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Results Of The 2013 SOA Life Reinsurance Survey

By David Bruggeman

The final results of the 2013 SOA Life Reinsurance Survey are now available. The survey captures individual and group life data from U.S. and Canadian life reinsurers. New business production and in-force figures are reported with reinsurance broken into the following three categories:

(1) Recurring reinsurance: Conventional reinsurance covering an insurance policy with an issue date in the year in which it was reinsured. For the purpose of this survey, this refers to an insurance policy issued and reinsured in 2013.
(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. One example of portfolio would be a group of policies issued during the period 2005-2006, but being reinsured in 2013.

CONTINUED ON PAGE 4

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(3) Retrocession reinsurance: Reinsurance not directly written by the ceding company. Since the business usually comes from a reinsurer, this can be thought of as "reinsurance of reinsurance."

INTRODUCTION

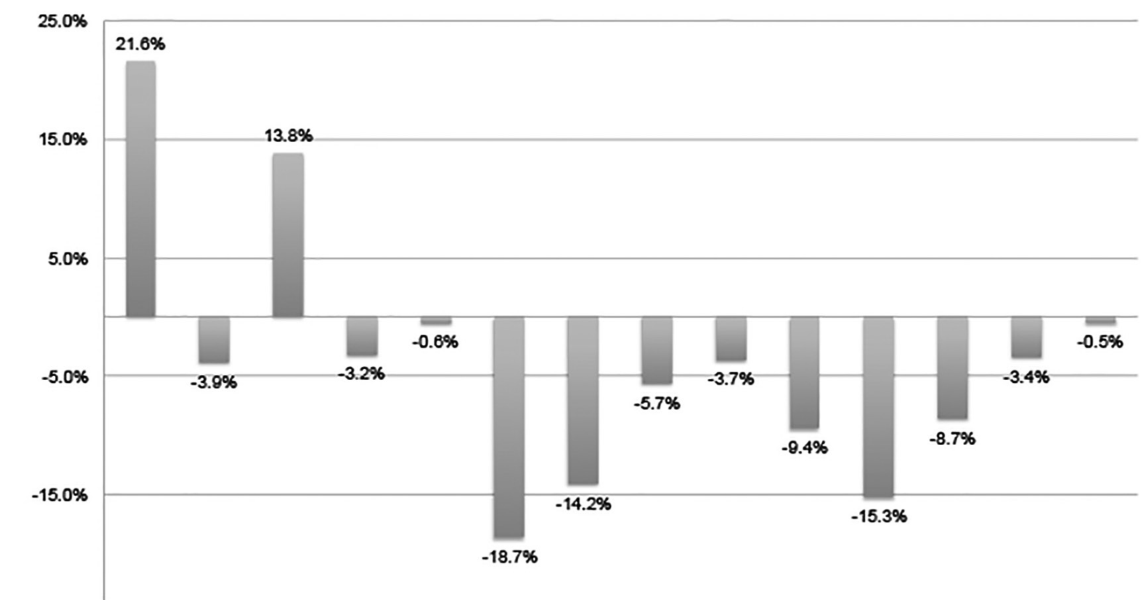
"Anyone can have a bad century."—Anonymous Chicago Cubs fan

While the U.S. life reinsurance market hasn't struggled quite as long as those lovable losers from Chicago (105 years and counting since winning their last World Series), it had recorded 10 straight years of declining new business production going into 2013. Like the hope that springs eternal from diehard Cubs fans entering a new season, life reinsurers were cautiously optimistic 2013 could be the year to reverse the declining trend in production. After all, the economy was slowly coming back and direct life insurance sales had been stable the past few years. Would the economic momentum be enough to pump up life sales and, in turn, reinsurance production? The results of the 2013 SOA Life Reinsurance Survey help explain what occurred in the U.S. and Canadian life reinsurance markets in 2013.

UNITED STATES

The biggest news for the U.S. life reinsurance industry in 2013 was SCOR Global Life acquiring Generali USA Life Re. SCOR acquired Generali for a reported $920 million. This deal comes just two years after SCOR acquired Transamerica Re in 2011. Both of these deals were major acquisitions in the industry as Generali was the No. 4 U.S. new business life reinsurer in 2012 and Transamerica was the No. 3 U.S. life new business reinsurer at the time of being acquired. These recent acquisitions pushed SCOR to the top spot in U.S. new business writings for 2013. In more recent news, the Canada Pension Plan Investment Board (CPPIB), along with management of Wilton Re, agreed to buy Wilton Re Holdings, for $1.8 billion. This is CPPIB's first direct investment in the insurance sector.

