recurring figures, recurring business usually offers the most revealing picture of production trends. In the U.S., there was a 5.3% decrease in recurring new business in 2001. This is a rather noteworthy event as it marks the first time since 1989 that recurring business decreased in the U.S. To put this in perspective, increases of 21.6%, 19.3%, 33.9%, and 44.8% were recorded in 2000, 1999, 1998 and 1997 respectively. Unlike the U.S., Canadian recurring business continued to grow in 2001. A 14.2% growth rate was recorded. This follows increases of

41.7% in 2000, 37.1% in 1999 and confirms the belief that Canadian direct writers are reinsuring more business on a first dollar quota share basis. Two other factors believed to have contributed positively to the Canadian results are: (1) some Canadian direct writers have lowered their maximum retention limits, and (2) an increase in high net worth sales in Canada.

While the overall recurring market decreased, there were still some companies that reported noteworthy increases. Having purchased Lincoln Re in 2001, Swiss Re reported an increase of \$127.5 billion in U.S. and Canadian recurring business. Annuity & Life Re and Scottish

Re, relative newcomers to the reinsurance industry, also reported impressive increases. Annuity & Life Re experienced a \$23.5 billion growth in recurring production, while Scottish Re reported a \$21.0 billion increase. Other companies reporting incremental increases in excess of \$5 billion in 2001 include: ING Re (\$7.6), Canada Life (\$7.5) and BMA (\$6.0).

Totals for Canadian and U.S. recurring ordinary reinsurance assumed in 2000 and 2001, as well as percentage changes, are listed below and on page 30.

Portfolio and Retrocession Business

Total portfolio business increased over 256% in 2001. However, as

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

Company	Assumed Business	2000 Market Share	Increase in Production	Assumed Business	2001 Market Share	Increase in Production
Allianz	45,532	4.6%	27.0%	43,711	4.7%	-4.0%
Annuity and Life Re	32,253	3.3%	102.4%	55,764	6.0%	72.9%
AUL	46,942	4.8%	11.4%	21,750	2.3%	-53.7%
BMA	33,004	3.3%	30.9%	39,003	4.2%	18.2%
Canada Life	11,471	1.2%	20.8%	19,010	2.0%	65.7%
Employers/ERC	86,577	8.8%	-4.1%	37,248	4.0%	-57.0%
General & Cologne	20,305	2.1%	-1.8%	16,231	1.7%	-20.1%
Gerling Global	31,397	3.2%	19.3%	27,746	3.0%	-11.6%
Hannover Life Re	6,381	0.6%	59.9%	3,155	0.3%	-50.6%
ING Re	86,009	8.7%	54.0%	93,584	10.0%	8.8%
Lincoln Re *	134,393	13.6%	17.1%	ACQ	ACQ	ACQ
Munich American Re	119,859	12.2%	168.8%	103,679	11.1%	-13.5%
Optimum Re (U.S.)	1,069	0.1%	-1.3%	1,301	0.1%	21.7%
RGA	119,449	12.1%	36.6%	112,746	12.1%	-5.6%
SCOR Life Re	844	0.1%	44.8%	DNR	DNR	DNR
Scottish Re	5,060	0.5%	100.0%	26,045	2.8%	414.7%
Swiss Re	124,176	12.6%	-2.3%	246,466	26.4%	98.5%
Transamerica Re	80,741	8.2%	7.7%	85,662	9.2%	6.1%
Totals	985,462	100.0%	26.9%	933,101	100.0%	-5.3%

* Lincoln Re acquired by Swiss Re

Life Reinsurance Data ...

from page 29

Canadian Ordinary Recurring Reinsurance (U.S. Millions)						
Company	Assumed Business	2000 Market Share	Increase in Production	Assumed Business	2001 Market Share	Increase in Production
Annuity and Life Re	144	0.3%	-93.4%	0	0.0%	-100.0%
Canada Life	0	0.0%	-100.0%	461	0.8%	100.0%
ERC Canada	3,796	7.3%	137.2%	7,386	12.5%	94.6%
General & Cologne	6	0.0%	500.0%	41	0.1%	583.3%
Gerling Global	1,563	3.0%	22,214.3%	2,094	3.5%	34.1%
ING Re	2	0.0%	-50.0%	1	0.0%	-50.0%
Lincoln Re *	6,063	11.7%	53.1%	ACQ	ACQ	ACQ
Munich re (Canada)	16,599	32.0%	63.0%	20,950	35.4%	26.2%
Optimum Re (Canada)	1,382	2.7%	67.4%	1,290	2.2%	-6.7%
RGA	2	0.0%	100.0%	0	0.0%	-100.0%
RGA Re (Canada)	8,439	16.3%	3.6%	7,919	13.4%	-6.2%
Swiss Re	13,832	26.7%	42.6%	19,036	32.2%	37.6%
Totals	51,827	100.0%	41.6%	59,177	100.0%	14.2%

* Lincoln Re acquired by Swiss Re

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noted earlier, this figure is heavily impacted by Swiss Re's acquisition of Lincoln Re. If we extract the portfolio business attributed to this deal, we see that portfolio business decreased 33.1%. Over the last few years, there has been a decreasing trend in portfolio business. This trend would support the view that the number of in force block deals being offered to reinsurers has been declining.

