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Life Reinsurance Data from the Munich Re Survey

By David M. Bruggeman

Munich Re'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 the Munich Re (US) website: **www.marclife.com** (look under Publications).

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LIFE REINSURANCE PRODUCTION: PORTFOLIO TO THE RESCUE!

2009 proved to be another interesting year for the life reinsurance industry—filled with ups, downs, large block deals and acquisitions. Similar to 2008, the increase in portfolio business far outweighed the decreases in the recurring and retrocession categories resulting in an overall increase in production for the United States and Canada. The United States recorded a 53.9 percent overall increase in production while Canada recorded a 127.8 percent overall increase. The United States experienced very sizable increases in portfolio on both the ordinary and group side, while group portfolio fueled the increase in Canada. It is important to note that the increase was not enjoyed by all companies and can be traced to just a few companies who wrote large deals in 2009. Without these large deals, the market would have declined as both recurring and retrocession business production fell in 2009. U.S. recurring slid 9.4 percent, while Canadian recurring squeaked out a small increase of 1.5 percent. Retrocession production dropped considerably in the United States (48.6 percent decrease) and in Canada (73.7 percent decrease).

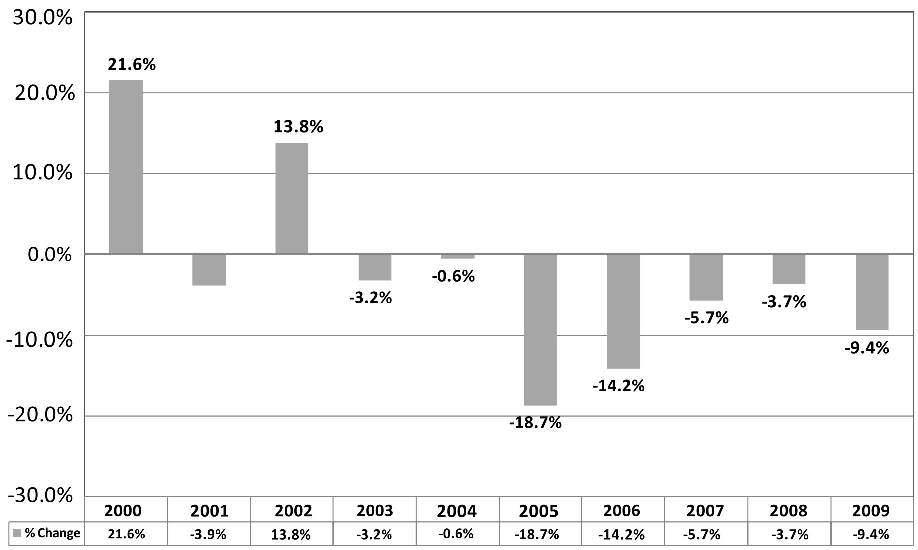
Life reinsurance production results for 2008 and 2009 are shown below:

U.S. RECURRING: THE SLIDE CONTINUES—SEVEN DOWN YEARS!

Those who are superstitious have to wonder if the U.S. life reinsurance industry broke a mirror in 2003 because it has been seven years since the industry recorded an increase in recurring production. The 9.4 percent decrease reported in 2009 reversed the trend of steadily shrinking decreases since 2005. Production fell 14.2 percent in 2006, 5.7 percent in 2007 and 3.9 percent in 2008. Granted, most of the decrease in 2009 can be attributed to sluggish direct sales—which fell approximately 5 percent, but the 9.4 percent drop represents the third largest decrease in the decade.

The annual percentage change in U.S. recurring new business since 2000 is shown above.

Annual Percentage Change in U.S. Recurring News (2000-2009)



Life Reinsurance New Business Production

	U.S. 2008	U.S. 2009	U.S. Change	Canadian 2008	Canadian 2009	Canadian Change
Ordinary Life						
Recurring	657,817	595,876	-9.4%	150,038	152,343	1.5%
Portfolio	256,786	776,710	202.5%	19,078	437	-97.7%
Retrocession	28,812	14,817	-48.6%	2,778	731	-73.7%
Total Ordinary	943,415	1,387,403	47.1%	171,894	153,511	-10.7%
Total Group	337,463	583,518	72.9%	6,043	251,896	4068.4%
Total Life	1,280,878	1,970,921	53.9%	177,937	405,407	127.8%

U.S. figures are in $US Millions, Canadian figures are in $CAN Millions

[1] Included in the definition of recurring 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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"THE TOP THREE REINSURERS ACCOUNTED FOR 60 PERCENT OF THE MARKET SHARE AND THE TOP FIVE COMPANIES MADE UP 85 PERCENT OF THE MARKET."

