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Life Reinsurance data from the 2011 Munich Re Survey

By David M. Bruggeman

A few years ago, I did a presentation where I compared different life reinsurance pricing eras in the United States to various Beatles songs. For example, the mid-to-late 1990s was "I Want to Hold Your Hand" because reinsurers were heavily courting direct companies for additional business. "With a Little Help From My Friends" was perfect for the early-2000s when reinsurers helped out direct companies with capital strain/reserve relief brought on by Guideline XXX. This growth period for the industry was followed by "A Hard Day's Night" in the mid-2000s due to re-pricing efforts by several reinsurers. But by the end of the decade, relationships between direct writers and reinsurers had improved and "We Can Work It Out" seemed like an appropriate selection. But what Beatles song best captures the last couple of years for the life reinsurance industry? Is it "Got to Get You Into My Life," "Come Together," or how about "I Feel Fine"? To help you decide, let's take a look at the results of the 2011 Life Reinsurance Survey. First, some quick definitions of the reinsurance categories that will be discussed:

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(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 2011.

(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 group of policies issued during the period 2005-2006, but being reinsured in 2011.

(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."

UNITED STATES

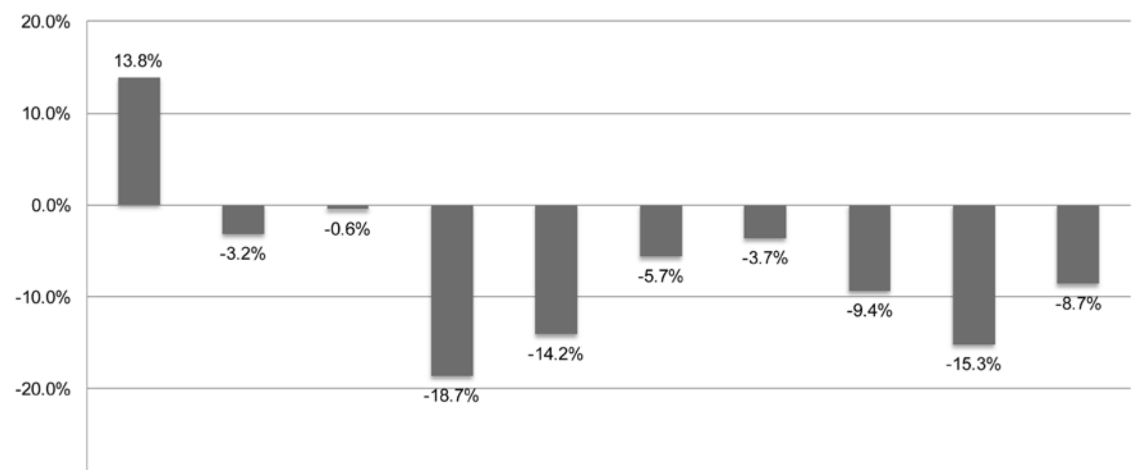
The biggest news in 2011 concerned acquisitions within the reinsurance industry. The largest being the SCOR Global Life acquisition of Transamerica Re. Transamerica Re was a perennial top five U.S. new business reinsurer with over $965 billion of individual life reinsurance in force in 2010. The acquisition immediately placed SCOR among the top U.S. life reinsurers. Another major acquisition within the industry was Hannover Re, who acquired a portion of Scottish Re's life business. The block Hannover acquired accounted for over $50 billion in new portfolio reinsurance. Finally, Manufacturers Life's (Manulife) retrocession business was acquired by Pacific Life. Manulife, a major player in the retrocession market, had reported $86 billion of in force retrocession business in 2010.

Reinsurance of in force blocks from direct writers also accounted for a large portion of several reinsurers new business writings. Most notably, Canada Life and Wilton Re reported sizable portfolio writings in 2011. Canada Life reported $79 billion of portfolio new business and Wilton Re reported $31 billion.

