Reinsurance News

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Results of the 2016 Life Reinsurance Survey

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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. New business production and in force figures are reported, with reinsurance broken into the three following categories:

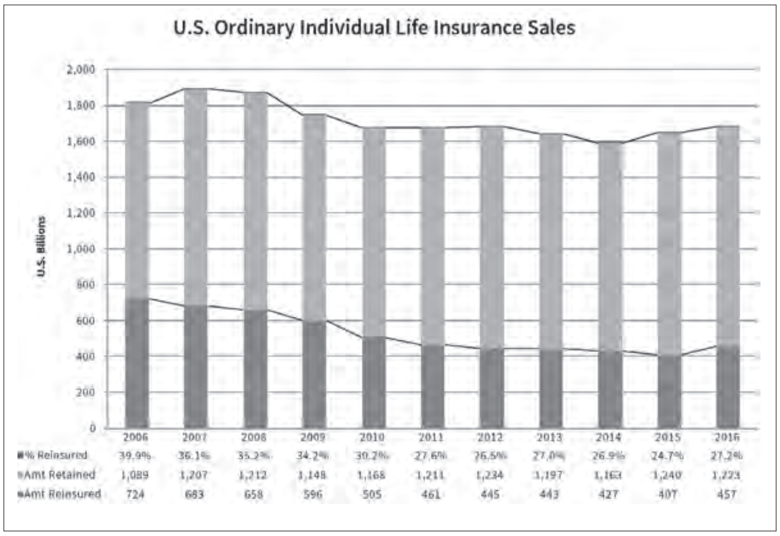
1. Recurring reinsurance: Conventional reinsurance covering an insurance policy with an issue date in the year in which it was reinsured. For the purpose of this survey, this refers to an insurance policy issued and reinsured in 2016.
2. Portfolio reinsurance: Reinsurance covering an insurance policy 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 2016.
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.

Table 1.
Reinsurance Landscape

	Individual Life New Business Volumes ($ billions)			Group In Force Premiums ($ millions)		
	2015	2016	% Change	2015	2016	% Change
U.S.						
Recurring	407	457	12%	728	798	10%
Portfolio	130	729	459%	1,405	3,938	180%
Retrocession	5	8	61%	0	0	n/a
Total	**543**	**1,194**	**120%**	**2,134**	**4,737**	**122%**
Canada						
Recurring	153	159	4%	101	104	3%
Portfolio	3	41	1131%	1,098	786	-28%
Retrocession	2	6	240%	0	0	n/a
Total	**158**	**206**	**30%**	**1,241**	**885**	**-26%**

Figure 1.
U.S. Recurring Cession Rate



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 are not included.

HIGHLIGHTS

The North American life reinsurance market experienced a boost in production along most lines in 2016. Table 1 provides a summary of the most recent survey results:

Individual Life New Business

The big news from the U.S. front was recurring business finally recorded an increase in production. This is notable because this is the first increase experienced since 2002, or almost 15 years.

Canadian recurring also saw an increase in production. The 2016 increase in recurring makes this the second straight year with an increase for Canada.

Group Life Business

U.S. group business experienced a substantial increase in premiums in 2016. Recurring premiums were up 10 percent while portfolio premium jumped 180 percent.

In Canada, overall group premium exhibited a decrease in 2016 due to a reduction in portfolio premium.

UNITED STATES – INDIVIDUAL LIFE

RECURRING

Ring the bell! For the first time since 2002, U.S. recurring reinsurance recorded an increase in production. Not only was it an increase, but it was a double-digit increase. Compared to 2015, U.S. recurring in 2016 rose 12 percent. The $457 billion reported in 2016 as compared to $407 billion reported in 2015. One contributing factor for the increase is believed to be the growth in streamlined or accelerating underwriting programs. Since these programs are relatively new to the market, direct writers have reached out to the reinsurance community for assistance in developing the programs and taking a share of the risk.