Annual Percentage Change in U.S. Recurring New Business (2000-2013)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
% Change	21.6%	-3.9%	13.8%	-3.2%	-0.6%	-18.7%	-14.2%	-5.7%	-3.7%	-9.4%	-15.3%	-8.7%	-3.4%	-0.5%

RECURRING

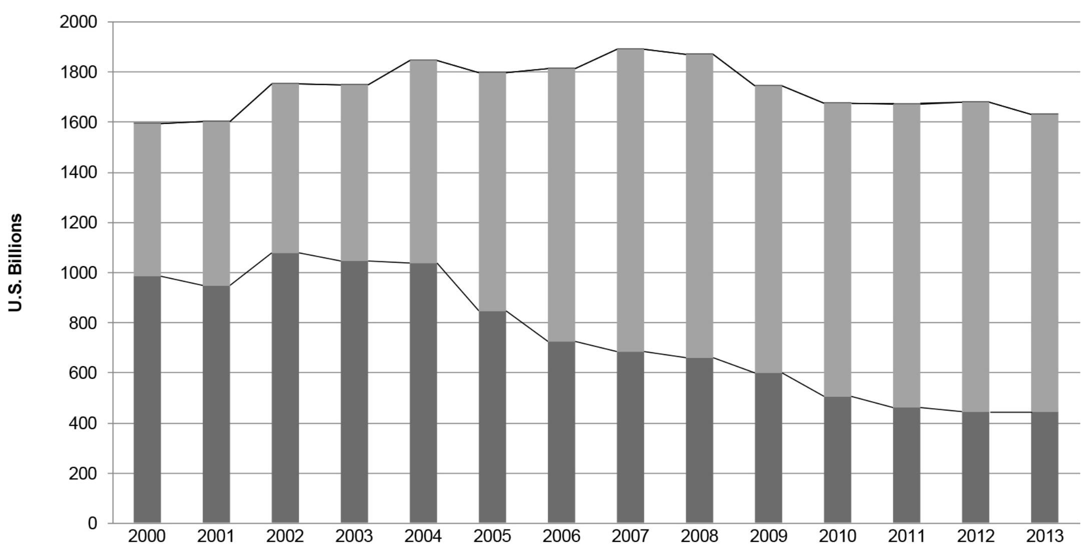
In 2013, $443 billion of recurring new business was written in the United States. This is on par with the $445 billion reported in 2012. While extremely close, 2013 production just missed the level needed to break the drought that saw new business writings fall each of the past 10 years. During this 10-year span, U.S. recurring dropped nearly 60 percent. On a more positive note, the decrease in production reported in 2013 was less than 1 percent.

The following table shows the annual percentage change in U.S. recurring new business production since 2000.

Arguably the best measure of the current state of the life reinsurance market is the cession rate. The cession rate is defined as the percentage of new business writings that were reinsured in that year. It shows how popular reinsurance is with the direct writers. LIMRA estimates U.S. direct sales were down by 3 percent by face amount in 2013.1 Using LIMRA's estimate for 2013, U.S. life sales, and this survey's recurring reinsurance figure, a cession rate of 27.2 percent is estimated for 2013. Assuming this estimate holds true, this would be the first cession rate increase the U.S. market has experienced since 2002. The following graph shows U.S. ordinary life insurance sales and the cession rates since 2000.

By face amount, 2013 direct sales were at their lowest level since 2001. One factor impacting 2013 life sales was repricing or halting sales of no lapse guarantee universal life (UL) products affected by more expensive reserve guidelines. Looking at the table above, modest direct growth was seen from 2001 through 2007; however, since 2007, direct sales have fallen 14 percent. Although direct sales were at similar levels in 2001 and 2013, the percent reinsured is drastically different. Almost 60 percent of direct sales were reinsured in 2001, but only 27 percent in 2013. One other item worth noting is on an amount basis, the $443 billion of recurring new business reported in 2013 is the lowest amount since 1996.