RECURRING

U.S. Recurring new business continued to decline in 2011. Overall, recurring new business was down 8.7 percent in 2011. This marks nine straight years of a decrease in new business. The graph below shows how recurring new business has fared over the last decade:

Annual Percentage Change in U.S. Recurring New Business (2002-2011)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
% Change	13.8%	-3.2%	-0.6%	-18.7%	-14.2%	-5.7%	-3.7%	-9.4%	-15.3%	-8.7%

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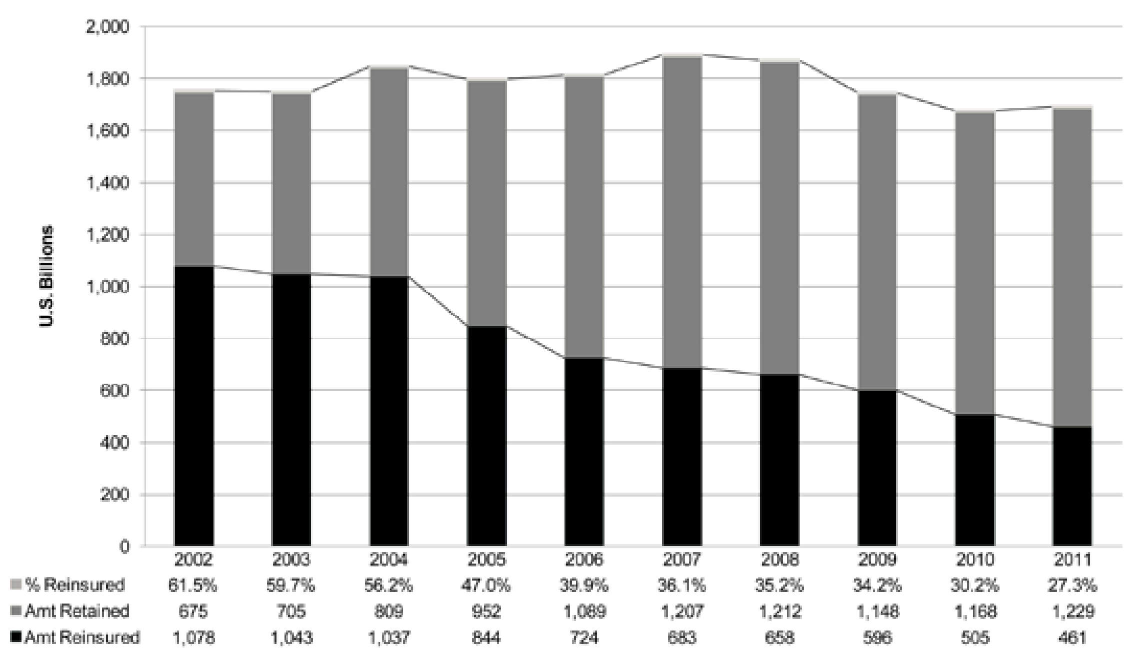
David M. Bruggeman, FSA, MAAA is assistant vice president and actuary with Munich American Reassurance Company in Atlanta, GA. David can be reached at dbruggeman@munichre.com.

Another measure often used to gauge the popularity of reinsurance is the cession rate. The cession rate is defined as the percentage of new business writings that were reinsured in that year. Ten years ago, the U.S. life reinsurance industry was enjoying cession rates in excess of 50 percent—meaning the majority of the life insurance business written in that particular year was actually reinsured. More recently however, cession rates have been steadily declining, eventually falling to 30 percent in 2010. LIMRA estimates direct sales grew by 1 percent in 2011. Sales increased for universal life (UL), variable universal life (VUL) and whole life (WL) products, but term life sales declined by 3 percent. Using LIMRA's estimate for 2011 U.S. life sales and this survey's recurring reinsurance figure equates to a cession rate of 27.3 percent for 2011.This represents yet another decrease in cession rates and is the lowest rate the market has experienced since 1995. The drop in cession rate suggests direct writers are continuing to retain more of their risk—either by moving from first dollar quota share arrangements to excess retention arrangements or by raising their excess retention limits.

The following graph illustrates how the cession rate has steadily fallen in recent years. One telling statistic is since 2002, U.S. recurring new business has fallen almost 60 percent but direct sales have only dropped 4 percent.

