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Results of The 2017 SOA Life Reinsurance Survey

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2017 was a strong year for new business. Recurring individual life new business volumes grew in 2017 for both U.S. and Canadian reinsurers and estimated cession rates increased over prior levels.

ABOUT THE SURVEY

The SOA Life Reinsurance Survey is an annual survey that captures individual and group life data from U.S. and Canadian life reinsurers. The survey reports reinsurance new business production and in-force figures, with reinsurance broken into the following categories:

- Recurring reinsurance: Conventional reinsurance covering an insurance policy with an issue date in the year in which it was reinsured. For purposes of this survey, this refers to an insurance policy issued and reinsured in 2017.
- 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 2005–2006, but being reinsured in 2017.
- 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 results are based on net amount at risk, while the group life results are based on premium.

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).

Please note, 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 so are not included.

HIGHLIGHTS

The North American life reinsurance market experienced a boost in production for recurring individual life new business in both the U.S. and Canada during 2017. Group in-force premiums declined slightly in the U.S. in 2017 and were flat in Canada as compared to 2016. Table 1 summarizes the most recent survey results.

Individual Life New Business

Recurring life new business recorded a 9 percent increase in production in 2017, making it the second year in a row with an increase following a long period of decreases. Portfolio new business declined significantly, driving an overall decline in new business volume for the year.

Canadian recurring new business also saw an increase in production. The 5 percent increase in 2017 makes this the third straight year with an increase for Canada. Similar to the U.S., a

Table 1
Reinsurance Landscape

	Individual Life New Business Volumes ($ billions)			Group In-force Premiums ($ millions)		
	2016	2017	% Change	2016	2017	% Change
U.S.						
Recurring	457	498	9%	798	777	-3%
Portfolio	729	169	-77%	3,938	3,462	-12%
Retrocession	8	7	-17%	0	0	n/a
Total	**1,195**	**674**	**-44%**	**4,737**	**4,239**	**-11%**
Canada						
Recurring	160	168	5%	104	104	0%
Portfolio	41	0	-100%	786	835	6%
Retrocession	6	9	54%	0	0	n/a
Total	**206**	**177**	**-14%**	**890**	**939**	**5%**

significant decline in portfolio new business caused an overall decline in new business volume for the year.

Group Life Business

U.S. group in-force recurring business experienced a 3 percent decrease in premiums in 2017 after a prolonged period of increases. Portfolio in-force premiums were also down 12 percent.

In Canada, recurring in-force premium was flat as compared to last year. Overall in-force group premium exhibited a 5 percent increase in 2017 driven by increased portfolio premium.

UNITED STATES—INDIVIDUAL LIFE

Recurring New Business

U.S. recurring reinsurance recorded an increase in production for the second year in a row after a prolonged period of decreases. U.S. recurring new business rose 9 percent from $457 million in 2016 to $498 million in 2017. One contributing factor for the increase is believed to be the growth in streamlined or automated underwriting programs. Since these programs are relatively new to the market (and growing), direct writers have reached out to the reinsurance community for assistance in developing the programs and taking a share of the risk.

Figure 1 shows the annual percentage change in U.S. recurring new business production over the last 10 years.

