SOCIETY OF ACTUARIES

Article from

Reinsurance News

July 2016
Issue 85

Results of the 2015 Life Reinsurance Survey

By Harindra Sebastian

The SOA Life Reinsurance Survey is an annual survey that 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 three following 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 2015.

(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 2015.

(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."

Individual life figures are based on net amount at risk, while the group numbers are premium-based.

The figures are quoted in the currency of origin (i.e., U.S. business is provided in USD and Canadian business is provided in CAD).

Also note that, while we reach out to all of the professional life reinsurers in North America, there may be companies that did not respond to the survey and are not included.

HIGHLIGHTS

The table below provides a summary of the most recent survey results:

Significant Decrease in U.S. Individual Life New Business Driven by Portfolio and Retrocession

Total individual life reinsurance new business in the U.S. for 2015 was $543 billion USD. This represents a 37 percent decrease compared to 2014. While the recurring new business did decrease slightly, the bulk of this change is due to a reduction in portfolio deals by $108 billion and a one-off retrocession deal in 2014 worth $194 billion. Recurring new business reported for 2015 was $407 billion, which decreased by 4 percent compared to 2014. While the life insurance market is reporting an increase of 5 percent, the cession rate decreased from 26.8 percent in 2014 to 24.4 percent in 2015, which led to the 4 percent decrease in reinsured new business volume.

Increase in Canadian Individual Life New Business by 11 Percent

In Canada, individual life reinsurance new business increased from $143 billion CAD to $158 billion, driven by an increase in the recurring life market of 9 percent.

Modest decrease in Group life business

Group business decreased overall in both the U.S. and Canada, with total in force group premiums decreasing by 5 percent to

Table 1: Reinsurance Landscape

	Individual Life New Business Volumes ($ billions)			Group In-force Premiums ($ millions)		
	2014	2015	% Change	2014	2015	% Change
U.S.						
Recurring	422	407	-4%	691	728	5%
Portfolio	238	130	-45%	1,486	1,405	-5%
Retrocession	203	5	-98%	72	0	-100%
Total	**864**	**543**	**-37%**	**2,249**	**2,134**	**-5%**
Canada						
Recurring	142	153	8%	105	101	-4%
Portfolio	0	3	n/a	1,136	1,098	-3%
Retrocession	2	2	0%	0	0	n/a
Total	**143**	**158**	**11%**	**1,241**	**1,199**	**-3%**

$2.1 billion in the U.S., and decreasing by 3 percent to $1.2 billion in Canada. The decrease in both countries was driven by reductions in portfolio business. While recurring new business premium continues to increase in the U.S.--increasing by more than 50 percent since 2011 to $728 million—the corresponding business in Canada is relatively stable at about $100 million.

UNITED STATES – INDIVIDUAL LIFE

RECURRING

The U.S. life insurance industry sells about $1.6 trillion of new individual life insurance face amount volume per year. About a quarter of this amount was reinsured in 2015, which represents a 4 percent decrease in volume reinsured compared to 2014. As shown in Figure 1, while the cession rate (i.e., the proportion of business ceded by direct writers to reinsurers) decreased by more than 50 percent over the last decade, the trend has clearly slowed down and the decrease has been less than 12 percent in the last four years. While the cession rate was stable at about 27 percent since 2011, the 2015 results showed a decrease of more than two percentage points to 24.4 percent.

The decrease during 2015 was driven by a decrease in coinsurance business, which dropped by 11 percent, compared to a 1.6 percent decrease in yearly renewable term business. The trend of relatively large decreases in coinsurance is consistent with prior years as well—coinsurance decreased by 62 percent since 2008, whereas YRT only decreased by 13 percent over the same period.

This is even more significant if you consider that the volume of life insurance issued has only decreased by 10 percent over the same period. While the reinsured portion has changed over time, the overall amount retained by direct writers has remained at about $1.2 trillion since 2007.