One of the key factors contributing to this overall decline is coinsurance of level term business. It's no secret that much of the growth in the early 2000s can be attributed to coinsurance of level term products as a result of the introduction of Guideline XXX in 2000. Reinsurers were able to help out with the reserve strain direct writers had because of the new reserving guidelines. But as the years went by, direct writers were finding more economical ways to handle its surplus needs, and the need for coinsurance gradually lessened. This is evident when comparing the percentage of coinsurance for new business to the percentage for in force. From a new business perspective, the percentage of reinsurance that is coinsured has steadily dropped over the last few years. In 2009, 37 percent of reinsurance was coinsured, but dropped to 28 percent in 2011. However,

U.S. Ordinary Individual Life Insurance Sales



"… WILL DIRECT WRITERS LET THE POST-LEVEL TERM EXPERIENCE PLAY OUT WITH THE REINSURERS OR WILL THEY TRY TO RECAPTURE THE BUSINESS AFTER THE LEVEL TERM PERIOD?"

the percentage of coinsurance based on in force is much higher. Over half of the recurring in force, 52 percent, is reinsured on a coinsurance basis. This reflects the higher amount of coinsurance business that was written in the early- to mid-2000s as compared to recent years. There is no doubt the decreasing coinsurance levels have had a large impact on overall recurring levels.

As we have reached the end of the level term period for the first wave of Guideline XXX 10-year term products, post-level term experience is just emerging. With this milestone, will direct writers let the post-level term experience play out with the reinsurers or will they try to recapture the business after the level term period?

One constant in the U.S. reinsurance market over the last several years has been the level of market concentration. Once again, 85 percent of the reported recurring new business was captured by five reinsurers: RGA, SCOR (with the acquisition of Transamerica Re), Swiss Re, Generali and Munich Re. The table below shows the recurring results at the company level:

RGA was the leading recurring writer in the United States. Its $103 billion was $25 billion above its closest competitor, and equated to a 22 percent market share. However, the $103 billion represents a 22 percent drop from its 2010 production. The next four reinsurers reported similar new business levels, with SCOR Global, Swiss Re and Generali USA Life Re reporting new business writings within $3 billion. SCOR's $77.5 billion reported in 2011 gave it a 16.8 percent market share and the number two position among recurring writers. For comparison purposes, SCOR and Transamerica's Re's 2010 numbers have been combined. This results in a 16 percent reduction from the combined 2010 recurring writings. Close behind SCOR is Swiss Re which wrote $75.9 of recurring in 2011. This gave Swiss Re a 16.5 percent market share. By amount, Swiss Re reported the largest increase from 2010, with its new business increasing from $70.6 billion in 2010 to $75.9 billion in 2011. Less than $1 billion away from Swiss Re was Generali. Generali reported $75 billion in 2011, which was good enough for a 16.3 percent market share. Compared to 2010, Generali's production fell slightly; only by $2.7 billion. The final member of this group is Munich Re. Munich's $61.9 billion in 2011 recurring new business was a 4.7 percent increase over 2010, and gave it a 13.4 percent market share. After Munich, there is a sizable drop-off in production levels. There is $32 billion difference between the top five and Hannover Life Re, the number six writer. Hannover grew organically and by acquisition of in force blocks in 2011. Its $29.3 billion of recurring reported in 2011 is a 17 percent increase from 2010, increasing its market share from 4.9 percent in 2010 to 6.3 percent in 2011. Canada Life's recurring new business fell 21 percent—dropping from $19.7 billion in 2010 to $15.5 billion in 2011—while holding a 3.4 percent market share. General Re recorded a 26 percent increase in recurring writings compared to 2010. It wrote $12.7 billion for a market share of 2.8 percent. Optimum Re, Wilton Re and RGA Re (Canada) round out the rest of the U.S. recurring cast. Optimum Re and Wilton Re both have a 1 percent market share while writing close to $5 billion of new business. It should be noted there was one company that declined

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

	2010		2011		
Company	Assumed Business	Market Share	Assumed Business	Market Share	Change in Production
RGA Re. Company	132,936	26.3%	103,108	22.4%	-22.4%
SCOR Global/Transam.	92,574	18.3%	77,505	16.8%	-16.3%
Swiss Re	70,599	14.0%	75,912	16.5%	7.5%
Generali USA Life Re	77,782	15.4%	74,993	16.3%	-3.6%
Munich Re (US)	59,157	11.7%	61,922	13.4%	4.7%
Hannover Life Re	24,971	4.9%	29,275	6.3%	17.2%
Canada Life	19,698	3.9%	15,543	3.4%	-21.1%
General Re Life	10,041	2.0%	12,695	2.8%	26.4%
Optimum Re (US)	5,034	1.0%	5,002	1.1%	-0.6%
Wilton Re	5,264	1.0%	4,826	1.0%	-8.3%
RGA Re (Canada)	428	0.1%	392	0.1%	-8.4%
Ace Tempest	6,478	1.3%	DNR	0.0%	0.0%
TOTAL	**504,962**	**100%**	**461,173**	**100%**	**-8.7%**