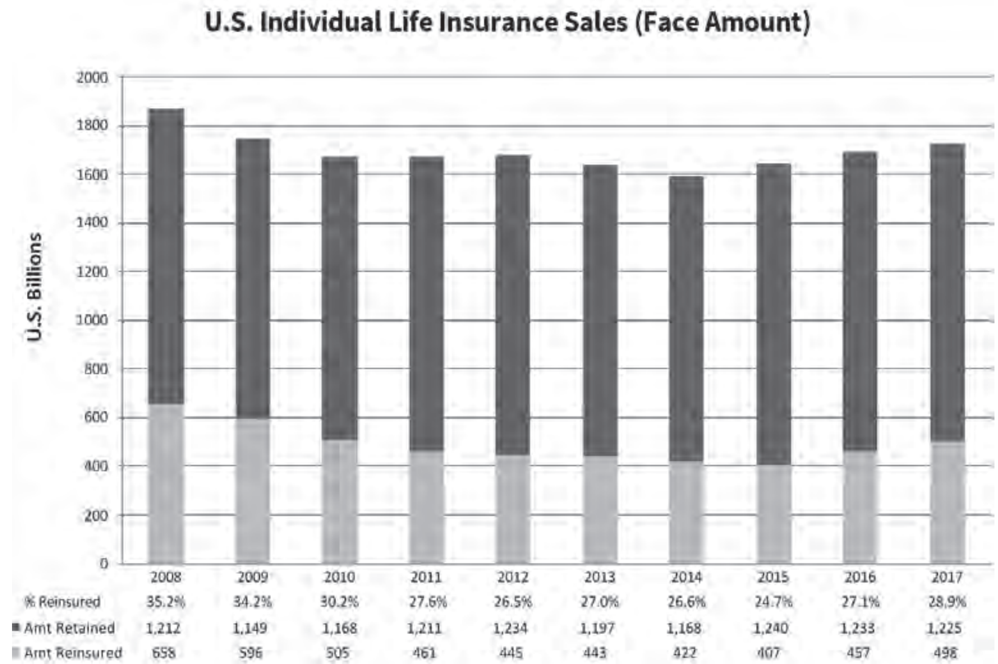
U.S. recurring new business rose 9 percent from $457 million in 2016 to $498 million in 2017.

In 2017, 78 percent of recurring new business production was YRT and 22 percent was coinsurance, as compared to 80 percent YRT and 20 percent coinsurance in 2016.

This increase in recurring new business production also resulted in an increase in the cession rate. According to LIMRA, individual life insurance sales increased 1 percent in 2017 based on premium (and increased 2 percent based on face amount) driven by strong sales in the first half of the year.[1] Significant decreases in UL sales, particularly no-lapse guarantee business, were offset by strong indexed universal life sales and smaller increases in term and VUL sales. Comparing new direct life sales to new recurring reinsurance production results in an estimated cession rate for the industry of nearly 29 percent for 2017, a welcome 2 percent increase over 2016. As seen in Figure 2, the estimated cession rate has hovered around 27 percent since 2011. It's interesting to note that 2017 individual life recurring new business and the 2017 cession rate have nearly returned to 2010 levels.

Figure 1
U.S. Percentage Change in Recurring New Business

Figure 2
U.S. Recurring Cession Rate



The top five companies in the U.S. reinsurance market remained the same and represent 90 percent of 2017 market share as compared to 88 percent last year (see Table 2). SCOR once again led all reinsurers in recurring individual life new business. In 2017, SCOR reported $105 billion of recurring business, a 4 percent increase from 2016, although a 1 percent lower market share. Swiss Re and Munich Re each garnered a 19 percent market share, reporting $96 billion and $92 billion, respectively. Swiss Re reported a 13 percent increase over 2016 while Munich Re reported a 16 percent increase. RGA reported recurring new business production levels in 2017 of $89 billion, up 6 percent from 2016. Hannover Life Re's $66 billion of recurring production in 2017 represents an 18 percent increase from their 2016 figure. Swiss Re, Munich Re and Hannover Life Re each increased market share over 2016 at the expense of SCOR and PartnerRe.

