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Life Reinsurance Data from the 2010 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 U.S. and Canadian individual and group life reinsurance new business production and in force. The 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.

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Complete survey results can be found at Munich Re's website: www.marclife.com (look under Publications).

LIFE REINSURANCE PRODUCTION: WHERE HAVE ALL THE GOOD TIMES GONE?

It is difficult to find some good news to report about the 2010 U.S. life reinsurance survey results. The U.S. market recorded double-digit decreases for new business in every individual life category. The overall result was a decrease of over 55 percent in production compared to 2009. Most of the decrease can be traced to portfolio business as the number of acquisitions and/or block deals was much lower in 2010 versus 2009. This is expected to change in 2011 given recent acquisition activity within the reinsurance industry. The more telling statistic, however, is recurring new business production fell again in 2010, dropping 15 percent. Also, the U.S. retrocession market experienced another dramatic drop in production. Retrocession business was down over 50 percent in 2010 and has reached historic low levels. Canada reported a small increase of 1.5 percent in overall individual life production with recurring production remaining right around 2009 levels. Canadian portfolio and retrocession business both posted large increases in 2010 but their impact on overall production was minimal. The only good news in the United States was seen on the group side where group in-force premium rose over 20 percent in 2010. Canadian group in force also experienced a similar increase in premium.

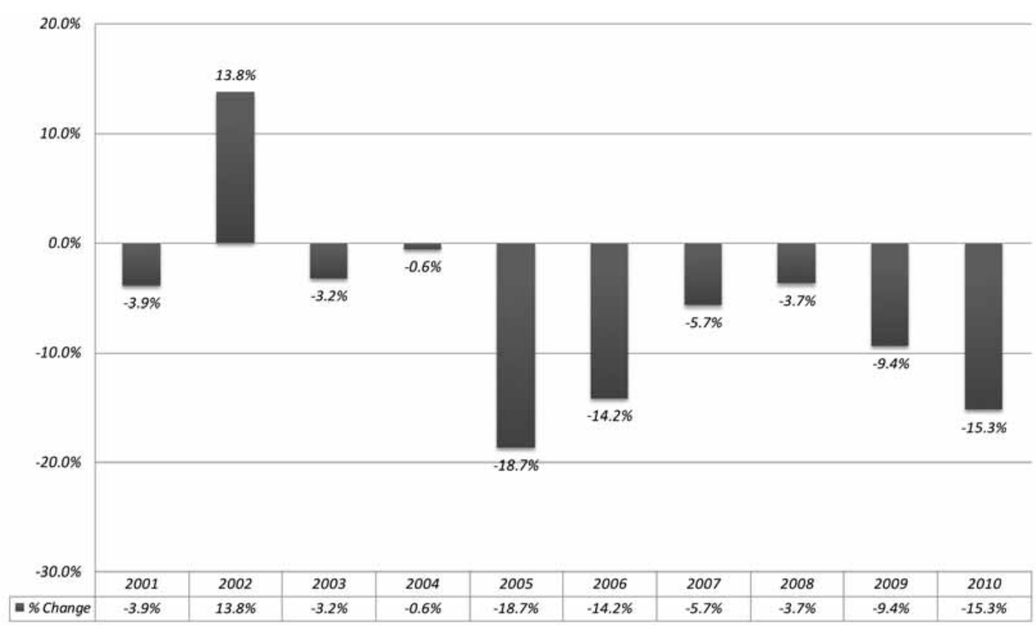
Individual life reinsurance production results for 2009 and 2010 are shown below:

Life Reinsurance New Business Production

	U.S.			Canadian		
	2009	2010	Change	2009	2010	Change
Ordinary Life						
Recurring	*$595,876*	*$504,962*	*-15.3%*	*$152,343*	*$153,032*	*0.5%*
Portfolio	*776,710*	*94,236*	*-87.9%*	*437*	*1,437*	*228.8%*
Retrocession	*14,817*	*7,226*	*-51.2%*	*731*	*1,380*	*88.8%*
Total Ordinary	*1,387,403*	*606,424*	*-56.3%*	*153,511*	*155,849*	*1.5%*

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

Annual Percentage Change in U.S. Recurring New Business (2001-2010)



> "THIS MARKS THE EIGTH STRAIGHT YEAR A DECREASE IN PRODUCTION WAS RECORDED, AND NINE OUT OF THE LAST 10 YEARS."