DNR- Did Not Report

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to participate in the survey this year: Ace Tempest. It is not known what it wrote in 2011, but in 2010, it held a 1.3 percent market share. If Ace is excluded from the 2010/2011 comparison, the total change in production for the companies reporting in 2011 is actually a 7.5 percent decrease instead of the 8.7 percent shown in the table.

PORTFOLIO

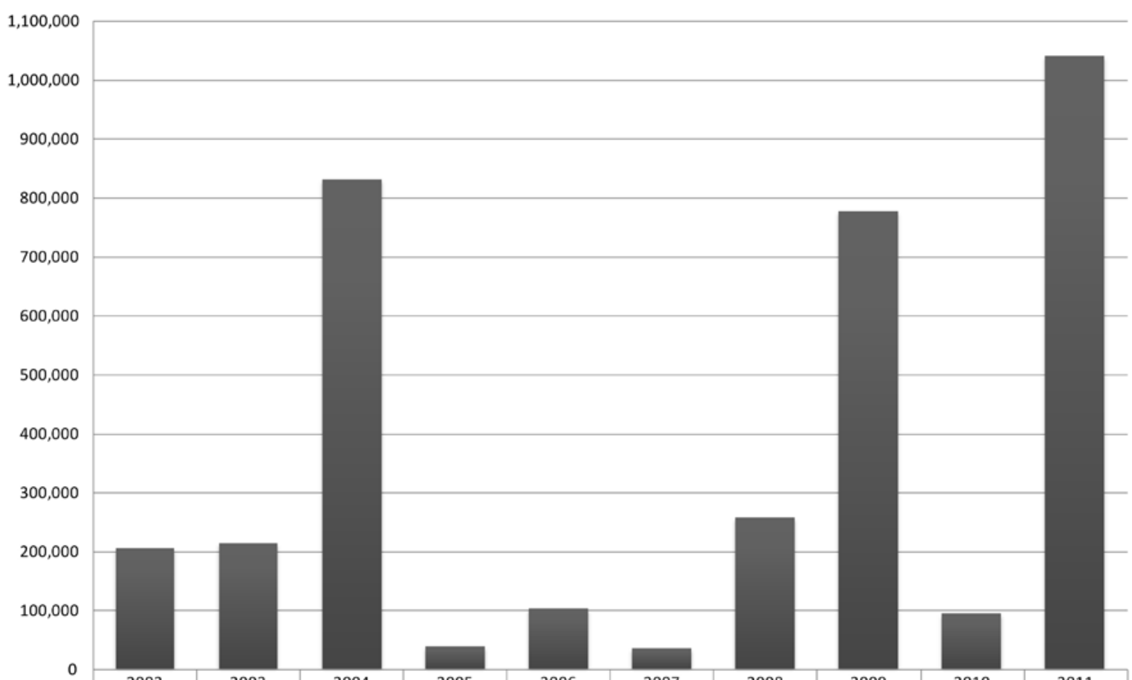
As mentioned earlier, U.S. portfolio was very active in 2011. The $1.0 trillion reported in 2011 was the largest portfolio amount ever recorded. Much of this, of course, is related to the SCOR acquisition of Transamerica Re. This one acquisition accounted for $830 billion of the $1.0 trillion portfolio total. Outside of that large transaction, Hannover reported $88.0 of portfolio business in 2011 with approximately $56 billion of Hannover's portfolio writings coming from the acquisition of a portion of Scottish Re's in force. The portfolio amounts were not limited to activity within the reinsurance community, there were several other sizable portfolio amounts reported originating from direct writers. Some of the notable companies reporting portfolio business originating from direct writers include Canada Life ($79.4 billion) and Wilton Re ($31.3 billion).

