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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[1] : conventional reinsurance covering an insurance policy with an issue date in the year in which it was reinsured,

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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 New Business Production						
	U.S.			Canadian		
	2007	2008	Change	2007	2008	Change
Ordinary Life						
Recurring	683,085	657,791	-3.7%	139,335	150,038	7.7%
Portfolio	35,058	256,786	632.5%	7,897	19,078	141.6%
Retrocession	29,890	28,838	-3.5%	3,824	2,778	-27.4%
Total Ordinary	748,033	943,415	26.1%	151,056	171,894	13.8%
Total Group	21,954	337,463	1427.1%	7,749	6,201	-20.0%
Total Life	769,987	1280,878	66.4%	158,805	178,095	12.1%

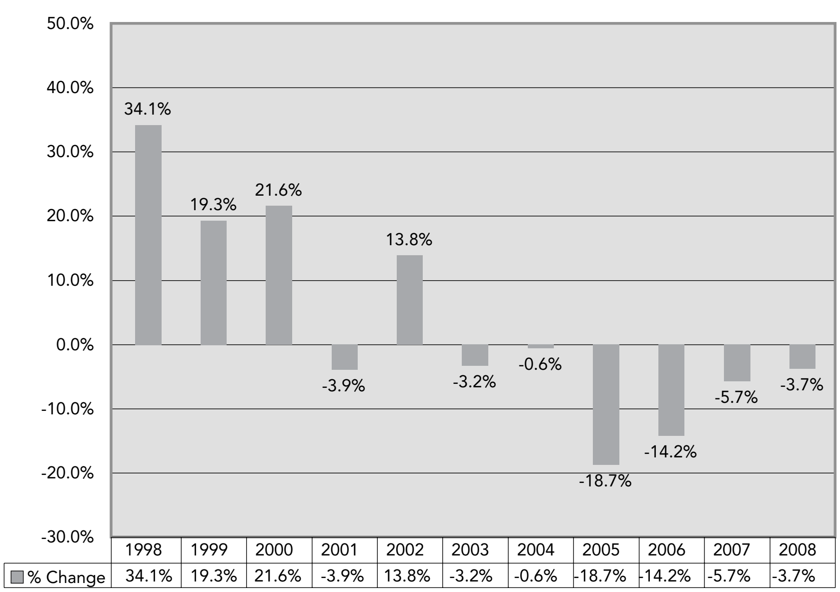
U.S. figures are in $US, Canadian figures are in $CAN

(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).

Annual Percentage Change in U.S. Recurring New Business (1998-2008)



LIFE REINSURANCE PRODUCTION: PORTFOLIO SAVES THE DAY!

A quick glance at the total life production numbers would have one thinking the U.S. life reinsurance industry made a miraculous turnaround in 2008. A 66.4 percent increase in production was recorded in the United States. However, a closer review shows the increase is largely coming from just a couple of companies and is a result of the sharp rise in portfolio business – both on the ordinary life side and the group side. All of the increase in 2008 was driven by in-force block deals as, once again, U.S. recurring business production fell from the previous year. In Canada, increases in recurring and portfolio production resulted in a 12.1 percent increase in total new business for 2008. Recurring rose 7.7 percent while portfolio jumped up 141.6 percent. Meanwhile, Canadian group production fell by 20.0 percent in 2008.

Life reinsurance production results for 2007 and 2008 are shown in the chart on the left.

U.S. RECURRING: DOWN AGAIN!

The bad news: Recurring production continued its decline in 2008. The good news (OK-somewhat good news!): the decreases continue to get smaller. After an 18.6 percent decrease in 2005, a 14.2 percent decrease in 2006, and a 5.7 percent decrease in 2007; recurring dropped 3.7 percent in 2008. This makes the sixth straight year, and seven out of the last eight years, that recurring production declined in the United States. As good as the 1990s were for recurring production, the current decade has been lackluster at best. In fact, recurring new business has not been at this low of a level in over 10 years.

The annual percentage change in U.S. recurring new business since 1998 is shown below. Since 2001, there has only been one year where recurring production increased.