Table 2
U.S. Recurring Individual Life Volume ($ billions USD)

Company	2016		2017		Change from 2016 to 2017
	Assumed Business	Market Share	Assumed Business	Market Share	
SCOR Global Life	101	22%	105	21%	4%
Swiss Re	84	18%	96	19%	13%
Munich Re	80	17%	92	19%	16%
RGA	84	18%	89	18%	6%
Hannover Life Re	56	12%	66	13%	18%
Canada Life Re	17	4%	19	4%	12%
PartnerRe (formerly Aurigen)	17	4%	12	2%	-33%
General Re Life	9	2%	10	2%	15%
Optimum Re	9	2%	9	2%	8%
Total	**457**	**100%**	**498**	**100%**	**9%**

Portfolio New Business

Portfolio reinsurance covers in-force blocks of business and financial reinsurance. As a result, there are often large fluctuations from year to year in reported portfolio results, and 2017 was no different. New portfolio business dropped from $729 billion in 2016 to just $169 billion in 2017. Munich Re accounts for $90 billion or 53 percent of the 2017 portfolio new business followed by SCOR Global Life at $32 billion (19 percent) and Hannover Life Re with $31 billion (18 percent). The remaining companies reporting portfolio new business are Swiss Re ($14 billion), RGA ($2 billion) and Canada Life ($0.1 billion).

Figure 3 illustrates the up and down nature of portfolio new business writings over the last 10 years. In the past, the large spikes were generated from a merger/acquisition within the life reinsurance industry. The spike in 2009 resulted from Hannover Life Re's acquisition of an ING Re block. The spikes in 2011 and 2013 resulted from SCOR Global Life's acquisitions of Transamerica Re and Generali, respectively. Lastly, the spike in 2016 largely resulted from Hannover Life Re's reported $612 billion of portfolio new business.

Retrocession

As noted in last year's survey, from 2005 to 2015, retrocession production in the U.S. had been on a downswing, dropping from $43 billion in 2005 to $5 billion in 2015. Following an uptick in 2016 to $8 billion, retrocession new business dropped back to approximately $7 billion in 2017. The primary retrocessionaires in 2017 (unchanged from 2016) were Berkshire Hathaway Group, Pacific Life and AXA Equitable.

CANADA—INDIVIDUAL LIFE

Recurring New Business

Recurring individual life new business in Canada ticked upward for the third consecutive year. Reported recurring new business totaled $168 billion in 2017 which is a 5.4 percent increase over 2016. Recurring new business likely benefited from the uptick in term sales experienced in 2017. The anticipation of Canadian tax law changes heavily influenced the stellar sales results in 2016, carrying over to the first quarter of 2017. However, according to LIMRA, Canadian individual life sales ended 2017 down 18 percent as compared to 2016 on an annualized premium basis (and down 5 percent on a face amount basis).[2] Level cost of insurance UL and WL were most affected, recording significant declines versus 2016. Term business, however, recorded a 2 percent increase in sales over 2016 on an annualized premium basis and a 1 percent increase on a face amount basis.