Portfolio production over the last 10 years is shown in the chart below. The spikes seen in 2004 and 2009 are also a result of acquisition activity within the reinsurance industry. What is worth noting, however, is they both represent the same source of business … the ING Re block of business. In 2004, Scottish Re acquired ING Re, and then, in 2009, Hannover acquired this same block from Scottish Re.

RETROCESSION

After several years of significant decreases, the U.S. retrocession market recorded an increase in 2011.

Portfolio ($ Millions)

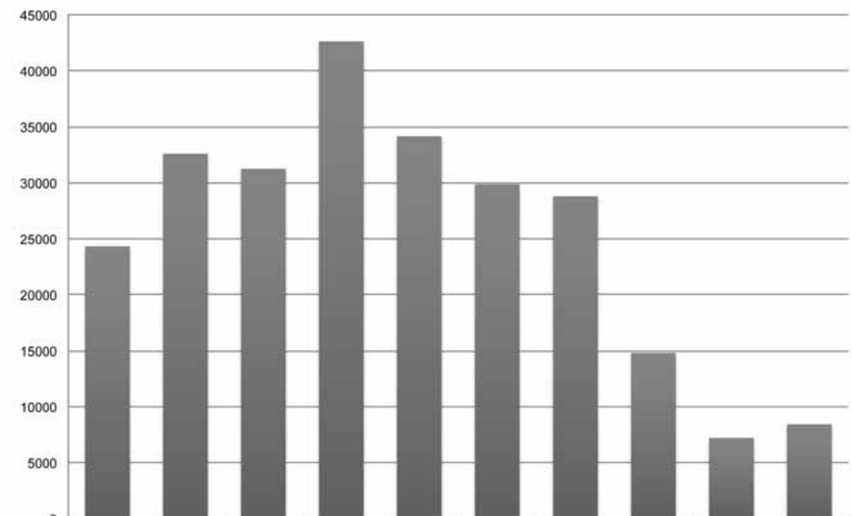


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Portfolio	204,242	213,656	831,703	38,747	101,926	35,058	256,786	776,710	94,236	1,041,577

"... THE CESSION RATE IN CANADA IS IN THE RANGE OF 70 PERCENT COMPARED TO THE U.S. CESSION RATE OF 27.3 PERCENT."

Retrocession went from $7.2 billion in 2010 to $8.4 billion in 2011. While this 16.7 percent increase is encouraging, the 2011 new business production is still a far cry from what the retro market had recorded in past years. For example, retrocessionaires reported five times the 2011 amount, $43 billion, just six years ago. Like direct writers, reinsurers are retaining more of their business, which leaves less business available for the retros. The graph below illustrates the impact the increasing retentions from both the direct writers and the reinsurers has taken on the retro market. Retrocessionaires are especially sensitive because of the growing concentration of the recurring market. If just one major reinsurer makes a retention change, it can be deeply felt by the retro market. Top U.S. retrocessionaires are, in order of 2011 production, Pacific Life ($4.3 billion), Berkshire Hathaway Group ($2.2 billion) and AXA Equitable ($1.7 billion). These three companies cover 97 percent of the reported U.S. retro market.

Retrocession ($ Millions)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Retrocession	24318	32614	31249	42625	34159	29879	28812	14817	7226	8433

CANADA

Outside of a large portfolio amount reported from one reinsurer, 2011 life reinsurance production in Canada closely resembled 2010 production.

RECURRING

Recurring new business in Canada experienced little change in 2011. The $154.3 billion reported represents an increase of less than 1 percent. According to LIMRA, 2011 Canadian direct sales by face amount were also on par with 2010 sales. While this suggests no material change to the Canadian cession rate in 2011, it should be noted Canadian reinsurers enjoy a cession rate that is considerably higher than seen in the United States. Based on LIMRA's estimates for 2011 Canadian direct sales and the results of this survey, it is estimated the cession rate in Canada is in the range of 70 percent compared to the U.S. cession rate of 27.3 percent. Another difference from the U.S. market is that little of the reinsurance in Canada is reinsured on a coinsurance basis. In 2011, only 2.5 percent of the Canadian recurring business was reported to be on a coinsurance basis. In comparison, 28 percent of reinsurance was coinsured in the U.S. market.

