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Results of the 2014 SOA Life Reinsurance Survey

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Both U.S. and Canadian life reinsurers were coming off declines in new business production going into 2014. For the United States, the period of decline had reached 11 straight years, while Canadian life reinsurers had recorded two straight years of declining production. With signs of an improving economy, the industry was hopeful 2014 would bring increased new business writings. The results from the 2014 SOA Life Reinsurance Survey reveal what happened in the North American life reinsurance market in 2014.

ABOUT THE SURVEY

The SOA Life Reinsurance 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 2014.

(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 2014.

(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

2014 was an active year for U.S. life reinsurers. Although there were no major acquisitions within the industry in 2014 such as SCOR's acquisition of Generali in 2013, there were several large blocks of business that found new homes in 2014. Notable 2014 happenings in the U.S. life reinsurance industry include:

- RGA announced an agreement to retrocede approximately $200 billion of their U.S. individual life block to Pacific Life.
- Canada Pension Plan Investment Board (CPPIB) acquired Wilton Re for $1.8 billion.
- RGA agreed to buy Aurora National Life Assurance Co., a wholly owned life insurance subsidiary of Swiss Re.
- RGA reached an agreement with Voya Financial to reinsure a $100 billion block of level term business.

Also, while not a professional U.S. life reinsurer but certainly worth noting for life reinsurance purposes, New York Life agreed to assume a 60 percent share of John Hancock's in force par life closed block. The block consists of 1.3 million policies

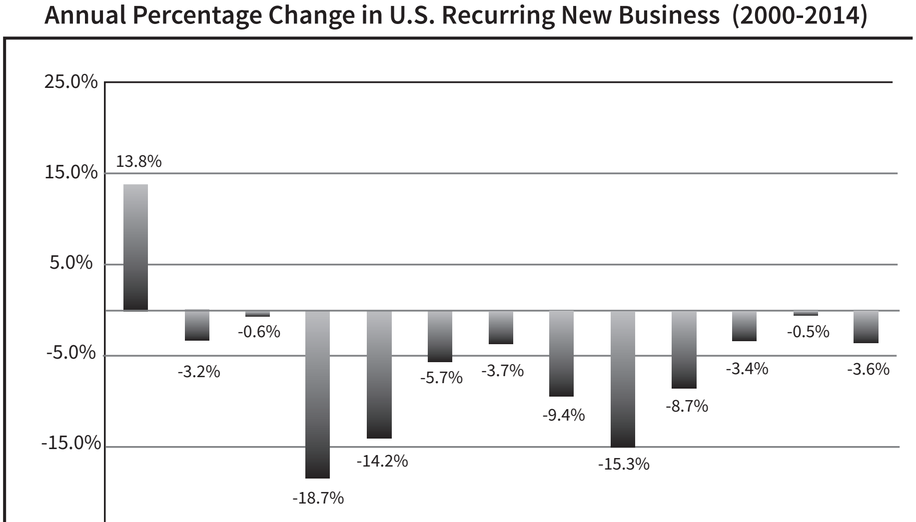
RECURRING

In total, U.S. life reinsurers reported $427 billion of recurring new business. This is just slightly down from $443 billion reported in 2013 and represents a 3.6 percent decline. The decline in 2014 marks the 12th consecutive year of decreasing recurring new business production. During this period, recurring business in the United States has fallen 60 percent.

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

The cession rate is another measure used to gauge the life reinsurance market. It is simply

Annual Percentage Change in U.S. Recurring New Business (2000-2014)