U.S. RECURRING: EIGHT STRAIGHT IS NOT SO GREAT

It was another down year for U.S. recurring new business in 2010 as production dropped 15 percent from 2009. This marks the eighth straight year a decrease in production was recorded, and nine out of the last 10 years. It is also the largest decrease experienced since 2005. Needless to say, it's been a rough start of the new millennium. There were sizable drops in recurring production in 2005 and 2006, and the market has been struggling ever since. It is believed most of the drop in 2005–06 can be attributed to repricing efforts of the major reinsurers. The repricing effort prompted the direct writers to look at their own retention levels and many moved from first-dollar quota share to excess retention or increased their retention limit. In either case, the change reduced reinsurance levels. So while the 2005–06 drop could arguably be considered a "market correction" or even a "self-imposed" reduction, there were many factors at play in 2010. It is difficult to pinpoint a particular reason for the decrease but some likely suspects include decreasing sales on the direct side and direct writers raising retention limits. One also has to wonder if reinsurance prices pushed direct writers to retain more or if reserve financing costs prohibited reinsurers from offering competitive term coinsurance quotes. It is very likely each one of these factors played a part in the 2010 results.

The annual percentage change in U.S. recurring new business since 2001 is shown below:

The individual company results show some surprising changes in 2010 (see table below).

RGA reported $133 billion of recurring new business in 2010. This is on par with what it wrote in 2009. Not only did this allow it to retain the top spot in 2010, but because of the production changes of the other top reinsurers, the level of separation between it and the other reinsurers increased greatly. RGA's 2010 new business production was more than $55 billion higher than any other reinsurer. In addition, RGA captured over one-quarter of the entire recurring market share. This is pretty remarkable when you consider most large reinsurance pools include multiple reinsurers and direct writers are probably now, more than ever, aware of concentration risk.

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

	2009		2010		
Company	Assumed Business	Market Share	Assumed Business	Market Share	Change in Production
RGA Re.Company	133,591	22.4%	132,936	26.3%	-0.5%
Generali USA Life Re	70,023	11.8%	77,782	15.4%	11.1%
Transamerica Re	107,834	18.1%	76,039	15.1%	-29.5%
Swiss Re	114,752	19.3%	70,599	14.0%	-38.5%
Munich Re (US)	80,564	13.5%	59,157	11.7%	-26.6%
Hannover Life Re	19,361	3.2%	24,971	4.9%	29.0%
Canada Life	19,191	3.2%	19,698	3.9%	2.6%
SCOR Global Life (US)	17,503	2.9%	16,535	3.3%	-5.5%
General Re Life	10,088	1.7%	10,041	2.0%	-0.5%
Ace Tempest	10,265	1.7%	6,478	1.3%	-36.9%
Wilton Re	7,168	1.2%	5,264	1.0%	-26.6%
Optimum Re (US)	4,855	0.8%	5,034	1.0%	3.7%
RGA Re (Canada)	400	0.1%	428	0.1%	7.0%
Employers Re. Corp.	281	0.0%	0	0.0%	-100.0%
TOTAL	595,876	100%	504,962	100%	-15.3%

Most of the other top writers did not fare quite as well in 2010. In 2009, RGA, Swiss and Transamerica were closely aligned as the top three recurring writers, with each company reporting over $100 billion in recurring new business. Munich Re held the fourth position, followed by Generali. But look what happened in 2010. Swiss's production dropped almost 40 percent; Transamerica's production dropped almost 30 percent; and Munich Re's production fell over 25 percent. Generali's 11 percent increase allowed it to capture the number-two spot in 2010, up from the fifth spot in 2009. Generali was the only top-five reinsurer to record an increase in production in 2010. Even though the top-five players remained the same, there was some shake-up in the positioning with Generali moving up to the