There was no change in the order of any of the Canadian recurring producers from 2010 to 2011. RGA, Munich and Swiss remain the top three recurring writers, and account for the bulk of the market share. These three companies had a combined market share of 85 percent in 2011. One interesting observation that can be seen in the table below is, while each of the top three reinsurers showed small decreases in recurring production, the next tier of reinsurers (SCOR, Optimum and Aurigen) all reported sizable double-digit increases. Granted, the production level from these companies is considerably lower than the "Big 3," but they appear to be slowly eating away at the top three's market share, which has gone from 94.5 percent in 2009 to 85.7 percent in 2011. It will be interesting to see if this trend continues.

PORTFOLIO AND RETROCESSION

Similar to the U.S. market, Canadian reinsurers reported a large increase in portfolio business and stable retrocession numbers. The increase came primarily from one company, Munich Re reported over $56 billion of individual life portfolio. Aurigen Re was the only other reinsurer reporting portfolio business ($153 million). The 2011 total Canadian portfolio amount of $56.3 billion is considerably larger than the $1.4 billion reported in 2010.

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Canada Ordinary Recurring Reinsurance ($CAN Millions)

Company	2010		2011		Change in Production
	Assumed Business	Market Share	Assumed Business	Market Share	
RGA Re (Canada)	52,623	34.4%	50,349	32.6%	-4.3%
Munich Re (Canada)	48,324	31.6%	48,131	31.2%	-0.4%
Swiss Re	35,208	23.0%	33,762	21.9%	-4.1%
SCOR Global Life (Canada)	7,773	5.1%	10,814	7.0%	39.1%
Optimum Re (Canada)	4,903	3.2%	5,791	3.8%	18.1%
Aurigen	4,201	2.7%	5,465	3.5%	30.1%
TOTALS	153,032	100%	154,312	100.0%	0.8%

Canadian retrocession business stayed steady in 2011. In total, the retro market reported a modest 2 percent increase; going from $1.38 billion in 2010 to $1.41 in 2011. Three reinsurers reported Canadian retrocession business: Berkshire Hathaway, Pacific Life and AXA Equitable. Comparing recurring new business to retrocession new business puts the Canadian retrocession rate at 1 percent. This is about ½ of the U.S. rate.

CONCLUSION

The table below provides a summary of the overall results from the survey.

For the United States, the Federal Reserve's recent actions indicate low interest rates will continue through 2013 and most experts are predicting unemployment rates will continue to hover around 8 percent in 2012. The one big unknown is if an improving and, hopefully, less volatile economy will translate to increased life insurance sales. There are already some encouraging signs for U.S. life sales in 2012. MIB recently reported U.S. life insurance activity rose 4.2 percent in the first quarter compared to the same period last year. Interestingly, the older issue ages (age 60 and higher) showed the largest increase. Several industry experts have gone on record saying growth rates for life insurance will be close to the historical level of 2 to 3 percent. Meanwhile, other experts believe—due to low interest rates, high equity market volatility and slow economic growth—life sales may experience a modest downturn. From a product standpoint, WL and UL products are expected to continue to see growth because of the economic environment. Notwithstanding the above, a recent LIMRA survey showed half of U.S. households admit they don't have enough life insurance. For the optimist, this means there is potential for increasing direct sales in 2012.

Life Reinsurance New Business Production

	U.S.			Canadian		
	2010	2011	Change	2010	2011	Change
Ordinary Life						
Recurring	$504,962	$461,173	-8.7%	$153,032	$154,312	0.8%
Portfolio	94,236	1,041,577	1005.3%	1,437	56,270	3815.8%
Retrocession	7,226	8,433	16.7%	1,380	1,405	1.8%
Total Ordinary	**606,424**	**1,511,183**	**149.2%**	**155,849**	**211,987**	**36.0%**

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

One path some reinsurers have taken in hopes of maintaining or increasing its reinsurance share is to offer additional services to the direct writers to help profitably grow their business. Examples of such services include providing additional capacity on large cases, underwriting support, biometric support, or product development support. With the amount of data reinsurers have, they are in an excellent position to be able to bring valuable information to the market. While these services bring value, the bottom line is that price remains a key factor in the direct writer's eyes.

So what Beatles song have you chosen to symbolize today's life reinsurance market? There's no doubt life reinsurers are facing challenges to put business on their books, but let's hope they don't have to travel "The Long and Winding Road" before the market shows signs of picking up again.

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. ■