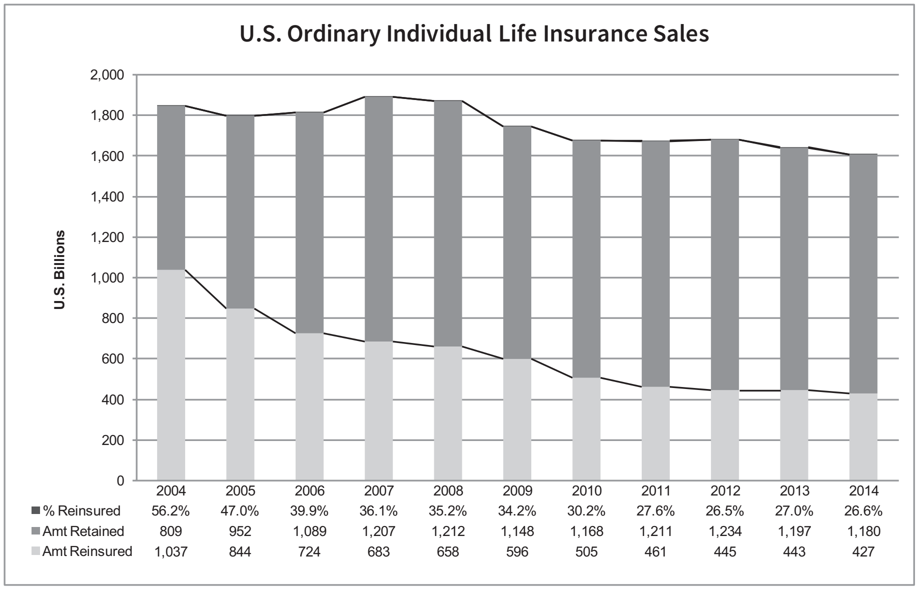


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
% Change	13.8%	-3.2%	-0.6%	-18.7%	-14.2%	-5.7%	-3.7%	-9.4%	-15.3%	-8.7%	-3.4%	-0.5%	-3.6%

the percentage of new business writings reinsured in that year. Specifically, it equals the ratio of recurring reinsurance over direct sales for that year. By face amount, 2014 direct sales were at their lowest level since 2002. LIMRA estimates direct sales fell 2 percent in 2014 compared to 2013.[1] This was primarily driven by a decrease in UL sales; however, 4 th quarter UL sales rebounded with an 8 percent growth rate compared to 2013. VUL sales experienced an increase in 2014 and term sales were on par with 2013 levels. The 2 percent drop in direct sales along with the 3.6 percent decrease in recurring reinsurance produces an estimated 2014 cession rate of 26.6 percent. This rate is similar to those seen in the past few years.

The table above shows U.S. individual life sales from 2004-2014 split by amount retained and amount reinsured:

There are a few things worth noting when looking at the graph above:



1) The decline in the amount reinsured during this period. Reinsured production has fallen by almost 60 percent since 2004. In 2004, just over a trillion of life sales were reinsured – or 56 percent of all life sales. Jumping ahead to 2014, $427 billion was reinsured for a cession rate close to 27 percent.

2) The amounts retained by the direct writers have stayed fairly constant over the last eight years—hovering around 1.2 trillion.

3) The amounts reinsured have been stable over the last four to five years with cession rates ranging from the mid-to-upper 20 percent.

On an amount basis, the $427 billion of recurring new business reported in 2014 is the lowest amount since 1996. It is true reinsurance production has dropped considerably over the last decade but the fact that recurring levels have been very stable over the last four years is a promising sign.

Coinsurance of level term products was the key driver behind the growth seen by the U.S. life reinsurance market in the early 2000s. This of course thanks to reserve Regulation XXX which became effective in 2000. However, coinsurance production has steadily fallen over the years. It is estimated 22 percent of U.S. life reinsurance was issued on a coinsurance basis in 2014. This is quite a drop from the 37 percent recorded just a few years ago in 2009 when the survey first started capturing YRT/coinsurance splits. Even though the survey didn't start capturing YRT/coinsurance splits until 2009, it is clear coinsurance played a huge role for the life reinsurance industry in the early-to-mid 2000s. This is evident when looking at the coinsurance percentage of the recurring reinsurance in force. On an in force basis, over 44 per-

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

	2013		2014		
Company	Assumed Market	Business Share	Assumed Market	Business Share	Change in Production
SCOR Global Life	125,025	28.2%	114,171	26.7%	-8.7%
Swiss Re	86,654	19.6%	89,719	21.0%	3.5%
Munich Re (US)	67,131	15.2%	70,297	16.5%	4.7%
RGA Re. Company	85,936	19.4%	67,277	15.8%	-21.7%
Hannover Life Re	47,096	10.6%	42,893	10.0%	-8.9%
Aurigen	1	0.0%	11,697	2.7%	1000+%
General Re Life	12,275	2.8%	10,769	2.5%	-12.3%
Canada Life	7,677	1.7%	8,501	2.0%	10.7%
Optimum Re (US)	6,858	1.5%	7,174	1.7%	4.6%
Wilton Re	4,389	1.0%	4,575	1.1%	4.7%
RGA Re (Canada)	2	0.0%	15	0.0%	650.0%
TOTAL	443,024	100%	427,088	100%	-3.6%

cent of the reinsurance is still on a coinsurance basis. This is a much higher level compared to what has been seen from new business writings during the last five years. There was a lot of 90/10 first-dollar quota share coinsurance business of level term business written in the early 2000s brought on by the new reserve regulation. As direct writers found other options to handle reserve strain, the level of coinsurance has seen a downward trend for several years—a trend likely to continue in the near future.

