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REINSURANCE SECTION
"A KNOWLEDGE COMMUNITY FOR THE SOCIETY OF ACTUARIES"

Reinsurance News

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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 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: 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

It was another down year for the reinsurance industry in 2007. In the United States, all reinsurance categories reported decreases in production. This resulted in an overall decrease of 15 percent. Group and portfolio business recorded the largest decreases at 52.0 percent and 65.6 percent respectively. The decreases for recurring and retrocession were lower, but still significant.

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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 Data … from page 1*

In Canada, an overall decrease of 8.9 percent was reported. Recurring and retrocession business was fairly stable from 2006 to 2007 with very small decreases reported. On the other hand, group reinsurance in Canada dropped 72.0 percent. Portfolio business was the only category with an increase, however it should be noted there was minimal portfolio business written in 2006.

Life reinsurance production results for 2006 and 2007 are shown on page 3.

## U.S. Recurring: Down Five Consecutive Years!

Once again, U.S. recurring business production fell from the previous year. Recurring production went from $724.2 billion in 2006 to $682.9 billion in 2007—a 5.7 percent decrease. This makes it the fifth consecutive year recurring production has decreased. The five straight years of decreasing production has resulted in recurring production being at its lowest level in 10 years. On the bright side (if there is one), the decreases are getting smaller. Production dropped 18.6 percent in 2005, followed by 14.2 percent in 2006 and 5.7 percent in 2007. If this trend continues and direct sales do not decrease in 2008, the U.S. recurring market may actually be poised for its first increase in quite some time. A most welcome happening!

The chart on page 3 shows the annual percentage change in U.S. recurring new business since 1997.

The 2007 U.S. recurring numbers by company are shown on page 4. The market continues to be very concentrated with the top five companies making up 83 percent of the market share—up from 77 percent in 2006. Further, the top three companies accounted for 63 percent of the market in 2007. In looking at the production numbers, distinct company groupings become evident.

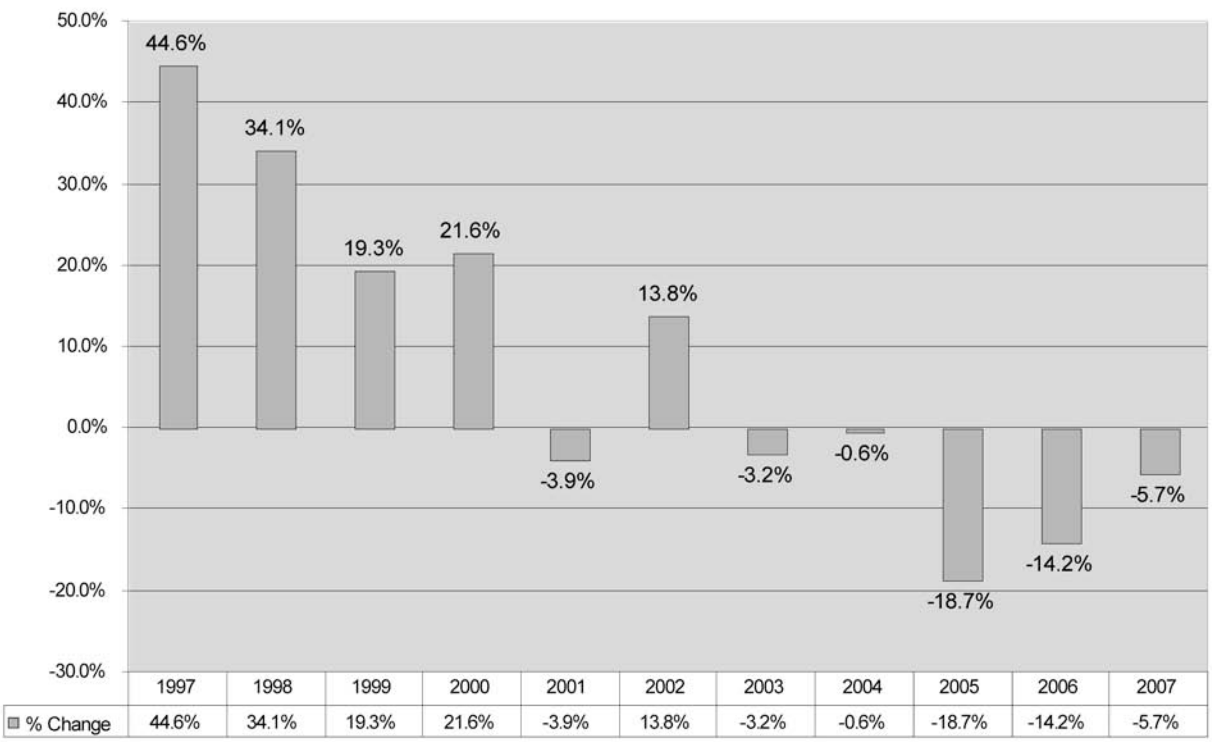
1. **Group One**: This group represents the three companies who had over $100 billion in recurring production in 2007: RGA, Transamerica Re and Swiss Re. Collectively, their market share was 63 percent with each individual company's market share around 20 percent. RGA was once again the top writer in 2007. They wrote $161 billion in recurring new business—a 3 percent decrease from their 2006 writings. Transamerica maintained