The increase in recurring production also resulted in an increase in the cession rate (See Figure 1). Per LIMRA,

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

Company	2015		2016		Change from 2015 to 2016
	Assumed Business	Market Share	Assumed Business	Market Share	
SCOR Global Life	97	24%	101	22%	4%
Swiss Re	80	20%	84	18%	5%
RGA	68	17%	84	18%	23%
Munich Re	73	18%	80	17%	9%
Hannover Life Re	41	10%	56	12%	37%
Canada Life	11	3%	17	4%	65%
Aurigen	19	5%	17	4%	-11%
General Re Life	10	2%	9	2%	-9%
Optimum Re	8	2%	9	2%	7%
Total	**407**	**100%**	**457**	**100%**	**12%**

individual life insurance sales increased 2 percent in 2016 thanks to strong first quarter sales. Decreases in UL and VUL sales were offset by increases in term and whole life sales. Comparing new direct life sales to recurring production shows an estimated cession rate of 27 percent for 2016.

The top five companies in the U.S. reinsurance market remained the same and continue to represent close to 90 percent of the market share (see Table 2). SCOR once again led all reinsures in recurring new business. In 2016, SCOR reported $101 billion of recurring which was a 4 percent increase from 2015. Swiss Re and RGA reported almost identical recurring new business production levels in 2016 at $84 billion. For Swiss, this was a 5 percent increase from 2015 and for RGA that was a 23 percent increase. Munich Re's recurring production rose from $73 billion in 2015 to $80 billion in 2016 which was a 9 percent increase. Hannover's $56 billion of recurring production in 2016 represents a 37 percent increase from their 2015 figure.

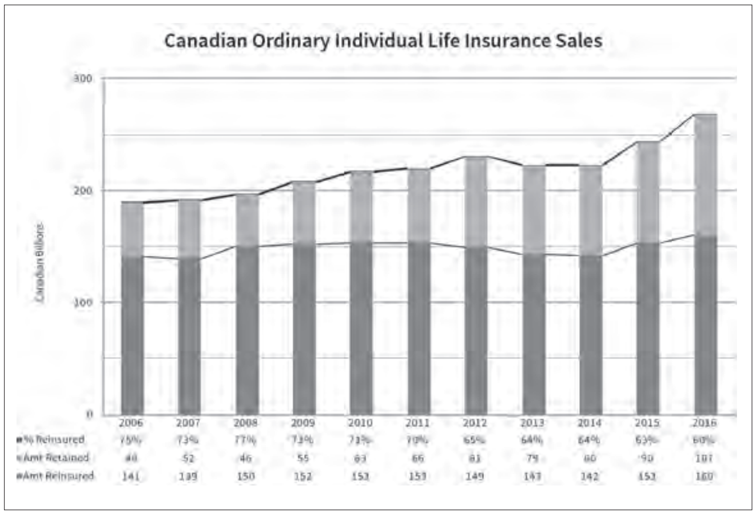
PORTFOLIO

Given the definition of portfolio business (in force block or financial reinsurance), large fluctuations from year to year are often seen and 2016 was no different. While there were no major mergers/acquisitions in the life reinsurance industry in 2016, new portfolio business jumped from $130 billion in 2015 to $729 billion in 2016. This was primarily driven by portfolio writings reported by Hannover Life Re which totaled $612 billion. Swiss Re's $84 billion of portfolio new business in 2016 was the next highest amount. Other companies reporting portfolio new business include SCOR Re ($21 billion), RGA Re ($5 billion) and Canada Life ($2 billion).

Figure 2 illustrates the up and down nature of portfolio new business writings since 2005. In the past, the large spikes were generated from a merger/acquisition within the life reinsurance industry. For example, the spikes in the 2011 and 2013 SCOR's acquisition of Transamerica Re and Generali respectively, while the 2009 spike was the Hannover Re acquisition of an ING Re block.

