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Results of the 2012 SOA Life Reinsurance Survey

By David Bruggeman

The final results of the 2012 Society of Actuaries (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 2012.

(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 reinsurance would be a group of policies issued during the period 2005 to 2006, but being reinsured in 2012.

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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."

Thanks to all of the survey participants for their support and timely responses this year.

UNITED STATES

The U.S. economy began to slowly rebound in 2012. The markets were up, and reported unemployment rates, while still high, trended lower throughout the year. But, interest rates remained very low and are expected to be low for the next couple of years. Did the improved market conditions elevate consumer trust and lead to more life insurance sales? More importantly, at least for life reinsurers, did the improved economic conditions positively impact life reinsurance production?

Compared to 2011, things were relatively quiet within the life reinsurance industry in 2012. 2011 saw multiple acquisitions within the industry. To quickly recap, in 2011, Pacific Life acquired Manufacturers Life's retrocession business, Hannover acquired a portion of Scottish Re's life reinsurance business, and—the largest acquisition of the year—SCOR Global Life Re acquired Transamerica Re (a top-five U.S. life reinsurer). While there were no blockbuster deals in 2012, there were still a few announcements that could have a meaningful impact on the life reinsurance market in 2013 and beyond. First, it had been announced that Generali was seeking a buyer for its U.S. life reinsurance business. Based on the 2012 survey results, Generali was the fourth largest recurring new business writer in the United States.

On June 4, 2013 SCOR announced they had entered into an agreement to acquire Generali's U.S. life reinsurance operations. Based on the 2012 results, this would place SCOR at the top of the recurring new business table, with a 31.5 percent market share. In other news, Swiss Re sold its US Admin Re holding company, Reassure America, to Jackson National. Swiss stated it was time to re-deploy capital to other areas of its business. And, finally, even though this technically was announced in 2013, Aurigen Re took its first step into the U.S. life reinsurance market by acquiring Brokers National Assurance Company from Ameritas Life. This acquisition allows Aurigen to offer reinsurance capacity through a U.S. domiciled reinsurance entity.

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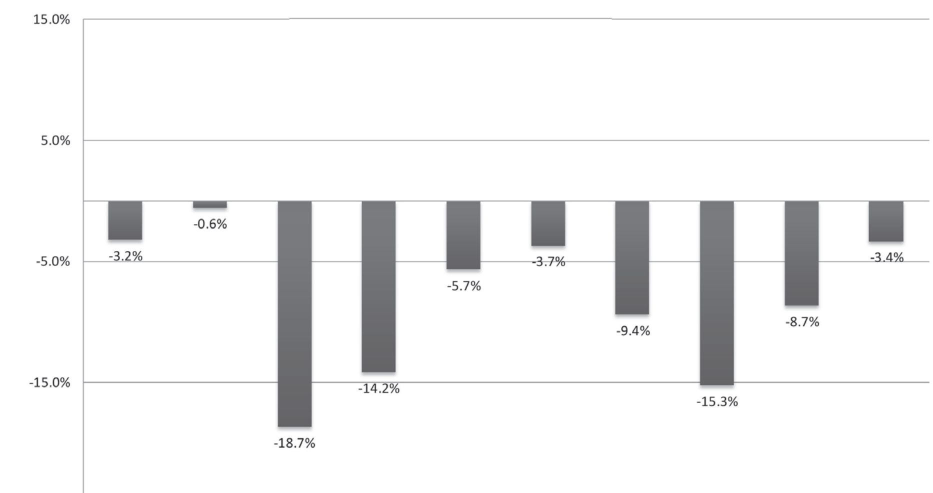
Annual Percentage Change In U.S. Recurring New Business (2003-2012)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
■ % Change	-3.2%	-0.6%	-18.7%	-14.2%	-5.7%	-3.7%	-9.4%	-15.3%	-8.7%	-3.4%

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RECURRING

U.S. recurring production fell 3.4 percent in 2012. This makes 10 straight years U.S. recurring production has declined. The level of decrease was not as dramatic as seen in the previous two years (8.7 percent in 2011 and 15.3 percent in 2010), but a decrease nonetheless. From a new business volume perspective, recurring went from $461 billion in 2011 to $446 billion in 2012. The table on page 5 shows the annual percentage change in U.S. recurring new business production over the last 10 years.