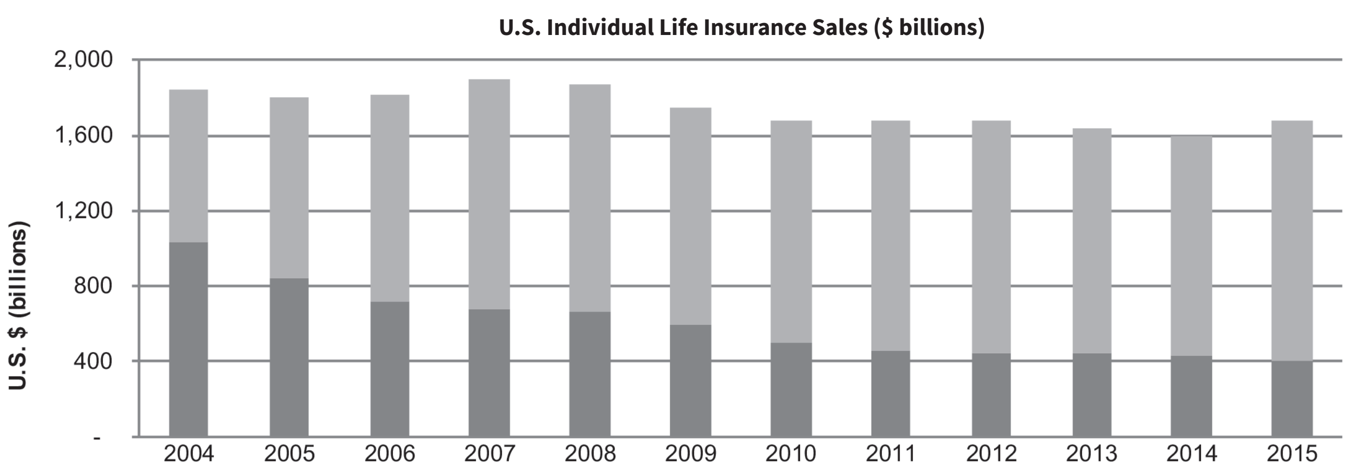
The top five companies in the reinsurance market continue to represent almost 90 percent of the market share (see Table 2 on page 12). SCOR continued to reinsure the most new recurring new business, with 2015 volumes at $97 billion. That being said, SCOR's new business volume decreased by $17.2 billion. This represents a 15 percent drop and was the largest decrease by volume and proportion of any of the top five reinsurers. Swiss Re, which reinsures the second most recurring individual life business in the U.S., also had a relatively large decrease in recurring new business volume of $9.4 billion, corresponding to an 11 percent decrease. The combination of decreases in reinsurance volume for these two reinsurers represent the majority of the market decrease from $422 billion to $407 billion.

Of the top five reinsurers, Munich Re experienced the largest increase in new business volume during 2015, adding $3.1 billion (4 percent). In addition to Munich Re, RGA also reported an increase in new business volume of $0.8 billion (1 percent). Outside of the top five reinsurers, Aurigen, Canada Life and Optimum Re reported the largest increases of $7.7 billion (i.e., a 58 percent increase), $2.1 billion (22 percent) and $1.0 billion (14 percent) respectively.

PORTFOLIO

Given the nature of portfolio deals, large variations from year to year are expected. In 2015, new portfolio business decreased from $238 billion in 2014 to $130 billion. The decrease was the result of a reduction in portfolio business for Hannover Re and Canada

Figure 1: U.S. Recurring Cession Rate



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
% Reinsured	56%	47%	40%	36%	35%	34%	30%	28%	26%	27%	27%	24%
Amt. Retained	809	952	1,089	1,207	1,212	1,148	1,168	1,211	1,234	1,197	1,164	1,263
Amt. Reinsured	1,037	844	724	683	658	596	505	461	445	443	427	407

Life, which both reported sizable portfolio amounts in 2014. The large producers of new portfolio business in 2015 were RGA, reporting $89 billion, and SCOR, reporting $38 billion.

As shown in Figure 2, compared to prior years, there were no large acquisitions of life reinsurers that affected the results in 2015. The spikes in the 2011 and 2013 figures reflect SCOR's acquisition of Transamerica Re and Generali respectively, while the 2009 spike was the Hannover Re acquisition of an ING Re block that was previously purchased by Scottish Re in 2004.

Overall, portfolio reinsurance deals were at their lowest levels since 2011 and it will be interesting to see whether this lower level continues into next year.

RETROCESSION

Retrocession has experienced a significantly decreasing trend in new business over the last 10 years, reducing from $43 billion in 2005 to $5 billion in 2015. The exception was in 2014, when new business was significantly higher due to a one-off retrocession deal where Pacific Life agreed to accept a $194 billion block from RGA. The primary retrocessionaires in 2015 were Berkshire Hathaway Group and Pacific Life.

CANADA – INDIVIDUAL LIFE

RECURRING

The Canadian market represents about $240 billion CAD of individual life insurance new business sold in 2015.[2] Of this volume, an estimated 63 percent (i.e., $153 billion) is reinsured. This is a significantly higher proportion compared to the U.S., where approximately 24 percent is reinsured.

The Canadian reinsurance market has grown over the last decade, increasing by 19 percent since 2005 (see Figure 3). The increase is attributed to growth in the individual life insurance market, which increased by 40 percent over the same period. Taking into account the increase in overall market, the proportion of business ceded has decreased from 75 percent to 63 percent over the same period.