Figure 2
U.S. Portfolio Business Trend

Figure 3
Canada Recurring Cession Rate



RETROCESSION

Over the last 10-year period, retrocession production in the U.S. had been on a downswing dropping from $43 billion in 2005 to $5 billion in 2015. However, similar to recurring, portfolio recorded an increase in 2016 after a lengthy period of decreases. Approximately $8 billion of retrocession was reported in 2016 which was a 61 percent increase from the $5 billion reported in 2015. The primary retrocessionaires in 2016 were Berkshire Hathaway Group, Pacific Life and AXA Equitable. It should be noted the 2016 increase is somewhat overstated as AXA-Equitable did not report retrocession new business in 2015. However, retrocessions increased in 2016 over 2015 even after excluding the AXA-Equitable figures.

CANADA – INDIVIDUAL LIFE

RECURRING

Recurring new business in Canada rose for the second consecutive year. Around $160 billion was reported in 2016 which is a 4 percent increase from 2015. Recurring likely benefited from the strong direct sales experienced in 2016. Direct sales rose 10 percent in 2016 thanks to UL and WL sales skyrocketing in the fourth quarter because of impending changes in the tax exempt test.

In total, an estimated $267 billion CAD of individual life insurance new business was sold in 2016. Of this volume, it is estimated around 60 percent is reinsured ($160 billion). As shown in Figure 3, the cession rate has been steadily dropping the last several years in Canada. In 2006, the cession rate was

Table 3.
Canada Recurring Individual Life olume ($ millions CAD)

Company	2015		2016		Change from 2015 to 2016
	Assumed Business	Market Share	Assumed Business	Market Share	
RGA	49	32%	44	28%	-10%
Munich Re	40	26%	41	26%	1%
Swiss Re	25	16%	29	18%	16%
SCOR Global Life	18	12%	21	13%	20%
Aurigen	14	9%	15	10%	7%
Optimum Re	7	5%	9	6%	30%
Total	**153**	**100%**	**160**	**100%**	**4%**

75 percent compared to 60 percent in 2016. However, the Canadian cession rate is still much higher compared to the U.S., where approximately 27 percent is reinsured.

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 2016, they collectively represent 72 percent of the market (see Table 3). RGA led recurring writers with $44 billion which was a 10 percent drop from 2015. Munich Re followed with $41 billion (1 percent increase from 2015) and Swiss Re rounded out the top three with $29 billion reported (16 percent increase from 2015)

SCOR, Aurigen and Optimum all reported increases in 2016, but were coming from a lower starting point in 2015. This helped generate the overall increase in ceded volume of $7 billion experienced in 2016.

PORTFOLIO

Munich Re was the lone reinsurer reporting portfolio new business in 2016 reporting more than $40 billion in portfolio new business. This is the highest portfolio amount seen in Canada since 2011.

RETROCESSION

Canadian retrocessionaires included Berkshire Hathaway, Pacific Life and AXA Equitable. Berkshire led retrocesionaires with $3.5 billion and was followed by Pacific Life ($1.9 billion) and AXA ($0.3 billion). Overall, the retro market in Canada increased from $1.7 billion in 2015 to $5.8 billion in 2016.

UNITED STATES – GROUP LIFE

U.S. group life reinsurers reported more than $4.7 billion of in-force premium in 2016. This is a material increase from the $2.1 billion reported in 2015. Recurring accounted for $0.8 billion of the premium and portfolio represented $3.9 billion.

Recurring in-force premiums in the U.S. market have risen almost 70 percent in just a six-year span. During this period, premiums have grown from $476 million in 2011 to $798 million in 2016 (see Figure 4).

Figure 4
U.S. In-force Group Premium Trend

As shown in Table 4, the top three reinsurers in the U.S. group life insurance market for recurring business are Swiss Re, Munich Re and RGA. Collectively, these three companies account for 89 percent of the market. Each of these companies reported increases in 2016. Swiss Re, the top reinsurer by premium, increased 5 percent while Munich Re's recurring group in-force premium rose 2 percent in 2016. RGA reported the largest increase in 2016 with a 42 percent increase.