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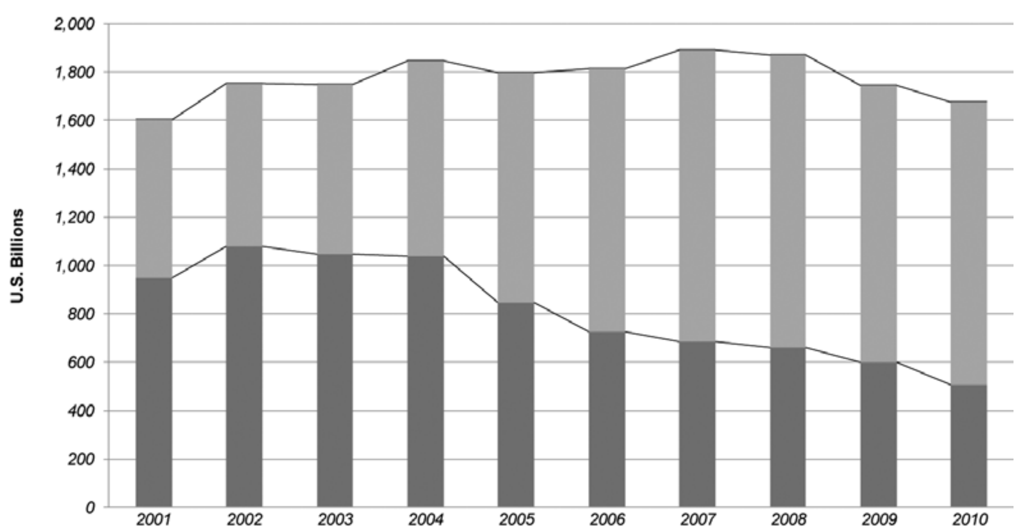
number-two spot. Another concerning statistic is the level of the drop in production from the top-five reinsurers. Collectively, the top five wrote $90 billion less in 2010 compared to 2009. Not coincidently, this just happens to also be the amount of total recurring market decrease. With that being said, the top-five reinsurers continue to make up the large majority of the market share. In 2010, the top-five reinsurers captured 82 percent of the recurring new business market, just slightly down from 85 percent in 2009.

One trend also continuing in 2010 was the large production gap between the number-five reinsurer and the number-six reinsurer. There is a $34 billion gap between these two spots (Munich Re at $59 billion and Hannover at $25 billion), which leads us to the next set of reinsurers: Hannover, Canada Life, SCOR and General Re. These four companies captured positions six through nine in recurring new business. Collectively the group recorded an 8 percent increase in production for a total market share of 14 percent. The largest increase was reported by Hannover, who reported an increase of over $5 billion in 2010, a 29 percent increase from 2009. The other three companies in this group had recurring writings that were fairly stable compared to 2009. Canada Life had a small increase of 2.6 percent; SCOR had a 5.5 percent decrease; and General Re's business fell less than 1 percent.

To round out the list, Ace Tempest and Wilton both recorded double-digit decreases, while Optimum reported a small increase in production. Each of these companies has a market share around 1 percent.

We can expect more change in 2011 as SCOR recently announced it has acquired Transamerica Re for $1.4 billion. How this will impact the recurring market has yet to be seen, but it will be watched closely since Transamerica Re was the top coinsurance writer during the last two years. Speaking of coinsurance, the level of coinsurance new business, as a percent of the overall recurring market, fell from 37 percent to 34 percent in 2010. However, based on in force, the percentage of coinsurance remains relatively high at 52 percent. This illustrates just how much coinsurance business was written in the early-to-mid 2000s and confirms the drop in coinsurance production has been a key contributor to the overall drop in recurring new business.

U.S. Ordinary Individual Life Insurance Sales



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
% Reinsured	59.2%	61.5%	59.7%	56.2%	47.0%	39.9%	36.1%	35.2%	34.2%	30.2%
Amt Retained	653	675	705	809	952	1,089	1,207	1,212	1,148	1,170
Amt Reinsured	947	1,078	1,043	1,037	844	724	683	658	596	505

COMPARISON WITH DIRECT MARKET: U.S. CESSION RATE FALLS TO 30 PERCENT

Estimates from LIMRA show direct life sales in the United States were down in 2010. LIMRA estimates U.S. life insurance sales dropped 4 percent in 2010. (Note: this is by amount; based on premium, sales actually increased 4 percent.) Much of the drop in sales was linked to term sales, which fell 12 percent. UL sales actually experienced an increase of 29 percent. The uptick in UL sales is thought to be attributed to a couple of items. First, the improving economy made UL products more attractive. Second, the increase in TermUL sales helped boost overall UL sales. The combination of direct sales down 4 percent and recurring down 15 percent equates to a cession rate right at 30 percent. This is the lowest the cession rate has been in 15 years.