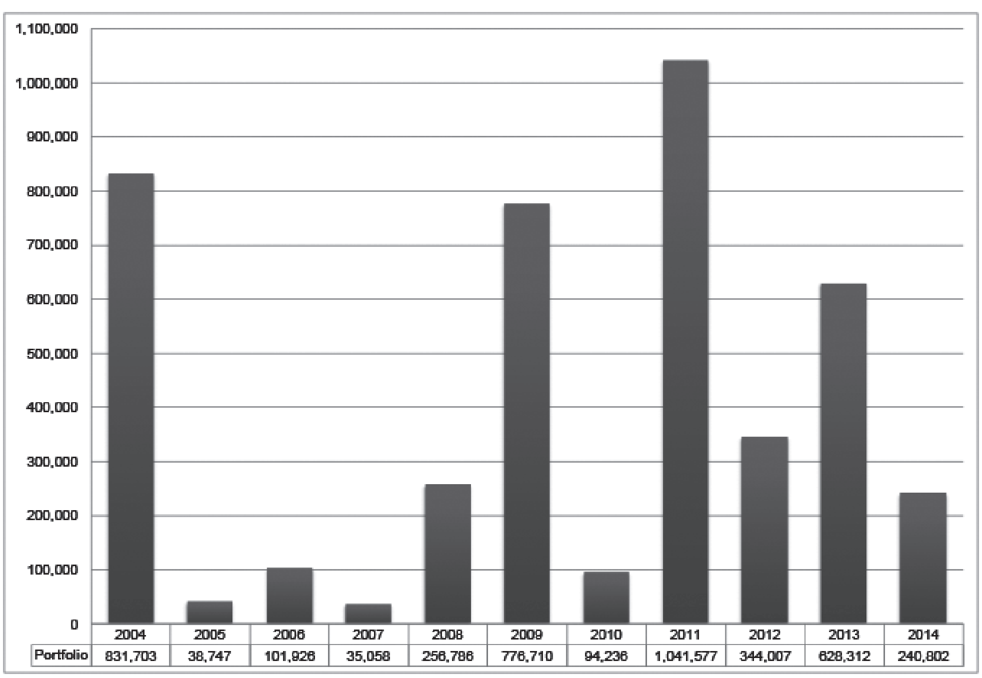
The table on the bottom of page 5 shows the 2013 and 2014 recurring results at the company level.

SCOR's $114 billion in recurring reinsurance led all U.S. life reinsurers in 2014. This garnered SCOR a 27 percent share of the market, but it does represent a 9 percent drop from what they reported in 2013. With a 3.5 percent increase in recurring production in 2014, Swiss Re captured the second position. Their $90 billion was good enough for a 21 percent market share. In the third spot was Munich Re. Munich wrote just over $70 billion and had a 16.5 percent market share. RGA's recurring production fell over 20 percent in 2014, but their $67 billion in production was still more than enough to grab the 4th leading recurring writer spot. Their market share was just under 16 percent. Finally, Hannover rounds out the top five with $43 billion in recurring reinsurance which equals a 10 percent market share. Their production fell 9 percent in 2014. These top five reinsurers combine to capture 90 percent of the recurring market.

The remaining six reinsurers reporting recurring business in the United States. account for 10 percent of the market share with no individual market share above 3 percent. New to the U.S. market, Aurigen swiftly moved to the sixth position by writing almost $12 billion of NAR in 2014. Aurigen has been in the Canadian market a few years, but they just entered the U.S. market in 2013. General Re is next with $10.7 billion—a 12 percent reduction from 2013. Canada Life's 11 percent increase placed them next with $8.5 billion in recurring reinsurance reported. Optimum Re and Wilton Re both reported similar 5 percent increases. Optimum reported $7.2 billion while Wilton reported $4.6 billion.