Those familiar with prior years' survey results should not be surprised at how concentrated and stratified the recurring market has become—and the 2009 results do little to change this picture. The top three reinsurers accounted for 60 percent of the market share and the top five companies made up 85 percent of the market. Similar percentages were seen in 2007 and 2008 for the top three and top five companies. As far as stratification goes, the company results can easily be broken into four distinct groups:

1. Group One: This group represents companies who reported over $100 billion in recurring production in 2009. The 2009 members are no strangers to this top group. In fact, the same three companies (RGA, Swiss Re, and Transamerica Re) have held the top three spots every year since 2006 and have been in the top five together for well over 10 years. While the group has not changed over the years, their relative positions have changed. RGA took the top spot in 2009, followed by Swiss Re and then Transamerica Re. As noted earlier, these three companies made up 60 percent of the entire recurring production market. RGA's $133.6 billion in 2009 represented a 0.8 percent increase from 2008 and a 22.4 percent market share. Swiss Re's $114.8 billion placed them in second position with a 19.3 percent market share. Finally, Transamerica captured the third position by writing $107.8 in recurring production. This gave them an 18.1 percent market share. Both Swiss Re and Transamerica Re did experience decreases in production from 2008 to 2009. Swiss Re had a 20.2 percent decrease and Transamerica's production fell 22.8 percent.

2. Group Two: This group includes the two companies who wrote between $50 and $100 billion in recurring production. Munich Re's $80.6 billion in recurring production represented a 62.2 percent increase from 2008 and resulted in a 13.5 percent market share. Generali USA wrote $70.0 billion which equated to an 11.8 percent market share.

3. Group Three: This group is made up of five companies who reported recurring new business between $10- and $20-billion in 2009: Hannover Life Re, Canada Life, SCOR Global Life Re, Ace Tempest Life Re, and Gen Re. Collectively, these companies made up 12.7 percent of the 2009 market share. Canada Life experi-

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U.S. Ordinary Recurring Reinsurance (U.S. Millions)					
	2008		2009		
Company	Assumed Business	Market Share	Assumed Business	Market Share	Change in Production
RGA Re	132,474	20.1%	133,591	22.4%	0.8%
Swiss Re	143,791	21.9%	114,752	19.3%	-20.2%
Transamerica Re	139,703	21.2%	107,834	18.1%	-22.8%
Munich Re (US)	49,660	7.5%	80,564	13.5%	62.2%
Generali USA Life Re	82,423	12.5%	70,023	11.8%	-15.0%
Hannover Life Re	17,913	2.7%	19,361	3.2%	8.1%
Canada Life	16,800	2.6%	19,191	3.2%	14.2%
SCOR Global Life (US)	17,838	2.7%	17,503	2.9%	-1.9%
Ace Tempest Life Re	10,365	1.6%	10,265	1.7%	-1.0%
Gen Re	14,388	2.2%	10,088	1.7%	-29.9%
Wilton Re	7,983	1.2%	7,168	1.2%	-10.2%
Optimum Re (US)	6,555	1.0%	4,855	0.8%	-25.9%
RGA Re (Canada)	232	0.0%	400	0.1%	72.4%
Employers Re. Corp.	134	0.0%	281	0.0%	109.7%
Scottish Re (US)	5,982	0.9%	0	0.0%	-100.0%
XL Re Life America	11,576	1.8%	0	0.0%	-100.0%
TOTAL	657,817	100%	595,876	100%	-9.4%

enced the largest production increase among this group, recording a 14.2 percent increase in 2009.

4. Group Four: This final group represents companies who wrote less than $10 billion in recurring new business in 2009. Wilton Re, Optimum Re, RGA (Canada) and Employers Re are the members of this group. Group Four's combined market share was 2.1 percent.

The distinction between each group is by no means arbitrary as there are easily apparent lines between each group. For example, there is a $27.3 billion difference between the lowest Group 1 member and the highest Group 2 member. Likewise, there is a $50.7 billion difference between the lowest Group 2 member and the highest Group 3 member.

Munich Re (US) reported the largest recurring new business increase in 2009. Their $30.9 billion increase was, by far, the largest increase in 2009. Canada Life's $2.4 billion production increase was the second largest reported. Several companies reported production decreases in 2009. The largest decreases were reported by three of the top five producers: Transamerica Re's production fell $31.9 billion, Swiss Re reported a $29.0 billion drop and Generali USA's production declined $12.4 billion.