**Life Reinsurance New Business Production**

| | U.S. | | | Canadian | | |
|---|---|---|---|---|---|---|
| | 2006 | 2007 | Change | 2006 | 2007 | Change |
| Ordinary Life | | | | | | |
| Recurring | 724,260 | 682,936 | -5.7% | 141,445 | 139,495 | -1.4% |
| Portfolio | 101,926 | 35,058 | -65.6% | 140 | 7,897 | 5540.7% |
| Retrocession | 34,159 | 29,879 | -12.5% | 3,828 | 3,824 | -0.1% |
| Total Ordinary | 860,345 | 747,873 | -13.1% | 145,413 | 151,216 | 4.0% |
| Total Group | 45,776 | 21,954 | -52.0% | 29,579 | 8,268 | -72.0% |
| Total Life | 906,121 | 769,827 | -15.0% | 174,992 | 159,484 | -8.9% |

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

**Annual Percentage Change in U.S. Recurring New Business (1997-2007)**

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the second position with $144 billion of recurring new business—this also represented a slight decrease from 2006 (1.5 percent). Swiss Re held the third spot with $127 billion in production—an impressive 23.8 percent increase from 2006.

2. **Group Two**: This group includes the two companies that wrote between $50- and $100-billion in recurring production. Generali's $74 billion in 2007 recurring production was a 17 percent increase over 2006. MARC's $60 billion in recurring put them in the fifth position overall, however their production dropped 26 percent from 2006.

3. **Group Three**: These companies, Canada Life, SCOR, Scottish Re, and General Re, all had recurring new business between $10- and $50-billion in 2007. Together, these four companies made up 13 percent of the market share. Noteworthy in this group are SCOR's 58 percent increase in production and Scottish Re's 60 percent decrease in production.

4. **Group Four:** This group of six companies each wrote less than $10 billion in recurring new business in 2007. Wilton, Optimum, Hanover, Ace Tempest, XL Re, and Employers Re make up this group. Collectively, their market share was 4 percent.

These groupings are not arbitrary as there are clear breaks between the groups. To illustrate, there is a $53 billion difference between the bottom Group One company (Swiss Re) and the top Group Two company (Generali). Similarly, there is a $34 billion difference between the bottom Group Two company (MARC) and the top Group Three company (Canada Life).

