



SOCIETY OF ACTUARIES

Article from:

# Reinsurance Section News

September 2001 – Issue 49



## Life Reinsurance Data from The Munich American Survey

by James L. Sweeney and David M. Bruggeman

Munich American Reassurance Company prepared the survey at the request 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 American, the Society of Actuaries and the Reinsurance Section take no responsibility for the accuracy of the figures.

**M**unich American's annual survey, which is conducted on behalf of the Statistical Research Committee of the Reinsurance Section, covers Canadian and U.S. ordinary and group life reinsurance new business production and in force. The ordinary numbers are further subdivided into:

- 1) Recurring reinsurance: conventional reinsurance covering an insurance policy with an issue date in the year in which it was reinsured;
- 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; and,



*continued on page 2*

## Reinsurance in Europe

by Joseph F. Kolodney

**W**hile America has served as the "pioneer" in the versatile use of life reinsurance over the past 20 years, Europe is still in a somewhat evolutionary process of recognizing the use of life reinsurance as a financial management tool.

Reinsurance in Europe really needs to be bifurcated between the United Kingdom (specifically England and Scotland) and Continental Europe.

### The United Kingdom.

The U.K. marketplace has, in the last eight years, become more like that of the United States. U.K. companies, which have historically purchased their risk reinsurance on an excess over retention basis, have now moved to what is referred to as "The American Model" where it is not uncommon to see large quota-shares of 80% or 90% on term life products as the rule rather than the exception. In the U.K., term life is generally referred to as "Protection."



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## Life Reinsurance Data from The Munich American Survey

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3) Retrocession reinsurance: reinsurance not directly written by the ceding company.

Complete survey results are available from the authors upon request. These results may also be obtained at Munich American's Web site: [www.marclife.com](http://www.marclife.com) (look under Research).

### Life Reinsurance Production

After 1999's apparent "slow-down" in new business writings, reinsurance production in 2000 returned to the levels reached in the mid-to-late 1990s. The 20.3% increase in U.S. production recorded in 2000 compares favorably to the 5.7% increase in 1999, and is on par with the increases of 31.1% in 1998, 54.9% in 1997 and 24.0% in 1996. The increases in both recurring and portfolio business were only slightly offset by decreases in retrocession and group. In Canada there was a 20.7% increase in total production, largely due to the sizable increase in recurring business. Overall, ordinary new business in North America increased 20.3%.

Life reinsurance production results for 1999 and 2000 are summarized below.

Life Reinsurance New Business Production (\$U.S. Millions)

	U.S.			Canadian			Total		
	1999	2000	Change	1999	2000	Change	1999	2000	Change
Ordinary Life									
Recurring	810,592	985,466	21.6%	36,596	51,846	41.7%	847,188	1,037,312	22.4%
Portfolio	107,674	157,394	46.2%	17,681	12,317	-30.3%	125,355	169,711	35.4%
Retrocession	61,893	47,519	-23.2%	1,081	736	-31.9%	62,974	48,255	-23.4%
Total Ordinary	980,159	1,190,379	21.4%	55,358	64,899	17.2%	1,035,517	1,255,278	21.2%
Total Group	26,240	20,430	-22.1%	1,816	4,103	125.9%	28,056	24,533	-12.6%
Total Life	1,006,399	1,210,809	20.3%	57,174	69,002	20.7%	1,063,573	1,279,811	20.3%

### Recurring Business

The survey attempts to remove any double counting of retrocession and block reinsurance from the recurring figures. For this reason, recurring business often offers the most revealing picture of production trends. In the U.S., there was a 21.6% increase in recurring new business in 2000 — this compares to increases of 19.3% in 1999 and 33.9% in 1998. The 41.7% increase in recurring business reported by Canadian reinsurers along with the 37.1% increase in 1999 adds support to the belief that, like U.S. direct writers, Canadian direct writers are reinsuring more business on a first dollar quota share basis.