U.S. Ordinary Individual Life Insurance Sales



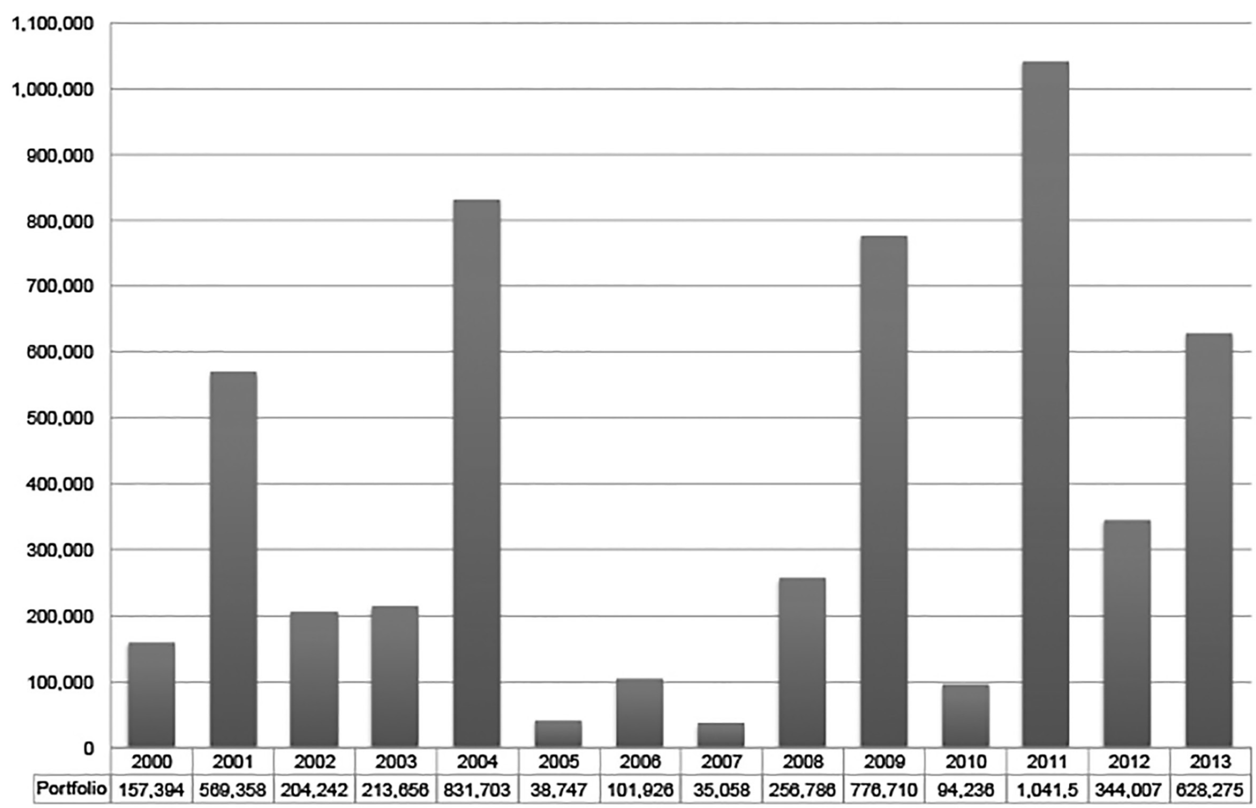
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
% Reinsured	61.8%	59.2%	61.5%	59.7%	56.2%	47.0%	39.9%	36.1%	35.2%	34.2%	30.2%	27.6%	26.5%	27.2%
Amt Retained	609	653	675	705	809	952	1,089	1,207	1,212	1,148	1,168	1,211	1,234	1,186
Amt Reinsured	985	947	1,078	1,043	1,037	844	724	683	658	596	505	461	445	443