The graph below shows the U.S. cession rate from 2001 to 2010. The darker bar represents the amount reinsured, the lighter bar is the amount retained, and together they represent total U.S. individual life sales. A drop in the cession rate has occurred every year since 2002. In 2002, the cession rate was at its highest point ever, just over 60 percent. The decline has been more rapid since 2004 when the cession rate was 56 percent. One item to point out is just how much the reinsured *amount* has dropped over the last few years. Yes, the cession rate dropped to 30 percent, but look at the amount reinsured in 2004 compared to 2010. In 2004, $1.04 trillion of recurring was reinsured compared to $505 billion in 2010. This means the amount of U.S. recurring life reinsurance has been cut in half in just six years' time. That is a reduction of over one-half trillion in recurring volume since 2004. While the reinsured amount has dropped 51 percent since 2004, direct life sales have dropped only 9 percent during the same period. Most of the direct sales decrease has occurred in the last two years and is likely related to the economy.

CANADA RECURRING: STEADY AS SHE GOES

Recurring business in Canada remained stable in 2010. Canadian reinsurers reported $153 billion of recurring new business in 2010. This was an increase of less than 1 percent compared to the 2009 figure.

Estimates from LIMRA show Canadian direct sales actually rose about 8 percent in 2010, which would seem to be positive news given the state of the economy in 2010.

Canadian reinsurers enjoy a much higher cession rate compared to the United States. Where the United States is currently experiencing a cession rate of 30 percent, the Canadian rate is over twice that level—approaching 70 percent in recent years. But comparing Canadian recurring figures to LIMRA's direct sales estimate, it appears the Canadian cession rate slipped around 5 percent in 2010. I estimate the 2010 Canadian cession rate to be in the mid-60 percent range. Unlike the United States, which still reinsures a large portion of life insur-

Company	2009 Assumed Business	2009 Market Share	2010 Assumed Business	2010 Market Share	Change in Production
RGA Re (Canada)	*50,441*	*33.1%*	*52,623*	*34.4%*	*4.3%*
Munich Re (Canada)	*49,303*	*32.4%*	*48,324*	*31.6%*	*-2.0%*
Swiss Re	*44,190*	*29.0%*	*35,208*	*23.0%*	*-20.3%*
SCOR Global Life (Canada)	*4,061*	*2.7%*	*7,773*	*5.1%*	*91.4%*
Optimum Re (Canada)	*4,007*	*2.6%*	*4,903*	*3.2%*	*22.4%*
Aurigen	*341*	*0.2%*	*4,201*	*2.7%*	*1132.0%*
TOTALS	**152,343**	**100%**	**153,032**	**100.0%**	**0.5%**