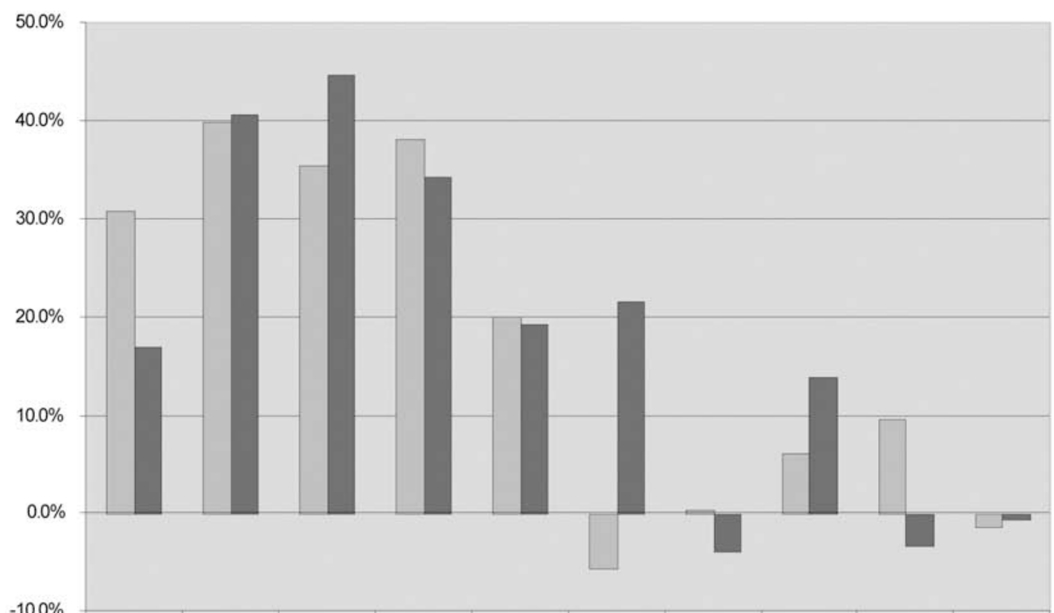
The three reinsurers reporting the largest increases in 2007 recurring new business were Swiss Re, Generali Re, and SCOR Life Re. Swiss Re's production jumped $24.4 billion, Generali Re's new business increased $10.8 billion and SCOR Life Re's writings rose $9.0 billion. The decreases of Scottish Re ($33.7 billion) and MARC ($20.9 billion) were the largest declines reported in 2007.

| | 2006 | | 2007 | | |
|---|---|---|---|---|---|
| Company | Assumed Business | Market Share | Assumed Business | Market Share | Change in Production |
| RGA Re. Company | 165,892 | 22.9% | 161,091 | 23.6% | -2.9% |
| Transamerica Re | 146,324 | 20.2% | 144,104 | 21.1% | -1.5% |
| Swiss Re | 102,241 | 14.1% | 126,599 | 18.5% | 23.8% |
| Generali USA Life Re | 63,149 | 8.7% | 73,985 | 10.8% | 17.2% |
| Munich American Re | 81,231 | 11.2% | 60,321 | 8.8% | -25.7% |
| Canada Life | 26,005 | 3.6% | 26,116 | 3.8% | 0.4% |
| SCOR Life Re | 15,554 | 2.1% | 24,520 | 3.6% | 57.6% |
| Scottish Re (US) | 56,506 | 7.8% | 22,786 | 3.3% | -59.7% |
| General Re Life | 20,009 | 2.8% | 14,738 | 2.2% | -26.3% |
| Wilton Re | 9,447 | 1.3% | 7,142 | 1.0% | -24.4% |
| Optimum Re (US) | 5,521 | 0.8% | 6,546 | 1.0% | 18.6% |
| Hannover Life Re | 11,887 | 1.6% | 5,525 | 0.8% | -53.5% |
| Ace Tempest | 4,465 | 0.6% | 5,154 | 0.8% | 15.4% |
| XL Re Life America | 202 | 0.0% | 4,081 | 0.6% | 1920.3% |
| Employers Re. Corp. | 677 | 0.1% | 228 | 0.0% | -66.3% |
| Revios | 15,150 | 2.1% | 0 | 0.0% | 100.0% |
| **TOTALS** | **724,260** | **100%** | **682,936** | **100%** | **-5.7%** |

## Canada Recurring Business: Leveling Off?

Canadian recurring business fell 1.4 percent in 2007. This marks only the second time in over 10 years the Canadian market recorded a decrease in recurring production. The Canadian market appears to be mirroring the U.S. market with a three-year lag. Both markets have experienced dramatic growth followed by a leveling off period. The following chart shows the percentage change in Canadian recurring production compared to the U.S. change—but with a three-year setback. In other words, the 1998 Canadian change is compared to the 1995 U.S. change; the 1999 Canadian change is compared to the 1996 U.S. change and so on. It's surprising how well they are aligned, especially from 1998 to 2002, and again in 2005 and 2007. It will be interesting to see if this phenomenon holds true in the future.