CONTINUED ON **PAGE 6**

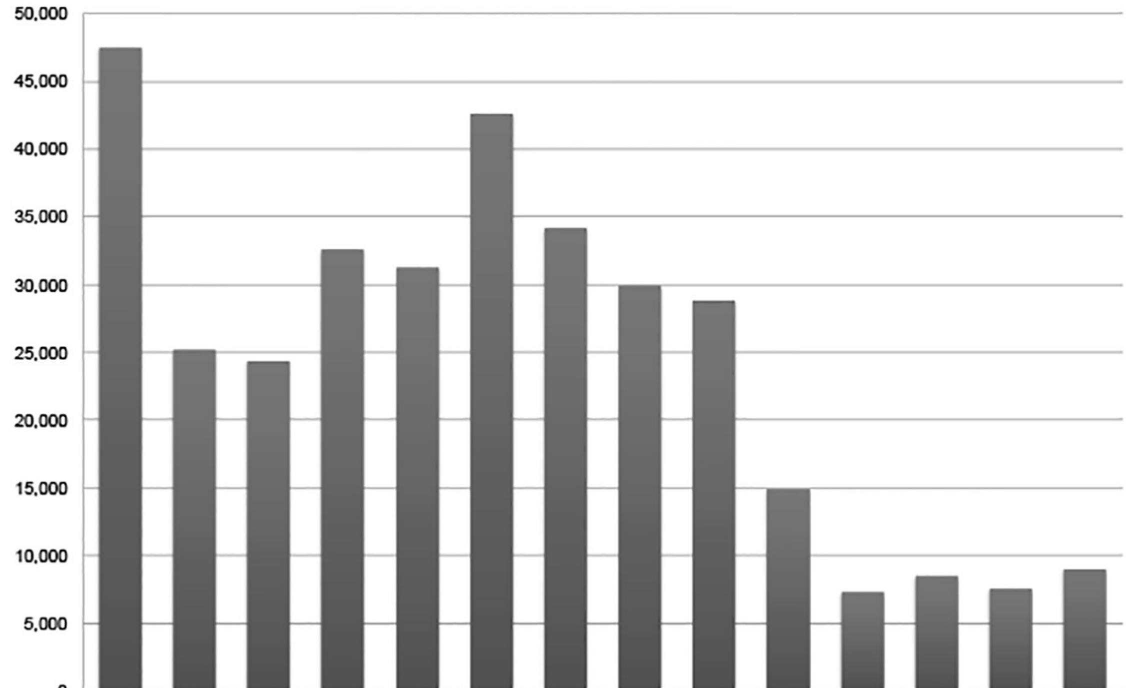
U.S. Ordinary Recurring Reinsurance (U.S. Millions)

Company	2012 Assumed Business	2012 Market Share	2013 Assumed Business	2013 Market Share	Change in Production
SCOR Global Life	76,547	17.2%	125,025	28.2%	63.3%
Swiss Re	81,188	18.2%	86,654	19.6%	6.7%
RGA Re. Company	87,115	19.6%	85,936	19.4%	-1.4%
Generali USA Life Re	63,820	14.3%	Acquired by SCOR		0.0%
Munich Re (US)	62,654	14.1%	67,131	15.2%	7.1%
Hannover Life Re	40,885	9.2%	47,095	10.6%	15.2%
General Re Life	12,696	2.9%	12,313	2.8%	-3.0%
Canada Life	8,668	1.9%	7,677	1.7%	-11.4%
Optimum Re (US)	5,124	1.2%	6,858	1.5%	33.8%
Wilton Re	6,684	1.5%	4,369	1.0%	-34.6%
RGA Re (Canada)	37	0.0%	2	0.0%	-94.6%
Aurigen	0	0.0%	1	0.0%	100.0%
TOTAL	445,418	100%	443,061	100%	-0.5%

Portfolio ($ Millions)



Retrocession ($ Millions)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Retrocession	47,519	25,141	24,318	32,614	31,249	42,625	34,159	29,879	28,812	14,817	7,228	8,433	7,465	8,884

Coinsurance of level term business played a key role in the growth and high cession rates enjoyed by the U.S. life reinsurance market in the early 2000s. The level of coinsurance business has fallen since the mid-2000s and, with that, so has the overall level of life reinsurance in the United States. To illustrate, coinsurance accounted for 37 percent of U.S. life reinsurance new business in 2009—the first year the survey started collecting YRT/coinsurance data—but has steadily dropped to the 25 percent recorded in 2013.

The table below shows the recurring results at the company level.

SCOR's acquisition of Generali USA in 2013 vaulted them to the top recurring spot. The $125 billion reported by SCOR in 2013 was almost $40 billion higher than the next reinsurer, Swiss Re. While SCOR's 28.2 percent market share led all U.S. life reinsurers, the $125 billion reported in 2013 is $15 billion less than what SCOR and Generali combined for in 2012. Swiss Re secured the second spot with $86.7 billion of recurring. This was a 7 percent increase from 2012 and equates to a 19.6 percent market share. Close behind Swiss was RGA, which reported $85.9 billion of recurring new business. This was just a slight decrease from their 2012 writings and good enough for a 19.4 percent market share. Munich Re was the fourth leading recurring writer with $67.1 billion reported and a 15.2 percent market share. This represents a 7.1 percent increase in production from 2012. Rounding out the top five was Hannover, which reported a 15.2 percent increase in recurring writings. Hannover's $47.1 billion in reported recurring captured a 10.6 percent market share. Collectively, the top five reinsurers accounted for 93 percent of the U.S. life reinsurance market.