Meanwhile, retrocession production dropped 44.9% in 2001. In just the last two years, retrocession production has fallen over 67%. Factors that may be contributing to the drop in production are: (1) larger reinsurers increasing their retention; (2) the trend toward first dollar quota share arrangements with multiple reinsurers in reinsurance pools—which reduces the availability of “excess” layers; (3) consolidation of the reinsurance market.

Comparison With Direct Market

Preliminary estimates from the American Council of Life Insurance (ACLI) show 2001 U.S. ordinary individual life insurance purchases to be at almost exactly the same level as 2000 purchases. A modest 0.3% increase is estimated.

Most direct writers continue to reinsure on a first dollar quota share basis. However, if we compare life purchases data from the ACLI to the reinsurance survey production numbers, we see that 2001 is the first year since 1989 where a decrease in the percentage-reinsured was recorded. Given that results from the last four years (1998-2001) show a relatively stable percentage-reinsured level (in the mid-to-upper 50% range), the percentage-reinsured level has definitely hit a plateau, and maybe even reached its limit. The decrease in the percentage-reinsured in 2001 may suggest that direct writers are either slowly moving away from first dollar quota share arrangements and back to

excess retention arrangements or are increasing their maximum retention limits on first dollar quota share arrangements.

The following graph on page 31 compares ordinary life new business totals with the recurring life reinsurance totals for the United States.

Life Reinsurance In Force

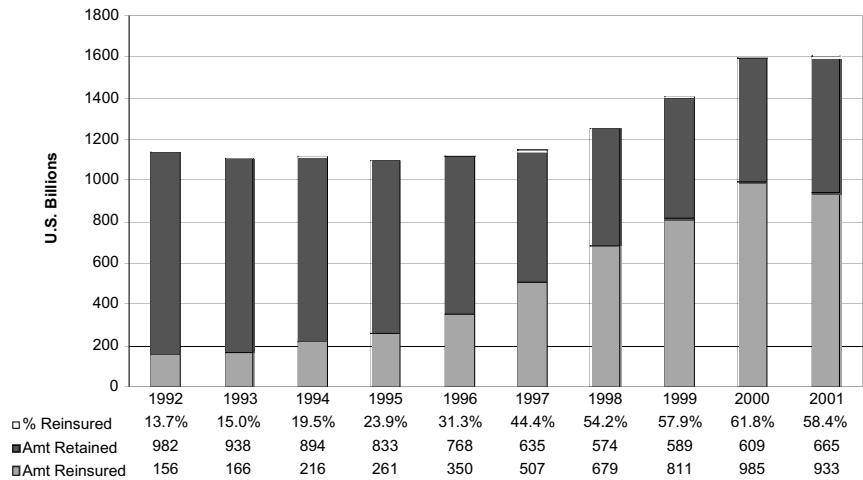
With increases in both U.S. and Canadian life reinsurance in force reported, total life in force business increased 15.1% in 2001. Excluding the Lincoln Re portfolio business from Swiss Re reduces this increase to 3.6%. This compares to increases of 21.6% in 2000 and 19.4% in 1999. The U.S. total life in force increased 15.1% (3.3% excluding the Lincoln Re portfolio business) and the Canadian market in force grew by 15.0% (7.4% excluding the Lincoln Re portfolio business) in 2001.

The in force survey results for 2000 and 2001 are summarized on page 31.

Conclusion

Has the U.S. reinsurance market peaked? Will the industry look back at the tremendous growth which occurred in 1990s and say "Those were the good old days?" While a few more years of experience is needed to answer these questions, the 2001 results do raise some concerns. First, U.S. recurring business reported a decrease in production for the first time in 12 years. Second, the percentage-reinsured is estimated to have decreased for the first time in 12 years. Third, retrocession business

U.S. Ordinary Individual Life Insurance Sales



Life Reinsurance In Force (\$U.S. Millions)

	United States			Canadian			Total		
	2000	2001	Change	2000	2001	Change	2000	2001	Change
Ordinary Life									
Recurring	3,274,158	3,350,669	2.3%	200,377	224,427	12.0%	3,474,535	3,575,096	2.9%
Portfolio	364,337	864,448	137.3%	35,616	62,263	74.8%	399,953	926,711	131.7%
Retrocession	253,442	245,761	-3.0%	10,465	10,844	3.6%	263,907	256,605	-2.8%
Total Ordinary	3,891,937	4,460,878	14.6%	246,458	297,534	20.7%	4,138,395	4,758,412	15.0%
Total Group	110,737	144,391	30.4%	28,559	18,720	-34.5%	139,296	163,111	17.1%
Total Life	4,002,674	4,605,269	15.1%	275,017	316,254	15.0%	4,277,691	4,921,523	15.1%

continued its steady decline in production. On a more positive note, the Canadian reinsurance market continues to produce double-digit growth, thanks in large part to the prevalence of first dollar quota share arrangements. However, one has to wonder if future growth trends in Canada will mirror those witnessed in the U.S. market.

Experts are predicting continued consolidation within the reinsurance industry over the next several years. To date, the consolidation effort has radically changed the make-up of the market. To illus-

trate, Fitch Ratings recently reported that in the past six years, nine of the top 18 life reinsurers have been acquired. This consolidation has resulted in the top five life reinsurers accounting for almost 70% of the new life recurring business in 2001.

In addition to the challenges above, reinsurers will continue to deal with the Regulation XXX capital requirements, and perhaps even a new valuation table. The impact the new valuation table will have on direct sales, and consequently reinsurance production, will be watched very closely.

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