Two other noteworthy items relating to U.S. reinsurance activity in 2009:

1. XL Re was acquired by SCOR Global Life (US). XL Re was a relative newcomer to the U.S. life reinsurance market, having entered in 2006.

2. Hannover Life Re acquired a book of individual life business from Scottish Re. This was the ING block purchased by Scottish Re in 2004.

CANADA RECURRING: STABLE IN 2009

Canadian recurring reinsurers were able to record a small 1.5 percent increase overall. This follows the 7.7 percent increase experienced in 2008. Looking at the results by company shows practically all of the increase can be attributed to Munich Re. Munich Re's recurring production increase of $5.5 billion was the only sizable increase in the Canadian market. RGA experienced a $1.8 billion decrease and Swiss Re reported a $0.9 billion decrease in production from 2008 to 2009.

The Canadian market remains dominated by these three companies. Collectively, RGA, Munich Re and Swiss Re account for 94.5 percent of the recurring production market. Individually, 2009 market shares for RGA, Munich Re and Swiss Re were 33.1 percent, 32.4 percent and 29.0 percent respectively. Other players in the market include: SCOR (2.7 percent market share), Optimum Re (2.6 percent market share) and Aurigen Re (0.2 percent market share).

Despite the recent tough economic times, preliminary estimates from LIMRA show Canadian life insurance sales actually increasing 3 percent by face amount in 2009. Thus, the Canadian "cession rate" would appear to have remained fairly stable in 2009.

Totals for Canadian recurring ordinary reinsurance assumed in 2008 and 2009 are as follows:

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Canada Ordinary Recurring Reinsurance ($CAN Millions)					
	2008		2009		
Company	Assumed Business	Market Share	Assumed Business	Market Share	Change in Production
RGA Re (Canada)	52,289	34.9%	50,441	33.1%	-3.5%
Munich Re (Canada)	43,828	29.2%	49,303	32.4%	12.5%
Swiss Re	45,135	30.1%	44,190	29.0%	-2.1%
SCOR Global Life (Canada)	4,452	3.0%	4,061	2.7%	-8.8%
Optimum Re (Canada)	4,303	2.9%	4,007	2.6%	-6.9%
Aurigen Re	30	0.0%	341	0.2%	1,036.7%
Canada Life	1	0.0%	0	0.0%	-100.0%
TOTALS	150,038	100%	152,343	100.0%	1.5%

PORTFOLIO AND RETROCESSION: ONE SKYROCKETS, ONE PLUMMETS

It was another big year for large portfolio deals in the United States. Hannover Re's acquisition of the ING individual life insurance business from Scottish Re was the largest deal reported in 2009, but there were many other companies reporting sizable levels of portfolio business. Hannover reported $543.3 billion in ordinary life portfolio ($529.8 coming from the ING/Scottish acquisition). Other companies with significant individual life portfolio writings in 2009 were: Canada Life ($139.3 billion), RGA ($40.2 billion), Wilton Re ($22.2 billion), SCOR ($17.9 billion) and Transamerica ($7.2 billion).

The Canadian market's portfolio volumes were not able to sustain the large increase of 141.6 percent experienced in 2008. The 2008 increase came solely from one company (Aurigen Re). Portfolio returned to play a minimal role in the Canadian individual life market as it dropped 97.7 percent—back down to $0.4 billion.

U.S. retrocession production fell almost 50 percent in 2009 as each of the top retrocessionaires experienced decreases of no less than 40 percent. This is quite a change from the previous three years where retrocession production closely followed the pattern of recurring production. The 48.7 percent drop represents a $14.0 billion decrease from 2008. Similarly, the Canadian retrocession market also experienced a large drop in production. The Canadian retro market fell 73.7 percent from $2.8 billion in 2008 to $0.7 in 2009. The reason for the sudden drop is due to reinsurers increasing their internal retention limits. It is also possible the economy had a negative impact on retro business in that fewer large face amount policies were issued in 2009, thus reducing the need for retrocession.