Estimates of Canadian direct life sales have sales increasing 5 percent in 2007. If this is the case, the percentage of business reinsured in Canada would have dropped in 2007. One thing is for certain, there have been no changes to the top players in the Canadian market—RGA, Munich and Swiss still rule. In fact, these three companies accounted for over 95 percent of the reinsurance in 2007. RGA's 11 percent increase in production from 2006 put them in the top position with $48.7 billion of recurring written. RGA's market share was 35 percent. Munich Re (Canada) was close behind with a 34 percent market share and $46.9 billion of production. Swiss Re rounded out the top three with $36.4 billion in production and a 26 percent market share. Two of the top three companies, Munich Re (Canada) and Swiss Re did have decreases in production from 2006 to 2007.




| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| Canada | 30.8% | 39.8% | 35.4% | 38.1% | 19.9% | -5.7% | 0.3% | 6.2% | 9.6% | -1.4% |
| U.S. (less 3 Years) | 16.9% | 40.5% | 44.6% | 34.1% | 19.3% | 21.6% | -3.9% | 13.8% | -3.2% | -0.6% |

Canada U.S. (less 3 Years)

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**Canada Ordinary Recurring Reinsurance ($CAN Millions)**

| Company | 2006 Assumed Business | 2006 Market Share | 2007 Assumed Business | 2007 Market Share | Increase in Production |
|---|---|---|---|---|---|
| RGA Re (Canada) | 43,722 | 30.9% | 48,697 | 34.9% | 11.4% |
| Munich Re (Canada) | 53,448 | 37.8% | 46,872 | 33.6% | -12.3% |
| Swiss Re | 37,787 | 26.7% | 36,360 | 26.1% | -3.8% |
| Optimum Re (Canada) | 3,970 | 2.8% | 4,174 | 3.0% | 5.1% |
| SCOR Global Life | 2,195 | 1.6% | 3,390 | 2.4% | 54.4% |
| Canada Life | 1 | 0.0% | 2 | 0.0% | 100.0% |
| Revios | 322 | 0.2% | 0 | 0.0% | -100.0% |
| **TOTALS** | **141,445** | **100.0%** | **139,495** | **100.0%** | **-1.4%** |

Totals for Canadian recurring ordinary reinsurance assumed in 2006 and 2007 are as shown in table above.

## Portfolio and Retrocession Business

The U.S. portfolio market plummeted 66 percent in 2007. The lack of attractive merger/acquisition and inforce block deals in 2007 resulted in the lowest portfolio writing in 13 years. U.S. retrocession followed the recurring trend and recorded a decrease in 2007. What is noteworthy is the retrocession decrease was twice as high as the recurring decline (12 percent vs. 6 percent).

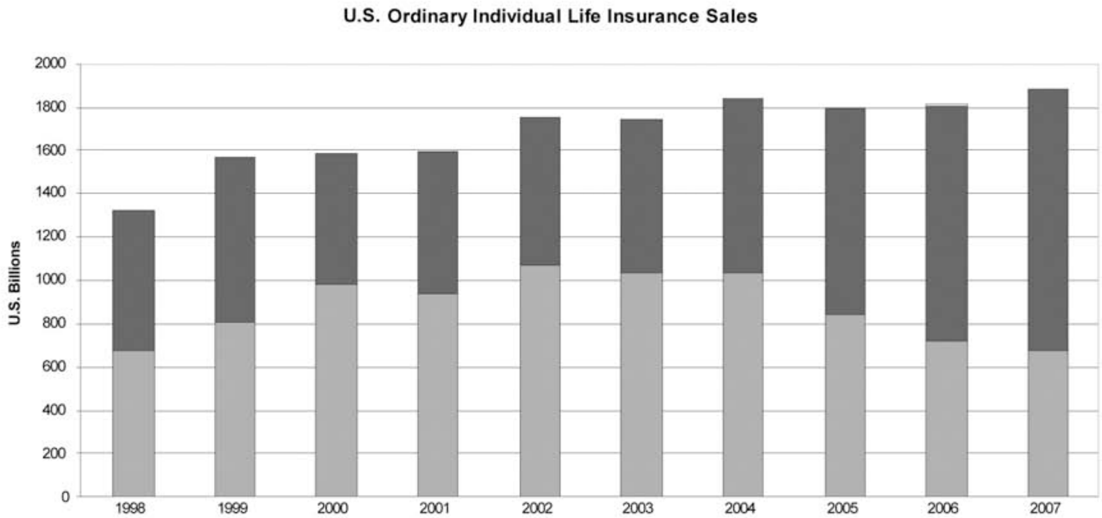
Canadian portfolio rose sharply in 2007, but this can be attributed to one company's writings (SCOR) and the fact that minimal portfolio business was written in 2006. The Canadian retrocession market remained about at the same level as in 2006. The very small decrease of 0.1 percent was in line with the small decrease reported by the recurring market.