Looking at the U.S. recurring results by company shows just how concentrated and stratified the market has really become. The top three companies account for 63 percent of the market share and the top five companies

U.S. Ordinary Recurring Reinsurance (U.S. Millions)					
	2007		2008		
Company	Assumed Business	Market Share	Assumed Business	Market Share	Change in Production
Swiss Re	126,599	18.5%	143,791	21.9%	13.6%
Transamerica Re	144,104	21.1%	139,703	21.2%	-3.1%
RGA Re	161,091	23.6%	132,474	20.1%	-17.8%
Generali Life Re	73,985	10.8%	82,423	12.5%	11.4%
Munich Am. Re	60,310	8.8%	49,634	7.5%	-17.7%
Hannover Life Re	5,525	0.8%	17,913	2.7%	224.2%
SCOR Global Life	24,520	3.6%	17,838	2.7%	-27.3%
Canada Life Re	26,116	3.8%	16,800	2.6%	-35.7%
General Re	14,738	2.2%	14,388	2.2%	-2.4%
XL Re Life	4,081	0.6%	11,576	1.8%	183.7%
Ace Tempest Life	5,154	0.8%	10,365	1.6%	101.1%
Wilton Re	7,142	1.0%	7,983	1.2%	11.8%
Optimum Re	6,546	1.0%	6,555	1.0%	0.1%
Scottish Re	22,786	3.3%	5,982	0.9%	-73.7%
RGA Re (Canada)	160	0.0%	232	0.0%	45.0%
ERC	228	0.0%	134	0.0%	100.0%
Total	683,085	100%	657,791	100%	-3.7%

make up 83 percent of the market. These percentages are virtually identical to the 2007 percentages for the top three and top five companies. The company results can be broken down into the following four groups:

1. Group One: This group represents those companies who reported over $100 billion in recurring production in 2008. There was no change to the members of this group from 2007 (Swiss Re, Transamerica Reinsurance, and RGA Re), but there was a change in their relative position as Swiss Re and RGA swapped positions from 2007. Collectively, the market share of this group was 63 percent with each individual company's market share around 20 percent. With a 13.6 percent increase in production, Swiss Re climbed back to the top spot with $143.8 billion of recurring new business. Transamerica's $139 billion in recurring put them in the second position, a 3.1 percent decrease from 2007. Rounding out the top three was RGA who wrote $132.5 billion—a 17.8 percent reduction from 2007.

2. Group Two: This group includes the two companies who wrote between $50 and $100 billion in recurring production. Generali USA Life Re's 11.4 percent increase in recurring productions resulted in $82.4 billion being written in 2008. Meanwhile, Munich American Re's $49.6 billion in recurring represented a 17.7 percent drop from 2007. These two companies had a combined market share of 20 percent.

3. Group Three: This group is made up of six companies who reported recurring new business between $10 and $20 billion in 2008: Hannover Re, SCOR, Canada Life Re, General Re, XL Re and Ace Tempest Life Re. Together, these companies made up 13.5 percent of the market share. Standouts in this group include Hannover, who reported a 224 percent increase from 2007 and XL Re, who had a 184 percent increase in production.

4. Group Four: This final group represents companies who wrote less than $10 billion in recurring new business in 2008. Wilton Re, Optimum Re, Scottish Re, RGA (Canada) and Employers Re (ERC) make up this group. Collectively, their market share was 3.2 percent.
When looking at the company results, note the large differences in production separating the groups. There is a $50 billion difference between the bottom Group One company (RGA) and the top Group Two company (Generali). Similarly, there is a $31 billion difference between the bottom Group Two company (Munich American Re) and the top Group Three company (Hannover Life).