Five companies reported incremental increases in total U.S. and Canadian recurring new business in excess of \$15 billion in 2000. With the acquisition of CNA's reinsurance unit, Munich American's new business increase of \$75.2 billion was tops for 2000, followed by RGA (\$32.0), ING (\$30.2), Lincoln Re (\$21.6), and Annuity and Life Re (\$16.3).

Totals for Canadian and U.S. recurring ordinary reinsurance assumed in 1999 and 2000, as well as percentage changes, are as follows on page 3 at the top.

## REINSURANCE SECTION NEWS

Issue No. 49,  
September 2001

Published by the Reinsurance Section  
Council of the Society of Actuaries  
475 N. Martingale Road, Suite 800  
Schaumburg, IL 60173-2226

Phone: 847-706-3500  
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U.S. Ordinary Recurring Reinsurance (U.S. Millions)

Company	1999			2000		
	Assumed Business	Market Share	Increase in Production	Assumed Business	Market Share	Increase in Production
Allianz	35,850	4.4%	8.5%	45,536	4.6%	27.0%
Annuity and Life Re	15,934	2.0%	100.0%	32,253	3.3%	102.4%
AUL	42,126	5.2%	22.8%	46,942	4.8%	11.4%
BMA	25,217	3.1%	15.0%	33,004	3.3%	30.9%
Canada Life	9,494	1.2%	33.1%	11,471	1.2%	20.8%
CIGNA Re	632	0.1%	-22.4%	ACQ*	0.0%	0.0%
CNA	33,565	4.1%	44.2%	ACQ**	0.0%	0.0%
General & Cologne	20,680	2.6%	17.7%	20,305	2.1%	-1.8%
Employers/ERC	90,248	11.1%	3.2%	86,577	8.8%	-4.1%
Gerling Global	26,320	3.2%	49.0%	31,397	3.2%	19.3%
ING Re	55,836	6.9%	-0.2%	86,009	8.7%	54.0%
Lincoln Re	114,792	14.2%	43.6%	134,393	13.6%	17.1%
Munich American Re	44,591	5.5%	76.0%	119,859	12.2%	53.4%
Optimum Re (US)	1,083	0.1%	-30.2%	1,069	0.1%	-1.3%
SCOR Life Re	583	0.1%	13.6%	844	0.1%	44.8%
Reassurance Co. of Hannover	3,990	0.5%	9.7%	6,381	0.6%	59.9%
RGA	87,433	10.8%	39.4%	119,449	12.1%	36.6%
Scottish Re	0	0.0%	0.0%	5,060	0.5%	100.0%
Swiss Re	127,109	15.7%	13.7%	124,176	12.6%	-2.8%
Transamerica Re	74,986	9.3%	1.8%	80,741	8.2%	7.7%
World-Wide Re	123	0.0%	38.2%	DNR	0.0%	0.0%
<b>TOTALS</b>	<b>810,592</b>	<b>100.0%</b>	<b>19.3%</b>	<b>985,466</b>	<b>100.0%</b>	<b>21.6%</b>

Canada Ordinary Recurring Reinsurance (U.S. Millions)

Company	1999			2000		
	Assumed Business	Market Share	Increase in Production	Assumed Business	Market Share	Increase in Production
Allianz	0	0.0%	0.0%	0	0.0%	0.0%
Annuity and Life Re	2,166	5.9%	100.0%	144	0.3%	100.0%
CIGNA Re	1	0.0%	-75.0%	ACQ*	0.0%	0.0%
CNA	0	0.0%	-100.0%	ACQ**	0.0%	0.0%
General & Cologne	1	0.0%	0.0%	6	0.0%	500.0%
ERC-Canada	1,600	4.4%	100.0%	3,796	7.3%	137.2%
Gerling Global	7	0.0%	75.0%	1,562	3.0%	22214.3%
ING Re	4	0.0%	100.0%	2	0.0%	-50.0%
Lincoln Re	3,960	10.8%	89.2%	6,063	11.7%	53.1%
Munich Re (Canada)	10,181	27.8%	28.1%	16,619	32.1%	63.2%
Optimum Re (CAN)	826	2.3%	10.1%	1,382	2.7%	67.4%
RGA	0	0.0%	-100.0%	2	0.0%	100.0%
RGA Re (Canada)	8,147	22.3%	43.2%	8,439	16.3%	3.6%
Swiss Re	9,702	26.5%	20.8%	13,832	26.7%	42.6%
<b>TOTALS</b>	<b>36,596</b>	<b>100.0%</b>	<b>36.4%</b>	<b>51,847</b>	<b>100.0%</b>	<b>41.7%</b>