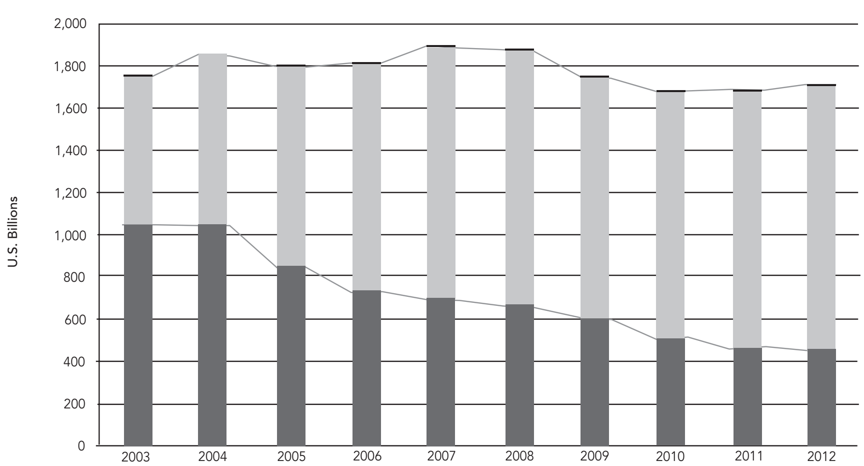
You see an interesting up-and-down trend over this period. Just when things look like they are going to get better and recurring might actually record an increase, production starts falling again. For example, take a look at 2004 to 2005, or 2008 to 2009. Given the 2012 result, it looks like the market is poised once again to either break back into positive territory or start declining again.

The cession rate is another metric commonly used to measure the life reinsurance market. It is defined as the percentage of new business writings that were reinsured in that year. It basically is an indication of how popular reinsurance is with the direct writers. Based on estimates from LIMRA, direct sales grew by 2 percent in 2012. Using LIMRA's estimate for 2012[1] U.S. life sales and this survey's recurring reinsurance figure, a cession rate of 26.1 percent is estimated for 2012, which would represent another decrease in the cession rate. Similar to the recurring production figures, it has been a long time since we have seen an increase in the cession rate. The 2012 cession rate is the lowest level the market has experienced since 1995. Stable direct sales and a lower cession rate indicate direct writers continue to retain more of their business—either by moving from first dollar quota share arrangements to excess retention arrangements or by raising their excess retention limits. The graph below shows the cession rates over the last 10 years.

There are a few items worth noting about this graph. While direct sales have been relatively flat throughout the decade, the percentage reinsured has steadily dropped. Since 2003, the amount of reinsured business has dropped almost 60 percent, yet direct sales have only fallen about 2 percent. On an amount basis, the $446 billion reported in 2012 is the lowest amount since 1996.

For further insight into what is happening to the U.S. recurring market, we need to take a look at the type of reinsurance being written (yearly renewable term [YRT] vs. coinsurance). From a new business perspective, the percentage of coinsurance has been steadily dropping the last few years. It was 37 percent in 2009, the first year the survey started collecting YRT/coinsurance data, and has steadily dropped to where we are today at 27 percent. However, the coinsurance percentage on existing in force is 52 percent, which is almost twice the level seen for new business. This illustrates just how much more coinsurance was written in the early- to mid-2000s compared to more recent years. There is no doubt the declining coinsurance levels over the years have played a large role in the declining recurring levels experienced. There was $10.2 billion less in coinsurance business reported in 2012 compared to 2011; however, YRT only dropped $7.2 billion. This means while coinsurance makes up a quarter of the recurring new business, it accounted for more than 50 percent of the overall reduction seen in 2012. Coinsurance is primarily written on level-term products, which, according to LIMRA, experienced a rise in sales of 1 percent in 2012.[2] Thus, the decreasing coinsurance levels seen during the last few years do not appear to be due to decreasing direct term sales.

U.S. Ordinary Individual Life Insurance Sales



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
% Reinsured	59.7%	56.2%	47.0%	39.9%	36.1%	35.2%	34.2%	30.2%	27.5%	26.1%
Amt. Retained	705	809	952	1,089	1,207	1,212	1,148	1,168	1,218	1,260
Amt. Reinsured	1,043	1,037	844	724	683	658	596	505	461	446

The table to the right shows the recurring results at the company level.