The largest increases in 2008 recurring new business were reported by Swiss Re, Hannover and Generali. Swiss Re's production rose by $17.2 billion, Hannover had a $12.4 billion increase and Generali's new business increased by $8.4 billion. The largest decreases in 2008 were reported by RGA ($28.6 billion), Scottish Re ($16.8 billion) and Munich American Re ($10.7 billion).
(see chart above)

CANADA RECURRING: BACK ON TRACK

After experiencing a small decrease in recurring production in 2007, the Canadian market bounced right back with 7.7 percent increase in 2008. Sizable increases were reported by Swiss Re ($8.7 billion), RGA ($3.7 billion) and SCOR ($1.1 billion). Munich Re's production dropped $3.0 billion from 2007 to 2008. Market share is

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still dominated by the top three companies: RGA, Swiss and Munich Re. These three companies accounted for over 94 percent of the total recurring new business production in 2008. After the top three, production drops off considerably. SCOR and Optimum hold down the fourth and fifth positions respectively with each having about 3 percent of the market share (compared to the top three who each have shares around 30 percent).

LIMRA estimates that Canadian life insurance sales grew by 8 percent in 2008. Given this is a similar rate of increase experienced by the recurring market (7.7 percent), it would appear the overall reinsured percentage (cession rate) remained close to the same level as 2007.

Totals for Canadian recurring ordinary reinsurance assumed in 2007 and 2008 are shown in the chart below

Canada Ordinary Recurring Reinsurance ($CAN Millions)

Company	2007		2008		
	Assumed Business	Market Share	Assumed Business	Market Share	Increase in Production
RGA Re	48,537	34.8%	52,289	34.9%	7.7%
Swiss Re	36,360	26.1%	45,135	30.1%	24.1%
Munich Re	46,872	33.6%	43,828	29.2%	-6.5%
SCOR Global Life	3,390	2.4%	4,452	3.0%	31.3%
Optimum Re	4,174	3.0%	4,303	2.9%	3.1%
Aurigen Re	0	0.0%	30	0.0%	100.0%
Canada Life Re	2	0.0%	1	0.0%	-50%
Total	139,335	100%	150,038	100.0%	7.7%

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PORTFOLIO AND RETROCESSION: PORTFOLIO UP, RETRO DOWN

Several reinsurers reported increases in U.S. portfolio business in 2008, but no one as much as Hannover Life Re. Hannover's portfolio new business went from $25.4 billion in 2007 to $218.5 billion in 2008—an increase of $193 billion. Other companies with sizable portfolio writings in 2008 include: Munich American Re ($10.0 billion), Canada Life Re ($8.1 billion), Wilton Re ($7.4 billion), RGA ($6.1 billion) and Swiss Re ($5.9 billion.). It all added up to a 632.5 percent increase in assumed portfolio business in 2008. What is interesting about the 2008 portfolio number is compared to the big portfolio production seen in the recent past (e.g., 2001 and 2004), which was mainly due to merger and acquisition within the reinsurance industry, the 2008 number appears to be in-force blocks coming from direct companies.

U.S. retrocession's 3.5 percent decrease in 2008 production mirrors the 3.7 percent decrease experienced by recurring. For the last three years, retrocession has closely followed the pattern of recurring production.

Canadian portfolio rose sharply again in 2008. The 141.6 percent increase in portfolio can be attributed to newcomer Aurigen Re, who reported $19.1 billion in portfolio production. The Canadian retrocession market fell by 27.3 percent in 2008—in contrast to the 7.7 percent increase reported by the recurring market. Changes to some reinsurers retention levels in 2008 impacted the retrocession numbers.

GROUP: BLOCK DEALS DOMINATE!

As on the individual side, the tremendous growth in the U.S. group market was due to large in-force block deals. Specifically, Canada Life Re reported almost $290 billion in in-force block writings. Also noteworthy is Generali who reported over $26 billion in an in-force block deal. Along with individual life portfolio, these group deals were the reason for the growth in the U.S. market in 2008. Without these block deals, U.S. group new business was flat. True group new business essentially stayed at the same level as in 2007, around $21 to $22 billion in total. The top writers of group new business were: Group Reinsurance Plus, Munich American and ING. To put in perspective just how big the in-force deals were for the group market, these two deals caused almost a 200 percent increase in the total Group in-force levels—not new business, but in-force!
The Canadian Group market reported a 20 percent decrease going from $7.7 billion in 2007 to $6.2 billion in 2008. What's worth noting here is that every Canadian group writer reported a decrease in their group writings in 2008. The top three writers make up 93 percent of the group market share. These are the same three companies who dominate the Canadian recurring market—Munich Re, RGA and Swiss Re.