PORTFOLIO

In-force portfolio premium totaled $3.9 billion in 2016. This is a 180 percent increase in premium from 2015 to 2016. The increase was driven by two reinsurers. Canada Life reported $2.4 billion in portfolio premium in 2016, up from $753 million in 2015. Munich Re's $1.0 billion in 2016 premium

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

Company	2015		2016		Change from 2015 to 2016
	Assumed Business	Market Share	Assumed Business	Market Share	
Swiss Re	328	45%	346	43%	5%
Munich Re	202	28%	206	26%	2%
RGA	110	15%	156	20%	42%
Group Reinsurance Plus	34	5%	39	5%	13%
General Re	21	3%	25	3%	19%
SCOR	25	3%	18	2%	-28%
Hannover Re	8	1%	7	1%	-3%
Canada Life	1	0%	1	0%	0%
Optimum Re	0.2	0%	0.2	0%	0%
TOTALS	**728**	**100%**	**798**	**100%**	**10%**

overshadowed the $95 million reported in 2015. Finally, Hannover Re reported $500 million in group life portfolio premium in 2016.

CANADA – GROUP LIFE

In Canada, the recurring portion of in-force group premiums levels have remained fairly steady over the last few years, holding around $100 million in CAD premium. Similar to the individual market in Canada, the group market is dominated by three reinsurers, Munich Re, Swiss Re and RGA. Munich Re's 7 percent increase in group in-force premium was a key contributor to the overall market increase of 3 percent (see Table 5).

Munich Re was the only reinsurer reporting in-force portfolio business in 2016. Munich reported $786 million in portfolio premiums for 2016.

LOOKING AHEAD

The increase in recurring new business in 2016 was a welcome sight for the life reinsurance industry that has weathered decreasing production levels and seen the number of reinsurers reduce considerably since the "glory days" of the late 1990s and early 2000s. Will this year's increase spark a trend? Below are just a few factors that could impact life reinsurance levels in the near future:

- Principle-Based Reserves (PBR): The new reserve regulation, PBR, became effective in 2017 and allows for a three-year phase-in period. Indications are many direct writers are moving to the new 2017 CSO reserve basis in 2017 for their term products, but are delaying implementation of PBR. The three-year phase-in period allows insurers to obtain a good understanding how PBR may affect their business

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

Company	2015		2016		Change from 2015 to 2016
	Assumed Business	Market Share	Assumed Business	Market Share	
Munich Re	47	46%	50	48%	7%
Swiss Re	25	24%	25	24%	1%
RGA	23	22%	22	21%	-3%
Optimum Re	6	6%	6	5%	0%
SCOR Global Life	1	1%	1	2%	26%
TOTALS	**101**	**100%**	**104**	**100%**	**3%**

before actually implementing. As more direct companies actually begin adopting PBR over the next couple of years, there could be a change in the pricing structures, however it is still unknown how this reserve regulation will impact life reinsurance.

- Streamlined Underwriting: Streamlined/accelerated underwriting programs are expected to be more commonplace in 2017 as direct writers look to issue business quickly at mortality levels as close to fluid tested business as possible without actually obtaining fluids. Along with MVR, MIB and prescription database checks, vendors are also touting the benefits of credit scoring. Reinsurers with expertise with these programs will be best positioned to benefit from new life sales generated by these programs. Reinsurers are providing underwriting rules development, product development and even automated underwriting engines to assist direct writers with these programs.

- Direct Sales Distribution Shifts: Per LIMRA, almost one quarter of life insurance purchases were direct to consumer in 2015, up from 11 percent in 2000. The percentage of direct to consumer sales is expected to continue to rise as insurers focus on ways to reach out to potential insureds.

- Portfolio Reinsurance: Because of the low interest rate environment, direct writer's appetite for financial reinsurance and reinsurance of in force blocks is not expected to wane in 2017. Reinsurance will remain a viable option for efficient capital management.

Finally, I would like to thank all of the companies who participated in the survey this year. Complete results are available at www.munichre.com/us/life/publications. ■

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ENDNOTES

1 Based on LIMRA, "U.S. Individual Life Insurance Sales (Fourth Quarter 2016), March 2017

2 Based on LIMRA, "Canadian Individual Life Insurance Sales (Fourth Quarter 2016)", March 2017

3 Based on LIMRA, U.S. Individual Life Insurance Yearbook (2015)