RGA was, once again, the top recurring new business writer. It reported $87.1 billion in 2012. While this did lead all reinsurers, it does represent a drop of 15 percent from 2011 when it reported over $100 billion. Swiss Re's new business writings grew by 7 percent in 2012, which allowed it to jump up from third position in 2011 to the second spot in 2012. Swiss reported $81.2 billion in recurring business in 2012. SCOR was the third leading recurring writer with $76.5 billion reported in 2012. This represents just a small decrease in production of 1 percent from 2011. Rounding out the top five are Generali and Munich Re. Both of these two companies had production in the low $60 billion range and market shares around 14 percent each. Generali's $63.8 billion reported in 2012 was good enough to take the fourth spot. This was, however, a 15 percent drop from its 2011 production of $75 billion. Close behind was Munich, which reported $62.6 billion in 2012—a 1.2 percent increase from their 2011 new business writings.

The top five reinsurers continue to make up a sizable majority of the market. Approximately 83 percent of market is captured by these five companies: RGA, Swiss, SCOR, Generali and Munich. However, as noted earlier, with Generali announcing it's up for sale, the make-up of the top five may likely change in 2013.

Hannover's $40.9 billion reported in 2012 was more than enough to keep it in the sixth spot for U.S. recurring producers. This is a 40 percent increase from the $29.3 billion reported in 2011 and garnered a 9.2 percent market share in 2012. Hannover's increase distanced it from the remaining five reinsurers that all had market shares below 3 percent: General Re, Canada Life, Wilton Re, Optimum and RGA-Canada. Both General Re and Optimum reported small increases in production (2 percent). Larger swings were reported by Canada Life, with its production falling 44 percent compared to 2011, and Wilton Re, with its 2012 production rising 38 percent over 2011. Collectively, this group of five companies had a market share of 7.4 percent.

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

	2011		2012		
Company	Assumed Business	Market Share	Assumed Business	Market Share	Change in Production
RGA Re. Company	103,108	22.4%	87,115	19.5%	-15.5%
Swiss Re	75,912	16.5%	81,188	18.2%	7.0%
SCOR Global Life Re (US)	77,505	16.8%	76,547	17.2%	-1.2%
Generali USA Life Re	74,993	16.3%	63,820	14.3%	-14.9%
Munich Re (US)	61,922	13.4%	62,654	14.1%	1.2%
Hannover Life Re	29,275	6.3%	40,885	9.2%	-39.7%
General Re Life	12,696	2.8%	12,961	2.9%	2.1%
Canada Life	15,543	3.4%	8,668	1.9%	-44.2%
Wilton Re	4,826	1.0%	6,684	1.5%	38.5%
Optimum Re (US)	5,002	1.1%	5,124	1.1%	2.4%
RGA Re (Canada)	392	0.1%	37	0.0%	-90.6%
TOTAL	461,174	100%	445,683	100%	-3.4%

PORTFOLIO

Sizable U.S. portfolio writings were reported in 2012, especially considering there were no acquisitions within the reinsurance industry in 2012. The large amounts seen the in graph below for 2004, 2009 and 2011 are mainly a result of acquisitions within the industry (e.g., a reinsurer acquiring another reinsurer's block of business). The 2011 portfolio result was primarily from the SCOR acquisition of Transamerica. Interestingly, the 2004 and 2009 increases are due to the same block of business being moved around. In 2004, Scottish Re acquired the ING Re block, and then, in 2009, Hannover acquired the same block from Scottish Re. To get back to the current results, the $343 billion reported in 2012 likely represents the highest level of portfolio business that did not involve an acquisition within the industry. In other words, most of the 2012 portfolio business is believed to have come from in-force blocks of direct writing companies. There were three U.S. writers reporting sizable portfolio writings in 2012. Those were RGA ($190 billion), Canada Life ($110 billion) and Hannover ($44 billion).