PORTFOLIO

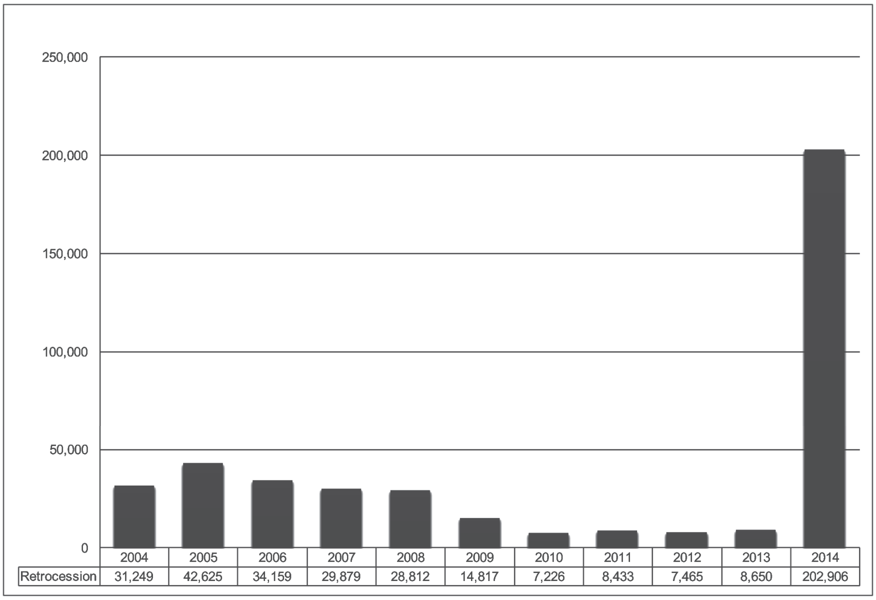
There were a number of block deals in 2014 that helped contribute to a solid year for U.S. portfolio—especially when considering there were no major reinsurer acquisitions within the industry as seen in previous years. For example, the spikes in the graph below for 2011 and 2013 figures reflect SCOR's acquisition of Transamerica Re and Generali respectively. The 2004 and 2009 spikes are from an ING Re block moving first to Scottish Re in 2004 and then to Hannover in 2009. Sizable portfolio writings were reported in 2014 by RGA ($103 billion), Hannover ($90 billion) and Canada Life ($35 billion). In addition, Munich, Optimum and Wilton also reported measurable levels of portfolio in 2014.



Overall, the portfolio market was active in 2014 and it is expected to continue to stay active in the near future as reinsurers with capital look to acquire blocks. With recurring business not expected to show sizable growth anytime soon, portfolio reinsurance is one way for reinsurers to add business.

RETROCESSION

Looking at the graph on the top of page 7, which shows retrocession production since 2004, you might think retrocessionaires enjoyed a banner year in 2014. As reported, retrocession in the United States went from $9 billion in 2013 to over $200 billion in 2014. This would seem to be an extraordinary increase, however almost $195 billion of the $203 billion in retrocession reported in 2014 came from the RGA/Pacific Life retrocession deal. If this one-time deal is excluded, retrocession amounts were similar to 2013 levels. U.S. retrocession writers include Pacific Life, Berkshire Hathaway and AXA Equitable. Much like recurring production, retrocession production has stabilized over the last five years after experiencing sizable declines.



CANADA

Canadian new business recurring production was stable in 2014—recording just a 1.0 percent drop. This is the third straight year of decreasing production, but each of the annual decreases has been relatively small. On the direct side, LIMRA estimates 2014 direct sales in Canada fell 2 percent.[2] Coincidently or not, this is identical to the drop in 2014 U.S. direct sales. In Canada, the small decrease can be traced to a decrease in term business. Both UL and WL experienced increases, but these increases could not overcome the decrease in term sales. One distinguishing characteristic of the Canadian market is the cession rate in Canada is much higher compared to the United States. For 2014, it is estimated the Canadian cession rate is in the 60 percent range. This is considerably higher than the 27 percent cession rate seen in the United States. Another major difference between the two markets is the level of coinsurance written. In Canada, less than 4 percent of new business was reported to be on a coinsurance basis in 2014. In contrast, 22 percent of the new business reinsurance in the United States was written on a coinsurance basis.

RECURRING

The Canadian life reinsurance market has been dominated for quite some time by three reinsurers: RGA, Munich and Swiss. Each of these three companies reported similar levels of production in 2014 compared to 2013. RGA, the leading recurring writer, reported almost identical amounts of new business in 2014 as they reported in 2013. They captured almost one-third of the market share. Munich Re's production was just 2 percent lower in 2014 and their market share remained just under 30 percent. Meanwhile Swiss reported a slightly larger 8 percent reduction, but still captured an 18 percent market share. As they have for years, these three companies combine to capture the vast majority of the recurring market in Canada. In 2014, RGA, Munich and Swiss combined for an 80 percent market share. SCOR, Aurigen and Optimum were the other three Canadian companies reporting recurring new business. SCOR's recurring fell 14 percent for an 8 percent market share. Aurigen increased their writings by 50 percent and captured a 7 percent market share. Optimum's 8 percent increase in production resulted in a 2014 market share just shy of 5 percent.