Canada Ordinary Recurring Reinsurance ($CAN Millions)

	2012		2013		
Company	Assumed Business	Market Share	Assumed Business	Market Share	Change in Production
RGA Re (Canada)	49,290	33.1%	45,763	32.0%	-7.2%
Munich Re (Canada)	42,439	28.5%	42,593	29.7%	0.4%
Swiss Re	29,466	19.8%	28,095	19.6%	-4.7%
SCOR Global Life (Canada)	12,867	8.6%	13,968	9.8%	8.6%
Aurigen	7,317	4.9%	6,668	4.7%	-8.9%
Optimum Re (Canada)	7,446	5.0%	6,104	4.3%	-18.0%
TOTALS	148,825	100%	143,191	100%	-3.8%

CONTINUED ON **PAGE 8**

THE LARGEST LIFE INSURANCE POLICY EVER SOLD IN THE UNITED STATES WAS RECENTLY BOUGHT AT $201 MILLION.

Production levels materially drop off after the top five reinsurers. The remaining six reinsurers reporting recurring business in the United States account for 7 percent of the market share. Only one of these reinsurers had a market share above 2 percent. General Re wrote $12.3 billion of recurring, Canada Life wrote $6.9 billion and Wilton Re wrote $4.3 billion. RGA Re (Canada) and Aurigen both reported minimal recurring business in 2013.

PORTFOLIO

Outside of SCOR's acquisition of Generali, there was a drop in portfolio writings compared to 2012. The Generali acquisition accounted for much of the $628 billion in total portfolio reported in 2013. In addition to the Generali acquisition, SCOR also reported portfolio writings with the direct market. Others reporting measurable portfolio new business were Hannover ($35 billion), Canada Life ($4 billion), and RGA ($2 billion). Wilton Re and Aurigen each reported around $1 billion of portfolio in 2013.

The decrease in portfolio writings should not be interpreted as being little in-force block activity in the United States. Insurers continue to shed their non-core business, but there is a growing interest in these blocks from markets outside of reinsurance, such as other direct writers and private equity firms. The following are some notable block acquisitions from 2013:

- Delaware Life Holdings, a Guggenheim Partners affiliate, acquired Sun Life's U.S. annuity business and certain life insurance business.
- Resolution Life Holdings agreed to buy Lincoln Benefit from Allstate.
- Kansas City Life assumed the transfer of American Family Life Insurance Company's variable life and annuity policies.
- Protective Life acquired MONY Life Insurance Company.

Both Resolution Life and Wilton Re's new owners have made known their desire to acquire additional closed-block life insurance business in the United States.

RETROCESSION

The U.S. retrocession market appears to have stabilized after recording dramatic decreases in the mid-2000s. The last four years have produced very consistent writings, totaling between $7 billion and $9 billion each year. Overall, the retrocession market recorded a 19 percent increase in production—going from $7.5 billion in 2012 to $8.9 billion in 2013. Production levels were similar between the three retrocessionaires: AXA Equitable ($2.7 billion), Berkshire Hathaway ($3.0 billion) and Pacific Life ($3.2 billion). Each of the retros enjoyed increases in production from 2012.

CANADA

Canadian recurring production fell 3.8 percent in 2013. This marks the second straight year of decreasing production. The $143.2 billion reported by Canadian reinsurers in 2013 is the lowest level experienced in Canada since 2007. LIMRA estimates 2013 direct sales in Canada remained at a similar level as experienced in 2012.2 Positive growth was seen in the second half of the year. Stable direct sales coupled with declining recurring production means the Canadian cession rate took another hit. However, where the U.S. cession rate is estimated to be 27 percent in 2013, the Canadian cession rate remains much higher and is estimated to be around 60 percent.