Figure 3
U.S. Portfolio Business Trend

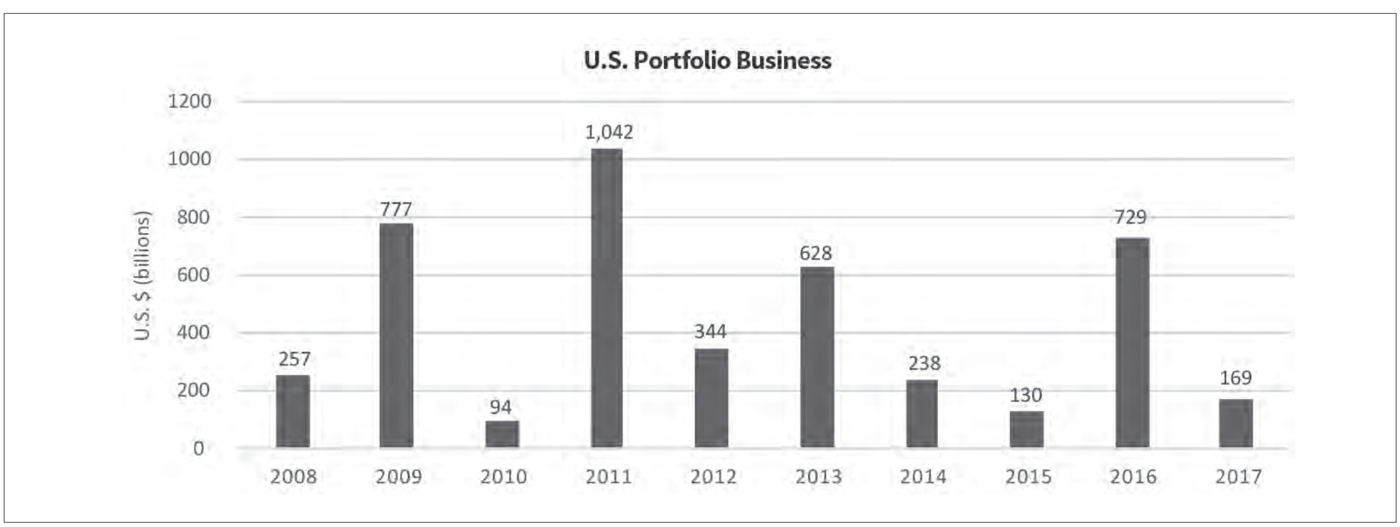
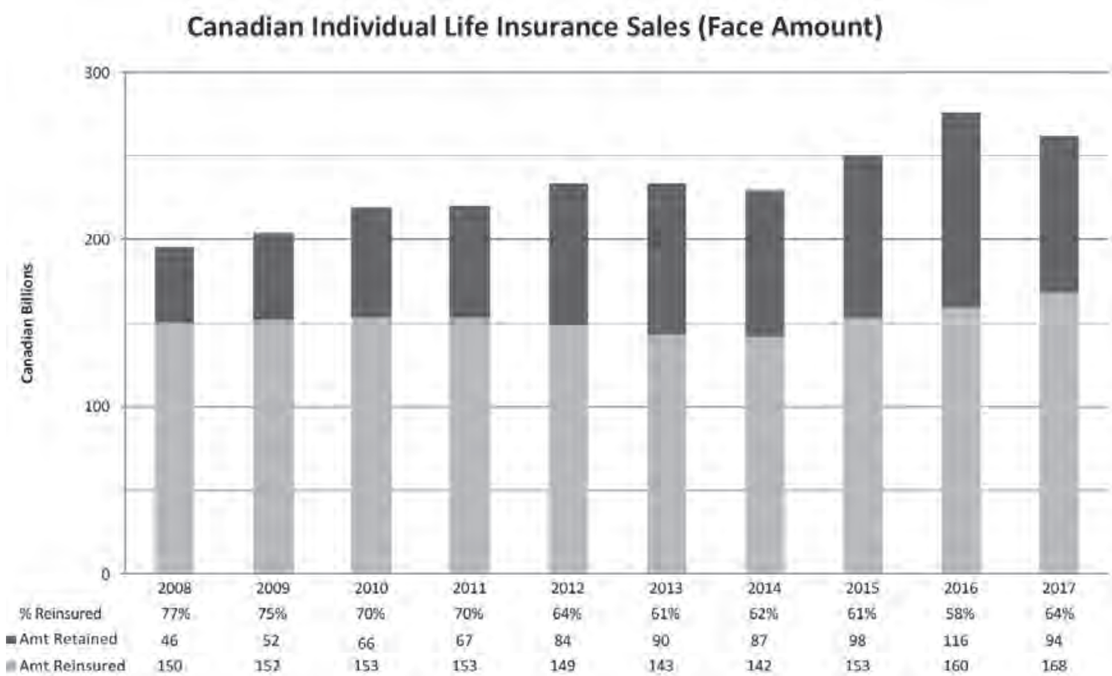


Figure 4
Canada Recurring Cession Rate



The increase in recurring new business resulted in a healthy increase in the estimated cession rate as well. It is estimated that about 64 percent was reinsured in 2017, in line with the cession rate from 2012. As shown in Figure 4, the cession rate has steadily dropped from 2008 to 2016 in Canada. However, the Canadian cession rate is still much higher as compared to the U.S., where approximately 29 percent is reinsured.