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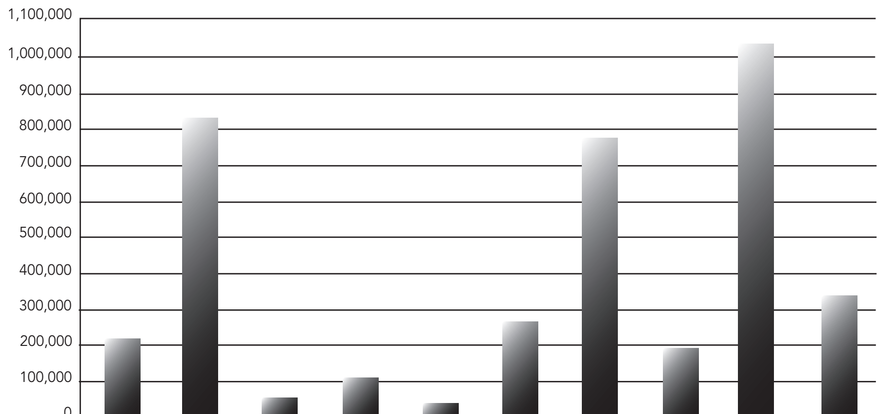
Given the low interest rate environment and the current capital/reserve requirements, some direct writers appear to be more open to reinsuring existing in-force business. With interest rates expected to remain low over the next couple of years and principle-based reserving (PBR) still likely at least a couple of years away, it is possible more block opportunities will arise in 2013 and 2014.

Portfolio ($ Millions)



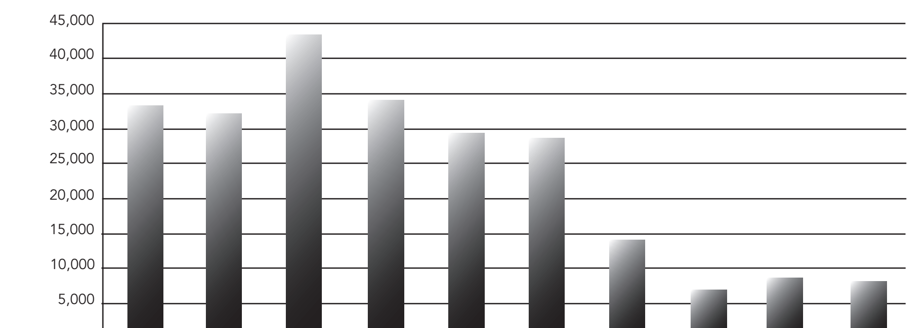
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Portfolio	213,656	831,703	38,747	101,926	35,058	256,786	776,710	94,326	1,041,577	343,403

RETROCESSION

U.S. retrocession levels appear to have stabilized after recording dramatic decreases since the mid-2000s. 2005 was the high-water mark for retrocessionaires, reaching $43 billion in new business, compared to 2012 when $7.5 billion was reported. This is quite a drop in a small period of time. The 2012 production was down 11 percent versus 2011, but this is relatively minor compared to the 50 percent reductions experienced in 2009 and 2010.

With direct writers and reinsurers retaining more business, the piece of the pie has been getting smaller and smaller for retrocessionaires. Most are especially sensitive to the increased concentration of the reinsurance market. A change in retention of just one of the top reinsurers could have significant impact on overall retrocession production. There were three companies reporting U.S. retrocession business in 2012. Those were, in order of production, AXA Equitable, Berkshire Hathaway and Pacific Life. Production was closely distributed among these companies, as each reported between $2.4 billion and $2.6 billion in new business.

Retrocession ($ Millions)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retrocession	32,614	31,249	42,625	34,159	29,879	28,812	14,817	7,226	8,433	7,465

"THERE IS OPPORTUNITY FOR INCREASING DIRECT LIFE SALES, BUT THE QUESTION IS HOW TO TAP INTO IT."

CANADA

While there are some similarities between the U.S. and Canadian markets, there are a few striking differences that make the Canadian market unique: (1) the number of players in the market, (2) the level of cession rate, and (3) the level of coinsurance business written.

Overall, recurring business in Canada dropped slightly in 2012. New business production went from $153.1 billion in 2011 to $148.8 billion in 2012. This 2.8 percent drop is very similar to the decrease experienced in the United States. According to LIMRA, direct sales in Canada rose 5 percent in 2012.[3] An increase in direct sales and decrease in reinsurance would suggest the Canadian cession rate fell in 2012. However, unlike the United States, the Canadian cession is much higher. Using industry estimates for Canadian 2012 direct sales and the results of this survey, it is estimated the Canadian cession rate is somewhere in the 65 percent range. This is considerably higher than the 26 percent seen in the United States. Another major difference compared to the U.S. market is practically all of the reinsurance in Canada is on a YRT basis. There was very little coinsurance business written in 2012. Only 3.5 percent of the recurring Canadian new business was reported to be on a coinsurance basis.