RECURRING

Recurring decreases were reported from four of the six Canadian reinsurers with only Munich and SCOR recording increases in 2013. The top three Canadian life reinsurers remain, in order of production: RGA, Munich and Swiss. Collectively, these three companies comprise 81 percent of the market share. RGA retained the top position despite a 7 percent reduction in new business writings. The $45.8 billion it wrote in 2013 captured 32 percent of the market share. Munich's $42.6 billion of new business writings in 2013 was on par with its 2012 writings and placed it in the second position with a 30 percent market share. Holding down the third position is Swiss Re, which wrote $28.1 billion in 2013. This equates to a market share of 20 percent.

Trailing the top three were SCOR Global Life, Aurigen and Optimum. SCOR's $14.0 billion of recurring new business was an 8.6 percent increase over 2012 production and captured 10 percent of the market. Both Aurigen and Optimum reported decreases in production, which resulted in market shares below 5 percent. Aurigen wrote $6.7 billion for a 4.7 percent market share and Optimum reported $6.1 billion for a 4.3 percent market share.

PORTFOLIO AND RETROCESSION

There was no portfolio business reported in Canada in 2013. This followed a very quiet year for portfolio in 2012 and is in contrast to the block activity occurring in the United States.

Retrocession continues to play a minor role in the Canadian life reinsurance market. Comparing retro production to recurring production reveals recurring reinsurers are sending less than 1 percent of their business to the retros. The three retrocessionaires—Berkshire Hathaway, Pacific Life and AXA Equitable—collectively reported $960 million, which is an 8.7 percent increase from 2012. Berkshire wrote $434 million; Pacific Life wrote $400 million; and AXA reported $126 million.

THE BOTTOM LINE

"Wait 'til next year!" is another rallying cry of faithful Chicago Cubs fans (unfortunately it's often chanted just one month into the season!). There are some positive factors that suggest life reinsurers may be feeling similarly entering 2014. Signs supporting a hopeful outlook include:

1. U.S. unemployment is at a five-year low.
2. The Dow Jones reached an all-time high at the end of 2013.
3. The gross domestic product (GDP) showed strong momentum going into 2014 by exhibiting increases in the last few quarters.

As a result, many industry experts predict direct sales may increase 2 to 3 percent in 2014. Other factors expected to impact the life reinsurance market in the near future are:

- In-force block opportunities: Life insurers are expected to continue to divest non-core operations. Already in 2014, we have seen Wilton Re acquire Conseco Life Insurance Company from CNO Financial Group and Continental Assurance Company from CNA Financial.

- Regulation: The use of captives and other funding structures has been under review by regulators, specifically for ULNG products and level term products. If restrictions are placed on the use of parent-owned captives to cover life insurer risk, direct writers may, once again, turn to reinsurers for capital assistance.

- Direct sales growth opportunities: A recent Nationwide Financial survey suggested U.S. lives are underinsured by an average of $1.2 million.3 Some ways the direct market is trying to close this gap is by reaching the following markets:

  – Tech-savvy market: According to a recent LIMRA survey, 77 percent of top executives surveyed agreed more companies will be designing simple, easy-to-understand life insurance policies for tech-savvy, self-directed consumers.4

  – Middle market: Non-traditional distribution approaches may be one way to reach this elusive, but significant, group. One example is MetLife selling simplified life policies in Wal-Mart. Accenture's 2013 Consumer-Driven Innovation Survey found that more than two-thirds of customers would consider purchasing home, auto and life insurance from sources other than insurers, and 23 percent were open to purchasing from online service providers like Amazon or Google.5

  – Aging market: Combo products, particularly insurance products combining life and living benefit (LTC), have become increasingly more popular as the U.S. population ages.

One thing is for certain—life reinsurance is not going away. Take, for instance, the largest life insurance policy ever sold in the United States was recently bought at $201 million. Given the current life insurance environment, it's no wonder life reinsurance has been referred to as "the ultimate business-to-business exchange."

Complete survey results can be found in the Publications section of the Munich Re website, www.marclife.com.

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. ■

ENDNOTES

1 LIMRA, "U.S. Individual Life Insurance Sales, Fourth Quarter 2013," March 2014.

2 LIMRA, "Canadian Individual Life Insurance Sales, Fourth Quarter 2013," March 2014.

3 Nationwide Financial, "Life Insurance/Income Replacement Study," August 2013.

4 LIMRA, "2014 Predictions Report," January 2014.

5 Accenture, "2013 Consumer-Driven Innovation Survey: Playing to Win," January 2014.