For both 2016 and 2017, 96 percent of recurring new business in Canada is YRT and 4 percent is coinsurance.

In terms of market share, the top three life reinsurers in the Canadian market are RGA, Munich Re and Swiss Re. These three companies have long held the top three spots. In 2017, they collectively represent 68 percent market share, down from 72 percent in 2016 (see Table 3). RGA topped recurring new business writers with $44 billion, a 1 percent increase over 2016. Munich Re followed with $42 billion (2 percent increase from 2016) and Swiss Re rounded out the top three with a reported $28 billion (3 percent decrease from 2016).

Table 3
Canada Recurring Individual Life Volume ($ billions CAD)

Company	2016		2017		Change from 2016 to 2017
	Assumed Business	Market Share	Assumed Business	Market Share	
RGA	44	28%	44	26%	1%
Munich Re	41	26%	42	25%	2%
Swiss Re	29	18%	28	17%	-3%
SCOR Global Life	21	13%	23	14%	7%
PartnerRe (formerly Aurigen)	15	10%	19	11%	23%
Optimum Re	9	6%	10	6%	15%
Hannover Life Re	0	0%	2	1%	3167%
Total	**160**	**100%**	**168**	**100%**	**5%**

SCOR, PartnerRe (formerly Aurigen), Optimum Re and Hannover Life Re all reported increases in 2017, albeit from a lower starting point in 2016.

Portfolio New Business

None of the Canadian reinsurers reported portfolio new business in 2017.

Retrocession

Canadian retrocessionaires included Berkshire Hathaway, Pacific Life and AXA Equitable. Berkshire Hathaway led the retrocessionaires with $5.5 billion, followed by Pacific Life ($2.9 billion) and AXA Equitable ($0.2 billion). Overall, the retrocession market in Canada increased from $5.8 billion in 2016 to $8.6 billion in 2017.

UNITED STATES—GROUP LIFE

U.S. group life reinsurers reported over $4.2 billion of in-force premium in 2017, down 11 percent from the $4.7 billion reported in 2016. Of this, recurring business accounted for $0.8 billion of the premium and portfolio represented $3.5 billion.

Figure 5
U.S. Group Premium Trend

U.S. group life reinsurers reported over $4.2 billion of in-force premium in 2017, down 11 percent from the $4.7 billion reported in 2016.

Recurring in-force group premiums in the U.S. market fell 3 percent to $777 million in 2017 following a sustained period of growth. Nonetheless, group in-force premiums grew 63 percent from $476 million in 2011 to $777 million in 2017 (see Figure 5).

As shown in Table 4, the top three reinsurers in the U.S. group life reinsurance market for recurring business are Swiss Re, Munich Re and RGA. Collectively, these three companies account for 88 percent of the market. Swiss Re and Munich Re reported decreases in 2017 of 6 percent and 5 percent, respectively. RGA reported a modest 3 percent increase in 2017.

In-force group portfolio premium totaled $3.5 billion in 2017, off 12 percent from last year's $3.9 billion. Portfolio premium originates from four reinsurers. Canada Life Re reported $2.0 billion in portfolio premium in 2017, down from $2.4 billion in 2016. Munich Re reported $1.3 billion in 2017 versus the $1.0 billion reported in 2016. Finally, Hannover Life Re reported $132 million and SCOR reported $15 million in group life portfolio premium in 2017.