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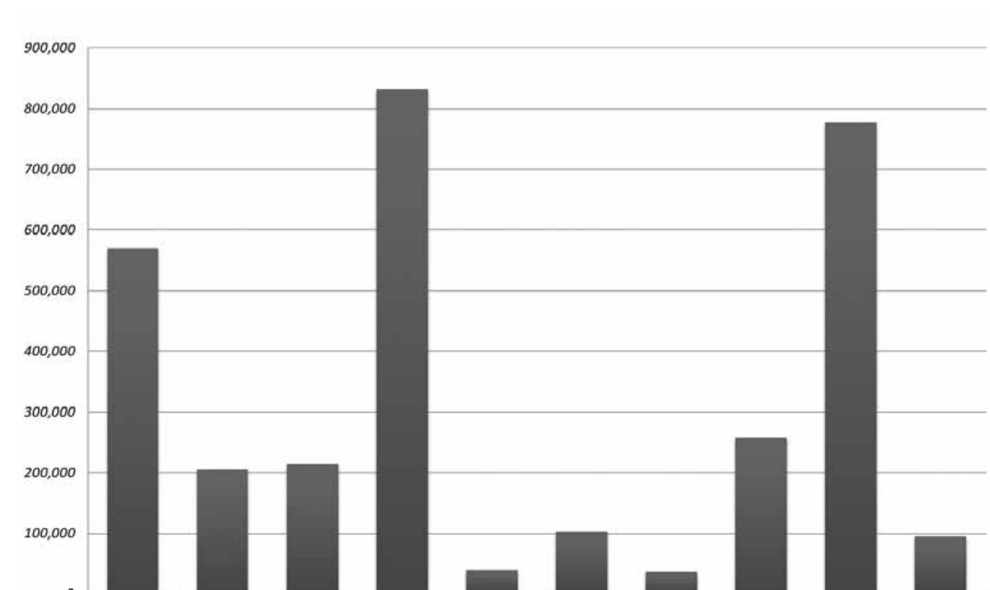
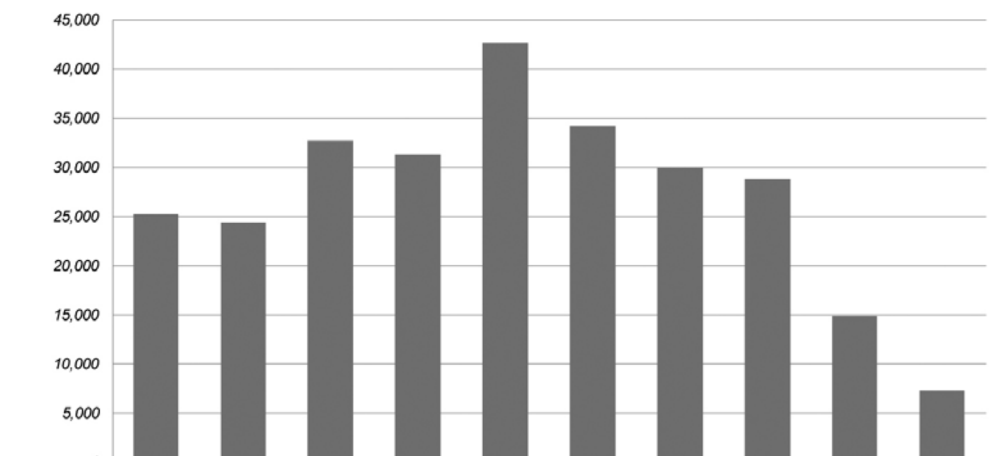
U.S Portfolio ($ Millions)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Portfolio	569,358	204,242	213,656	831,703	38,747	101,926	35,058	256,786	776,710	94,236

U.S. Retrocession ($ Millions)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Retrocession	25,141	24,318	32,614	31,249	42,625	34,159	29,879	28,812	14,817	7,226

ance on a coinsurance basis, there was very little coinsurance reported in Canada. Virtually all of the Canadian new business was written on a yearly renewable term (YRT) basis—97 percent was YRT and only 3 percent was coinsured. Based on in force, the coinsurance percentage is slightly higher—approximately 10 percent of the total.

There were no changes to the positions of the players from 2009 to 2010. The top three Canadian writers are still RGA, Munich and Swiss, and these three still dominate the Canadian market. In total, these three companies represent 89 percent of the total reported recurring. RGA was the leader with $53 billion, followed by Munich Re at $48 billion and Swiss Re at $35 billion. There is still a significant drop-off in production from the number-three writer to the number-four writer. Swiss Re wrote $35 billion to SCOR's $8 billion. However, if not for the "Other Three" reinsurers—SCOR, Optimum and Aurigen—the Canadian market would have reported a decrease in 2010. In fact, the collective market share of the "Other Three" doubled in 2010, going from 5.5 percent in 2009 to 11 percent in 2010. Could it be the "Big Three," who held such a dominant role in the Canadian market for many years, are losing a bit of market share to the other players? It's much too early to tell, but perhaps next year's results will provide a better indication if this is a trend in the Canadian market.