The primary participants in the Canadian market are RGA, Munich Re and Swiss Re, which together represent 75 percent

Table 2: US Recurring Individual Life Volume ($ millions CAD)

Company	2014		2015		Change from 2014 to 2015
	Assumed Business	Market Share	Assumed Business	Market Share	
SCOR Global Life	114	27%	97	24%	-15%
Swiss Re	90	21%	80	20%	-11%
Munich Re	70	17%	73	18%	4%
RGA	67	16%	68	17%	1%
Hannover Life Re	43	10%	41	10%	-5%
Aurigen	12	3%	19	5%	58%
Canada Life	9	2%	11	3%	22%
General Re Life	11	3%	10	2%	-9%
Optimum Re	7	2%	8	2%	14%
Total	**422**	**100%**	**407**	**100%**	**-4%**

Note: Wilton Re did not report in 2015, and has been excluded from these figures.

Table 3: Canada Recurring Individual Life Volume ($ millions CAD)

Company	2014		2015		Change from 2014 to 2015
	Assumed Business	Market Share	Assumed Business	Market Share	
RGA	46	32%	49	32%	7%
Munich Re	42	30%	40	26%	-5%
Swiss Re	26	18%	25	16%	-4%
SCOR Global Life	12	8%	18	12%	50%
Aurigen	10	7%	14	9%	40%
Optimum Re	7	5%	7	5%	0%
Total	**142**	**100%**	**153**	**100%**	**8%**

of the market (see Table 3). RGA has risen to the top of the Canadian market over the last few years, and continued to grow by 7 percent in 2015—reporting $49 billion of recurring new business. Munich Re and Swiss Re showed reductions in recurring new business of 5 percent and 4 percent respectively.

SCOR and Aurigen reported large increases in 2015, which, combined with RGA's increase, drove the overall increase of $11 billion.

PORTFOLIO AND RETROCESSION

There were no Canadian portfolio deals in 2014, and in 2015 Aurigen reported new portfolio business of $3.3 billion.

As it relates to retrocession, similar to the U.S. market, Berkshire Hathaway and Pacific Life are the primary players in Canada.

UNITED STATES – GROUP LIFE

The U.S. group business represents a total of $2.2 billion of in-force premium in 2015, of which recurring premiums make up $0.7 billion, and portfolio represents $1.4 billion.

The recurring in-force premiums in the U.S. market have increased steadily, accounting for a cumulative 53 percent increase since 2011, growing from $476 million to $728 million over that period (see Figure 4).

As shown in Table 4, the top three reinsurers in the U.S. group insurance market for recurring business are Swiss Re, Munich Re and RGA, which together make up 89 percent of the market. These reinsurers grew in 2015 by a combined total of 6 percent, contributing to the overall increase of 5 percent in the recurring space. Swiss Re, the top reinsurer by premium, increased by 3.4 percent to $328 million of recurring in-force premium. Munich Re and RGA, the second and third largest, increased by 11 percent and 8 percent, respectively.

Figure 2: U.S. Portfolio Business Trend

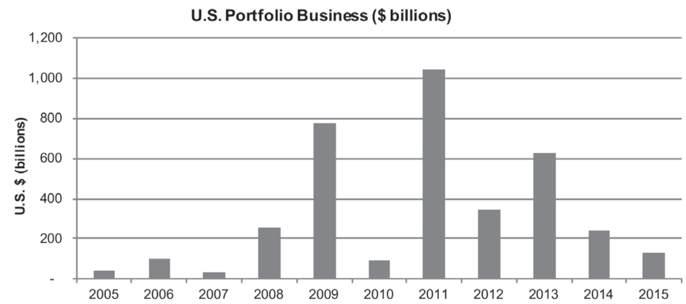


Figure 3: Canada Recurring Cession Rate

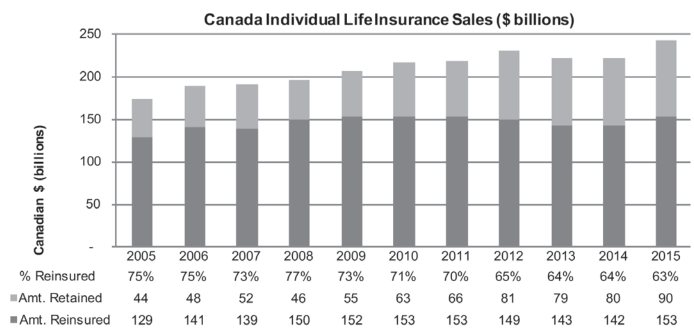


Figure 4: U.S. Inforce Group Premium Trend

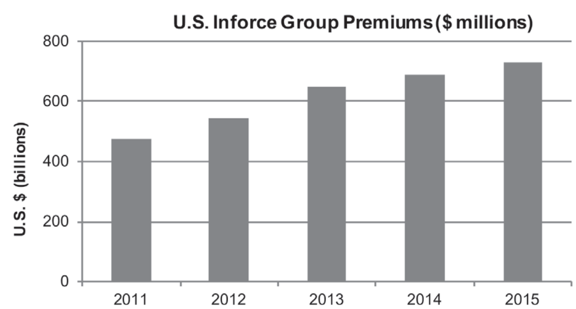


Table 4: U.S. Recurring Inforce Group Premiums ($ millions USD)