Table 4
U.S. Recurring In-force Group Premiums ($ millions USD)

Company	2016		2017		Change from 2016 to 2017
	Assumed Business	Market Share	Assumed Business	Market Share	
Swiss Re	346	43%	326	42%	-6%
Munich Re	206	26%	197	25%	-4%
RGA	156	20%	161	21%	3%
Group Reinsurance Plus	39	5%	37	5%	-5%
General Re	25	3%	27	3%	7%
SCOR Global Life	18	2%	21	3%	16%
Hannover Life Re	7	1%	8	1%	2%
Canada Life Re	1	0%	1	0%	-7%
Optimum Re	0.2	0%	0.4	0%	116%
Total	**798**	**100%**	**777**	**100%**	**-3%**

Table 5
Canada Recurring In-force Group Premiums ($ millions CAD)

Company	2016		2017		Change from 2016 to 2017
	Assumed Business	Market Share	Assumed Business	Market Share	
Munich Re	50	48%	51	49%	2%
Swiss Re	25	24%	26	25%	3%
RGA	22	21%	21	20%	-4%
Optimum Re	6	5%	6	5%	1%
SCOR Global Life	1	2%	1	1%	-51%
Total	**104**	**100%**	**104**	**100%**	**-0.2%**

CANADA—GROUP LIFE

In Canada, recurring in-force group premium levels have remained fairly steady over the last few years. For 2017, recurring in-force group premium totaled $104 billion, flat as compared to 2016. Similar to the individual market in Canada, the group market is dominated by three reinsurers: Munich Re, Swiss Re and RGA. These three account for 94 percent of the market (see Table 5).

Munich Re was the only Canadian reinsurer reporting group in-force portfolio business in 2017. Munich Re reported $835 million in portfolio premiums for 2017.

LOOKING AHEAD

Life reinsurance production is influenced by many factors, including direct life sales, the economy and regulation, in addition to the reinsurance ceding practices of a limited number of life insurers. The increase in both U.S. and Canadian recurring new business production in 2017 continued the positive trend from last year. Looking ahead, LIMRA forecasts moderate near-term growth in direct U.S. life insurance sales and A.M. Best maintains a stable outlook for the life reinsurance industry. Both are good news for life reinsurers. But there are a few other factors on the horizon that may impact life reinsurance.

Reinsurance remains a valuable tool for efficient capital management. Given current economic conditions, direct writers' appetite for financial reinsurance and reinsurance of in-force blocks is not expected to wane in 2018.

In the U.S., principle-based reserving, or PBR, still presents some uncertainty in terms of how this reserve regulation will impact life reinsurance. Although effective in 2017, it appears many direct writers are delaying implementation until later in the three-year transition period, meaning the industry has not yet experienced the impact of this change on a broad scale basis. While reinsurers are well-positioned to assist direct writers with PBR, the overall impact on product design and pricing structures remains uncertain.

According to LIMRA research[3], 52 percent of potential life insurance buyers said they would be more likely to purchase life insurance if they didn't have to go through a physical exam. Life insurers continue to look for ways to expand insurability to those that are uninsured or underinsured through the use of streamlined or accelerated underwriting programs and technology. One study suggests that more than 80 percent of direct writers already have a streamlined underwriting program; many are intending to enhance or expand their programs as well as the data sources used to replace fluids. Reinsurers can assist in several areas, including developing underwriting rules, assessing the protective value of new data sources, product development and providing automated underwriting engines. Reinsurers with expertise in these areas are well-positioned to capitalize on the new life sales generated by these programs.

Thanks to all of the companies who participated in this year's survey. Complete results are available at *www.munichre.com/us/life/publications.*

Note that Munich Re prepared this survey on behalf of the Society of Actuaries Reinsurance Section as a service to section members. The contributing companies provide the data in response to the survey. The data is not audited, and Munich Re, the Society of Actuaries and the Reinsurance Section take no responsibility for the accuracy of the figures. ■

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ENDNOTES

1 Based on LIMRA, "U.S. Retail Individual Life Insurance Sales (2017, 4th Quarter)," March 2018

2 Based on LIMRA, "Canadian Individual Life Insurance Sales (Fourth Quarter 2017)," March 2018

3 Based on LIMRA "2018 Insurance Barometer Study," April 2018