Totals for Canadian recurring ordinary reinsurance assumed in 2009 and 2010 are as follows:

PORTFOLIO AND RETROCESSION: UNITED STATES DOWN, CANADA UP

Compared to 2009, U.S. portfolio activity was relatively slow in 2010. Granted, 2009 was a big year for portfolio as we saw some very large acquisitions finalized. Most notably, the ING Individual Life reinsurance block acquired by Hannover in 2009 was over $500 billion. In 2010, Canada Life reported the largest amount of portfolio business, $72 billion. This accounted for over 75 percent of the total 2010 portfolio

"RETRO LEVELS HAVE REACHED HISTORIC LOWS NOT SEEN IN OVER 25 YEARS."

amount of $94 billion. As shown in the graph below, it is not unusual for portfolio to exhibit large swings from year to year, especially if there is acquisition activity within the reinsurance market. This was the case in 2001 when Swiss Re acquired Lincoln Re, and again in 2004 when Scottish Re acquired ING Re. Thus the same ING block is responsible for two of the largest spikes in portfolio amounts (2004 and 2009).

It was recently announced Hannover Re will be acquiring the rest of the Scottish Re life reinsurance block in 2011. Hannover's acquisition, along with SCOR's acquisition of Transamerica Re, should have portfolio production reaching record-breaking heights in 2011.

U.S. retrocession levels have steadily declined since 2005. This decreasing trend is consistent with the trend seen for direct reinsurance, but retrocession levels have fallen much faster. To illustrate, in 2005, the retro market reported $43 billion of production; in 2010, the number was $7 billion. This is an 83 percent decrease. To put in perspective, the total 2010 retro market amount of $7.2 billion is less than the amount reported by the *ninth* leading recurring writer. Retro levels have reached historic lows not seen in over 25 years. As direct writers and reinsurers continue to retain more of their business, one has to wonder how long this slide can continue before it impacts the number of players in the market. We already saw one of the larger retrocessionaires, Sun Life, acquired in 2010 by Berkshire Hathaway.

Canadian portfolio new business increased over 200 percent in 2010, and Canadian retrocession rose almost 90 percent. This is wonderful news, but it does need to be put in perspective relative to total Canadian new business. As a percentage of total Canadian new business production, portfolio and retrocession only make up around 2 percent of the total amount reported in 2010. Recurring accounted for 98 percent of Canadian ordinary life reinsurance. To illustrate further, portfolio and retrocession reported about $1.4 billion each in 2010 compared to recurring's $153 billion. So, while this is good news for portfolio and retrocession, the impact on the total market is minimal.

GROUP: PREMIUMS RISE

There was a change in the reporting basis for group life data in the 2010 survey. All group numbers are now based on premium instead of amount at risk. Since true group new business is sometimes difficult to determine accurately, we will focus on group in-force figures. Below are the total group in-force results for the United States.

U.S. Group Premium (000)

Type	2009	2010	2010 Share	Change
Traditional	*284,280*	*419,263*	*22.2%*	*47.5%*
Portfolio	*1,192,847*	*1,406,467*	*74.3%*	*17.9%*
Retrocession	*69,778*	*66,929*	*3.5%*	*-4.1%*
Total	**1,546,905**	**1,892,659**	**100.0%**	**22.4%**

(All Amounts in $US)

One item that jumps out is how large the portfolio premium is compared to traditional premium. Group portfolio accounted for almost 75 percent of the in-force premium reported. Canada Life and Hannover Life both reported very sizable portfolio premium numbers. On the traditional side, which made up 22 percent of the total group in-force premium, Swiss Re accounted for over 50 percent of the total traditional in-force premium reported. Rounding out the top-five group reinsurers were Munich Re, RGA, Group Reinsurance Plus and General Re. Overall, U.S. group in-force premium rose 22 percent in 2010.

Canada recorded a similar overall increase in group in-force premium as experienced in the United States. A 25 percent increase was reported in 2010, mainly fueled by Munich Re Canada's increase. Munich, SCOR and Swiss Re were the top group premium writers in 2010. In contrast to the United States, which had a significant level of portfolio premium, virtually all of the premium reported in Canada was traditional business. As seen in the table below, there was no portfolio business reported and just a very small amount of retro premium.

Canadian Group Premium (000)

Type	2009	2010	2010 Share	Change
Traditional	*568,161*	*709,039*	*100.0%*	*24.8%*
Portfolio	*0*	*0*	*0.0%*	*0.0%*
Retrocession	*287*	*331*	*0.0%*	*15.3%*
Total	**568,448**	**709,370**	**100.0%**	**24.8%**

(All Amounts in $CAN)

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