Company	2014		2015		Change from 2014 to 2015
	Assumed Business	Market Share	Assumed Business	Market Share	
Swiss Re	317	46%	328	45%	3%
Munich Re	182	26%	202	28%	11%
RGA	102	15%	110	15%	8%
Group Reinsurance Plus	34	5%	34	5%	0%
SCOR	26	4%	25	3%	-4%
General Re	22	3%	21	3%	-5%
Hannover Re	7	1%	8	1%	14%
Canada Life	1	0%	1	0%	0%
TOTALS	**691**	**100%**	**728**	**100%**	**5%**

Table 5: Canada Recurring Inforce Group Premiums ($ millions CAD)

Company	2014 Assumed Business	2014 Market Share	2015 Assumed Business	2015 Market Share	Change from 2014 to 2015
Munich Re	50	48%	47	47%	-6%
Swiss Re	27	26%	25	25%	-7%
RGA	22	21%	23	23%	5%
Optimum Re	5	5%	6	6%	20%
SCOR Global Life	2	2%	1	1%	-50%
TOTALS	**105**	**100%**	**101**	**100%**	**-4%**

As it relates to portfolio business, Canada Life and Hannover Re made up over 90 percent of the total business in 2015, writing $754 million and $539 million, respectively. Munich Re and Scottish Re also reported in-force group life portfolio business of $95 million and $17 million, respectively. In-force portfolio business decreased by 5 percent between 2014 and 2015, primarily due to a 14 percent drop in Canada Life's block.

CANADA – GROUP LIFE

In Canada, the recurring portion of in-force premiums have been fairly steady over the last few years, hovering at a little over $100 million CAD of in-force premium. As with the U.S. market, the Canadian market is dominated by three reinsurers, Munich Re, Swiss Re and RGA. Of these reinsurers, Munich Re and Swiss Re reported decreases of more than 5 percent, which contributed to the overall decrease of 4 percent.

Munich Re was the only reinsurer that reported in-force portfolio business (totaling $1.1 million in premiums) for 2015.

LOOKING FORWARD

The reinsurance business has gone through significant changes over the last few years. In looking at the survey results over the last 30 years for the U.S. recurring market, the number of reinsurers reporting new business dropped from 30 to nine, and reinsurance volume increased from $156 billion in 1986 to $844 billion in 2005 before decreasing again to the current level of $407 billion. These substantial swings in volume are predicated on multiple factors, including the introduction of preferred risk classes in the 1990s, the growth of coinsurance in the early 2000s due to Regulation XXX, and the increased prevalence of captive financial reinsurance structures to handle reserve strain.

Currently, principle-based reserving (PBR) is a major concern of many in the U.S. life insurance industry, with a focus on implementing PBR and understanding how it affects their business. Some direct writers have indicated no plans to change their reinsurance structures in the near term. In coming years, products and pricing structures may change to reflect the new reserve requirements, impacting reinsured volumes as well as reinsurer support for reserve financing structures.

Additionally, streamlined underwriting is expected to continue to impact the reinsurance market. Organizations have been working to develop new products, potentially leveraging sources of data that have not traditionally been used in our industry, and looking to reduce the time and expense it takes to issue a policy. Reinsurer involvement can span a broad range of areas, including risk sharing, rules development, product development and provision of an automated underwriting engine. ■

ENDNOTES

[1] Based on ACLI, "Life Insurers Fact Book 2015", November 2015, LIMRA, "U.S. Individual Life Insurance Sales, Fourth Quarter 2015," March 2016, and LIMRA, "U.S. Individual Life Insurance Sales Trends, 1975-2015" April 2016

[2] Based on CLHIA, "2015 Edition of Canadian Life and Health Insurance Facts", August 2015 and LIMRA, "Canadian Individual Life Insurance Sales Trends and Forecast (2016)", March 2016

Harindra Sebastian, FSA, FCIA, MAAA, MBA, is AVP & marketing actuary for Munich American Reassurance Company. He can be contacted at *hsebastian@munichre.com.*