## Comparison With Direct Market

Preliminary estimates from the American Council of Life Insurers (ACLI) show U.S. ordinary life insurance purchases increasing 4.2 percent in 2007. If this estimate holds true, the percent reinsured rate (commonly called the cession rate) would have dropped to 36 percent. One would have to go all the way back to 1996 to find a lower cession rate. From 1998 through 2004, U.S. reinsurers enjoyed cession rates above 50 percent. In other words, more business was being reinsured than being retained by the ceding company. The cession rate has fallen quickly over the last five years—going from almost 62 percent in 2002 down to 36 percent in 2007.

What caused the drop? I believe we are still seeing the effects of the direct writer's dissatisfaction with reinsurers that peaked around 2004-2005. Over the last few years direct companies have lived through a repricing effort from some of the top reinsurers, a push for tighter treaty wording, and increases in underwriting and claims audits. As a result, relationships soured and direct companies began retaining more of their business—either by moving from a quota share to an excess retention basis or simply by raising their retention limits. With new retention limits implemented and in place, it has been difficult to induce them to lower these limits. It may take something like more competitive pricing, additional value added services from the reinsurers, or a mortality spike to get them to cede more business.

Another factor hindering the reinsurance market's growth can be traced to the term life market. Ceding companies continue to find alternate financial solutions to fund their Reg. XXX reserve strain




| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| % Reinsured | 51.3% | 51.5% | 61.8% | 59.2% | 61.5% | 59.7% | 56.2% | 47.0% | 39.9% | 36.1% |
| Amt Retained | 645 | 763 | 609 | 653 | 675 | 705 | 809 | 952 | 1089 | 1207 |
| Amt Reinsured | 679 | 811 | 985 | 947 | 1078 | 1043 | 1037 | 844 | 724 | 683 |

outside of reinsurance. Plus, many of the very capitalized companies don't have the increased need to use reinsurance for their term business. Reinsurers filled the need when Reg. XXX first became effective in 2000, but rising costs led direct writers to explore other solutions. With the reserve strain issue resolved, the need for reinsurance lessened. I have not seen actual numbers to support this, but I would not be surprised if the percentage of new term business being reinsured on a YRT basis as opposed to a coinsurance basis has increased over the last few years.

The graph above compares ordinary life new business totals with the recurring life reinsurance totals for the United States

## Questions Abound For 2008

The results of the 2007 survey raise many questions about the future path of the U.S. and the Canadian reinsurance markets. The U.S. reinsurance market is trying to claw its way back after five consecutive years of decreasing production. While most would agree that reinsurer and direct company relationships have improved recently, those direct companies who did raise their retentions during the last few years do seem slow to change back. Further, it also appears reinsurance pricing may have loosened up lately, but will it be enough to prompt direct writers to lower their retentions or return to FDQS arrangements? If not, what will it take for direct companies to cede more business? U.S. life reinsurers will be trying to solve the answer to that question in 2008.

Meanwhile, the Canadian market showed signs of slowing down in 2007—recording only its second decrease in production in the last 10 years. Was this just a chance for the market to catch its breath before continued growth or has it actually reached a peak? Will the Canadian market display a similar trend that the U.S. market has been going through and experience further decreases? Check back next year for the answer to that question.

Finally, I would like to thank all of the survey participants for their continued support—this survey would not be possible without their help! ✷

*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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