COMPARISON WITH DIRECT MARKET: DIRECT SALES DOWN/CESSION RATE FALLS

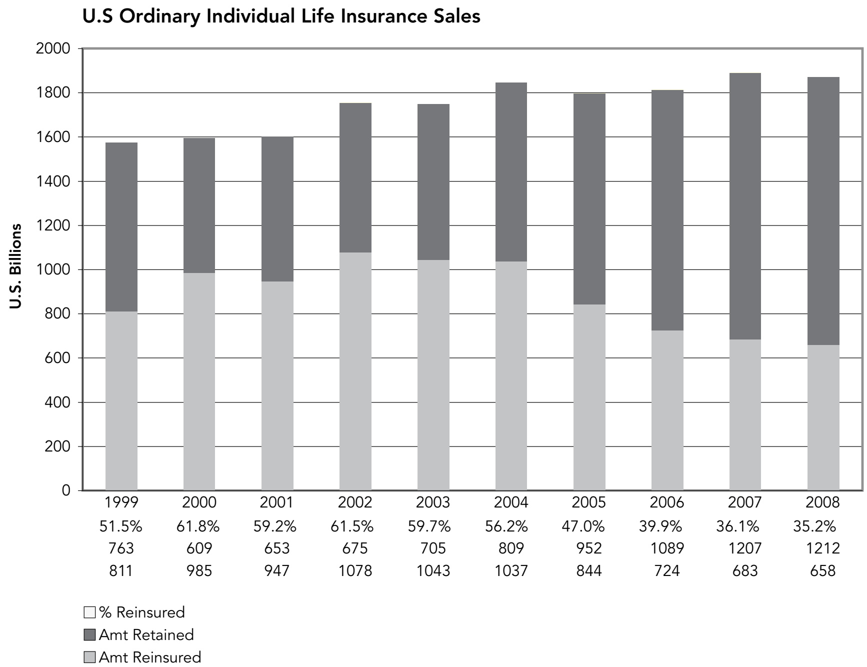
Final data from the ACLI shows individual life insurance purchases dropped 1.3% in 2008. This results in the percent reinsured rate ("cession rate") to be 35.2% in 2008. The graph on the right compares ordinary life new business totals with the recurring life reinsurance totals for the United States.

Total U.S. ordinary life sales have stayed relatively flat during the last five years—hovering around $1.8 trillion. However during this same time period, the percentage reinsured has dropped from 56 to 35 percent. Also, if you look a couple of years prior to 2002, the cession rate was as high as 61 percent. It is believed the steady drop over the last five years can be explained, at least partially, by two key shifts in the market. First, we are still seeing the lingering effect of the repricing efforts in 2004-06 era by the reinsurers. Direct companies who raised their retentions during this period have been slow to change back. Second, ceding companies were able to find alternate solutions, besides reinsurance, to finance their 'XXX' term reserve strain.

CONCLUSION AND A LOOK FORWARD

In summary, the growth in the U.S. market in 2008 can all be traced to portfolio business. Large in-force deals on both the individual side and group side more than made up for the falling recurring production. It is also important to note that most of the growth can be traced to just a few companies. Meanwhile, the Canadian market continues to grow steadily.

The economic environment is going to play a big role in 2009. Given the current environment, one would expect direct sales to be down again in 2009 with UL and VUL sales likely to be more impacted than term sales. But all is not bad for the reinsurance market. There is currently, and will continue to be, opportunity for coinsurance term business. With the capital and credit markets drying up, direct writers are once again turning to reinsurers for help to provide reserve support for term business—similar to 2000 when Reg. XXX became effective. And if 2008 is any indication,



expect to see continued interest in financial/in-force block deals. Companies looking to improve bottom line results may look to reinsure certain blocks of their in-force business. The big question is whether the reinsurance industry can step in and provide the support needed at a price deemed reasonable by the direct companies. ■

Disclaimer:
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.

David Bruggeman, FSA, MAAA is AVP and actuary with Munich American Reassurance Company in Atlanta, Ga. He can be reached at dbruggeman@marclife.com.