The following table shows recurring production by company for 2013 and 2014:

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Canada Ordinary Recurring Reinsurance ($CAN Millions)

	2013		2014		
Company	Assumed Market	Business Share	Assumed Market	Business Share	Change in Production
RGA Re (Canada)	45,763	32.0%	45,715	32.2%	-0.1%
Munich Re (Canada)	42,593	29.7%	41,593	29.3%	-2.3%
Swiss Re	28,095	19.6%	28,561	18.2%	-8.0%
SCOR Global Life (Canada)	13,968	9.8%	11,954	8.4%	-14.4%
Aurigen	6,668	4.7%	10,049	7.1%	50.7%
Optimum Re (Canada)	6,104	4.3%	6,600	4.7%	8.1%
TOTAL	143,191	100%	141,772	100%	-1.0%

PORTFOLIO AND RETROCESSION

For the second straight year no portfolio business was reported in Canada. This is in contrast to the U.S. market which has seen quite a bit of block activity in recent years.

Retrocession continues to play a minor role in the Canada life reinsurance market. Comparing retro production to recurring production, which would be akin to a cession rate for the retrocessionaires or a "retrocession rate", reveals recurring reinsurers are sending less than 1 percent of their business to retrocessionaires. The U.S. "retrocession rate" is also quite small at around 2 percent. The three Canadian retrocessionaires, Berkshire Hathaway, Pacific Life and AXA Equitable, collectively reported $1.4 billion in retrocession new business. This is a 42 percent increase from 2013 levels.

LOOKING AHEAD

There are many factors impacting life reinsurance production such as the economy, regulations and direct sales. The economy is showing signs of improving. For example, the U.S. economic outlook for the GDP is solid, the unemployment rate is improving and inflation is expected to remain low. Interest rates are still historically low and this has had a definite impact on life insurance sales. Some experts see life sales declining or stable at best in 2015 as life insurers continue to face pressure from low interest rates. Yet other experts think the strengthening economy may boost life insurance sales. Major rating agencies are in agreement about their outlook for the U.S. life insurance industry. Both Fitch and Moody's have placed a stable outlook for U.S. life insurers in 2015 and cite an improving economy but low interest rates as the key influencing factors.[3,4]

Looking ahead longer term, it is possible the direct life market could be facing a whole new dynamic in the next five years.

Looking ahead longer term, it is possible the direct life market could be facing a whole new dynamic in the next five years. According to a recent LIMRA survey, 57 percent of financial executives believe an outside source (such as Google or Amazon, for example) will be a disruptive force in the life insurance market within the next five years.[5] And a prior LIMRA survey on middle market consumers found 21 percent would be willing to buy life insurance online from a nontraditional source, such as Google or Amazon.[6]

Regarding regulation, indexed UL sales have been strong over the last several years and their policy illustrations are under increased scrutiny. The NAIC is in the process of updating the life insurance illustrations model regulation which will provide illustration actuaries with uniform guidance for IUL policy illustrations. Principle Based Reserving is likely at least a couple of years off in the United States, but there continues to be much discussion about the use of captive reinsurance in the interim period to lessen the reserve capital strain for direct writers.

Finally, there has been a lot of activity in the United States on the post level term front as business has reached the end of the level term period and experience is slowly emerging. Some ceding companies have been revising their post level term rates in hopes of improving profitability. Reinsurers have and will continue to play a part in this process. This may not translate to immediate growth in new business production, but may prove beneficial longer term as relationships are strengthened and reinsurer's experience and knowledge become more valued by ceding companies.

Complete survey results can be found in the publications section of the Munich Re website, www.munichre.com/us/life

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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. ■

END NOTES

1 LIMRA, "U.S. Individual Life Insurance Sales, Fourth Quarter 2014," March 2015

2 LIMRA, "Canadian Individual Life Insurance Sales, Fourth Quarter 2014," March 2015

3 Fitch, "2015 Outlook: U.S. Life Insurance," December 2014

4 Moody's, "US Life Insurance Industry: Outlook Remains Stable," November 2014

5 LIMRA Industry Trends: "LIMRA Survey: More than Half of Financial Executives Surveyed Predict Outside Disruption in Life Insurance Market," January 2015

6 LIMRA Industry Trends: "LIMRA Survey: More than Half of Financial Executives Surveyed Predict Outside Disruption in Life Insurance Market," January 2015