RECURRING

The table to the right shows the Canadian recurring results by company for 2011 and 2012. There were no changes to the players in the market or the relative ranking from 2011 to 2012. The same three companies are at the top: RGA, Munich and Swiss Re. These three companies have dominated the Canadian market for quite some time. In 2012, the collective market share of these three companies was 81 percent. RGA's 2012 production was stable compared to 2011. It posted a very small increase and captured 33 percent of the market. Both Munich and Swiss reported recurring decreases of around 12 percent. Munich maintained a 28 percent market share and Swiss held 20 percent of the market. The other three players in the Canadian market—SCOR, Optimum and Aurigen—have nibbled a little bit of the market share away from the top three.

Canada Ordinary Recurring Reinsurance ($CAN Millions)

	2011		2012		
Company	Assumed Business	Market Share	Assumed Business	Market Share	Change in Production
RGA Re (Canada)	49,122	32.1%	49,290	33.1%	0.3%
Munich Re (Canada)	48,131	31.4%	42,439	28.5%	-11.8%
Swiss Re	33,762	22.1%	29,466	19.8%	-12.7%
SCOR Global Life (Canada)	10,814	7.1%	12,867	8.6%	19.0%
Optimum Re (Canada)	5,791	3.8%	7,446	5.0%	28.6%
Aurigen	5,465	3.6%	7,317	4.9%	33.9%
TOTALS	153,085	100%	148,825	100.0%	-2.8%

Each of these companies reported sizable increases in 2012—ranging from 19 percent for SCOR to 34 percent for Aurigen.

PORTFOLIO AND RETROCESSION

It was very quiet on the Canadian portfolio and retrocession front in 2012. Only two companies, Aurigen and Munich Re, reported any portfolio business. Munich reported $386 million and Aurigen reported $362 million, for a total of $748 million. On the retrocession side, the three retrocessionaires—Berkshire Hathaway, Pacific Life and AXA Equitable—collectively reported 37 percent less business in 2012 versus 2011. The leading retrocession writer was Berkshire with $438 million, followed by Pacific Life with $374 million, and AXA reported $71 million. Collectively, this adds up to $883 million. In 2011, these same three companies reported $1.4 billion.

CONCLUSION

The table to the right (bottom) provides a summary of the overall results from the survey. The takeaways for each reinsurance category are:

(1) Recurring production was down again in 2012. Both the United States and Canada reported decreases of around 3 percent.

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(2) Despite no major acquisitions within the industry in 2012, strong portfolio writings were reported in the United States.
(3) Retrocession production fell in the United States and Canada.

Life Reinsurance New Business Production

	U.S.			Canadian		
	2011	2012	Change	2011	2012	Change
Ordinary Life						
Recurring	$461,173	$445,683	-3.4%	$153,085	$148,825	-2.8%
Portfolio	1,041,577	343,403	-67.0%	56,270	748	-98.7%
Retrocession	8,433	7,465	-11.5%	1,410	883	-37.4%
Total Ordinary	**1,511,183**	**796.551**	**-47.3%**	**210,765**	**150,456**	**-28.6%**

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

Recent industry reports have shown there is opportunity for increasing direct life sales, but the question is how to tap into it. A recent Swiss Re study opined there was a mortality protection gap of $20 trillion in the United States.[4] One way direct writers are attempting to reach this untapped source for sales is developing products specifically for the middle market. In fact, two recent industry studies estimate there is as much as a $10 trillion life protection gap in the middle market alone. Attaching chronic illness/LTC riders to life policies also seems to be a hot topic right now for direct writers hoping to generate more sales. As mentioned earlier, 2013 may also see additional in-force block opportunities for reinsurers. Principle-based reserving is also moving forward, but is still at least a few years away. How it will impact life reinsurance production in the United States is a question many have on their mind.

Some industry experts are predicting U.S. life sales will be flat for the next few years as the country works its way out of a sluggish economy. Low interest rates are expected to continue in the near future, which should impede direct sales, especially variable products. These same experts expect to start seeing improvements in life insurance sales by 2016. Others in the life insurance industry are slightly more hopeful as they are predicting small increases in life sales in 2013 (3 to 4 percent range). Meanwhile, Moody's has placed a negative outlook on the U.S. life market primarily due to low interest rate environment and anemic economic growth expectations. If these predictions prove correct, the life reinsurance market will do well to maintain current production levels.

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. ■