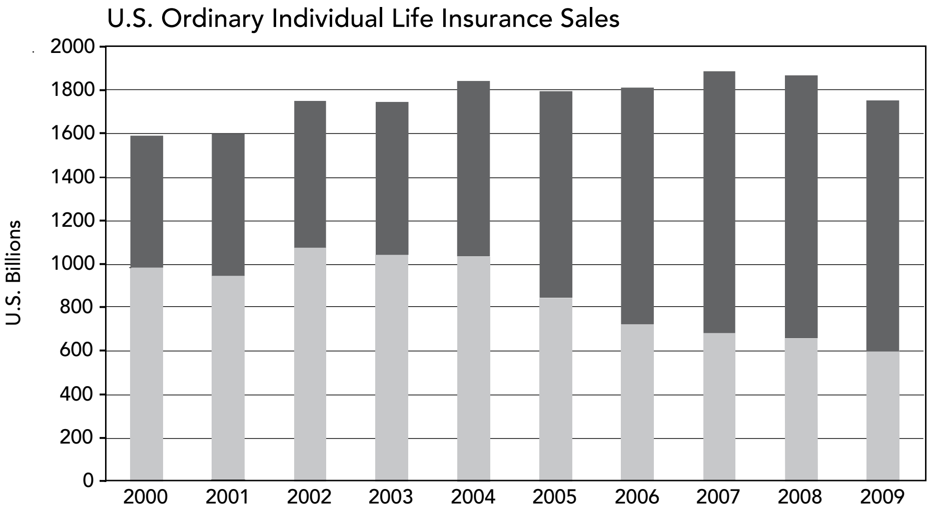
GROUP: BLOCK DEALS CONTINUE IN 2009

In recent years, the Group market has seen an increase in the number of large in-force block deals and 2009 continued this trend. On the U.S. side, large group block deals were written by Canada Life and Generali. Similarly on the Canadian side, the increase is due to portfolio deals that were written in that market. Including these deals results in U.S. group production rising 72.9 percent and Canadian group production going up a whopping 4,068.4 percent. However if the large block deals are excluded, we see group production actually dropped off. There has already been one large group acquisition deal in 2010—RGA acquired ING Re's group business.

COMPARISON WITH DIRECT MARKET: CESSION RATE DROPS ONCE AGAIN

Given the economic environment in 2009, it is not too surprising that direct life sales were down. LIMRA estimates life insurance sales dropped 5 percent by face amount in 2009. If we take this number and compare it to the 2009 recurring results, the percent reinsured rate, or "cession rate," was 33.9 percent in 2009. The cession rate has not been this low since 1996. The graph on pg. 9 compares ordinary life new business totals with the recurring life reinsurance totals for the United States.

This marks the seventh straight year the cession rate has declined. At the beginning of the decade, the cession rate was above 61 percent but it has steadily dropped over the years to the current rate of 33.9 percent. The cession rate has remained somewhat stable during the last four years—hovering between 30- to 40-percent. There is no doubt the high cession rates experienced in the early-2000's were coming from term coinsurance business. At that time, reinsurers were able to provide a solution to fund the increase in reserve strain brought on by the new Reg. XXX. But over time, other financial markets have also been able to provide competitive



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
% Reinsured	61.8%	59.2%	61.5%	59.7%	56.2%	47.0%	39.9%	36.1%	35.2%	33.9%
Amt Retained	609	653	675	705	809	952	1089	1207	1212	1161
Amt Reinsured	985	947	1078	1043	1037	844	724	683	658	596

solutions. Greater competition coupled with the reinsurance market's repricing efforts in the mid-2000's led to more YRT business and less coinsurance being written than earlier in the decade. Even more importantly, the reduced need for direct companies to use reinsurers to provide reserve relief allowed them to retain more of their business and reinsure less.

CONCLUSION: BRING ON THE NEW DECADE

The 2009 results were very similar to the "good news/ bad news" results of 2008 in that a relatively few, very large portfolio deals pushed an increase in overall total production while at the same time, recurring business, which is often seen as a measuring stick for the market, continued its downward trend.

Several U.S. reinsurers made efforts to increase their capital position (or access to capital) in 2009. These moves could poise them for growth in 2010 in a couple of ways. First, an increase in capital (or access to capital) could be used to support XXX reserves and allow for the offering of competitive coinsurance terms. There is still a demand for term coinsurance provided a reinsurer has a competitive financing solution. Second, the capital could be used for acquisitions, whether for acquiring blocks from direct writers or through acquisition/merger with a competitor. Several experts have predicted an increase in M&A activity in 2010 for the insurance sector. Another hopeful sign is the direct sales numbers from the fourth quarter of 2009, which showed sales beginning to improve compared to the beginning of 2009. A recovering economy in 2010 could boost direct sales and, in turn, boost reinsurance production.

Given the results over the last few years, I'm sure there are some who will gladly say goodbye to the 2000's and hope for better times in the 2010's! ■

DISCLAIMER:

Munich Re 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 Re, the Society of Actuaries and the Reinsurance Section take no responsibility for the accuracy of the figures.