\* CIGNA Re acquired by Swiss Re

\*\* CNA acquired by Munich American Re

## Life Reinsurance Data from The Munich American Survey

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### **Portfolio and Retrocession Business**

Total portfolio business increased over 35% in 2000 as shown on page 2. This follows a 50% decrease in 1999. However, it should be noted that much of the increase in 2000 can be traced to a couple of large administrative reinsurance deals that one reinsurer reported. If we extract the administrative reinsurance out of the portfolio, we would see another drop in portfolio production in 2000. This would suggest that the number of in force block deals being offered to reinsurers has been reducing over the past two years.

Meanwhile, retrocession production dropped 23%. There are several factors that may explain the drop in production. First, several of the larger reinsurers have recently increased their retention. Second, direct companies are, for capacity reasons, including more reinsurers in their reinsurance pools. While the business to the reinsurer may still increase because of a quota share arrangement, there is not a corresponding increase at the excess layers — which affect the retrocessionaires. Finally, consolidation within the reinsurance market may also be impacting retrocession production as the smaller reinsurers, who typically needed more retrocession capacity, have been acquired by larger reinsurers.

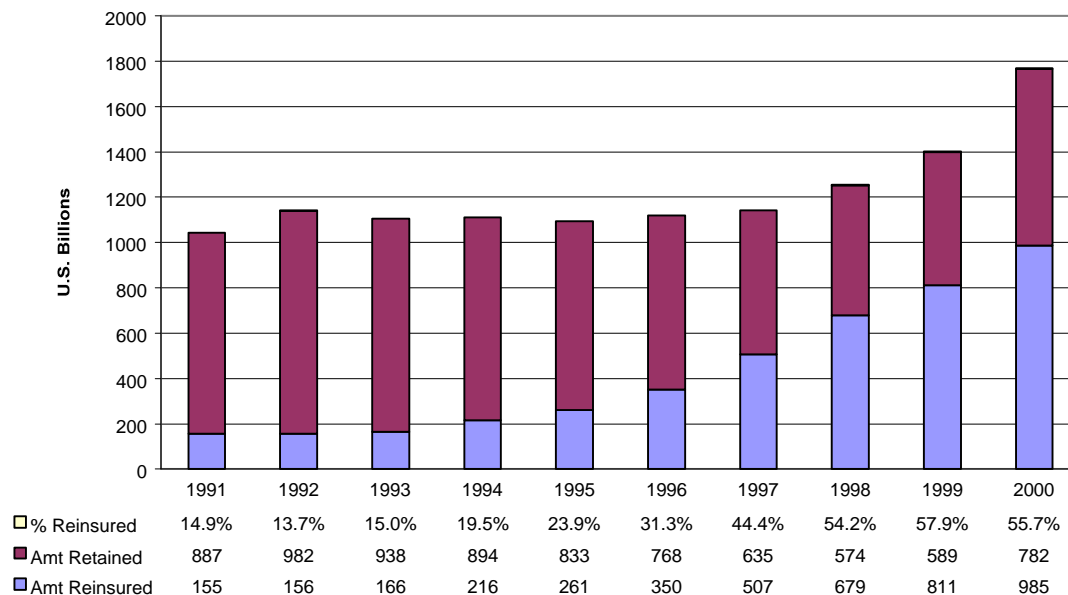
### **Comparison With Direct Market**

Direct life insurance purchases have begun to pick up over the last two years. Preliminary estimates from the American Council of Life Insurance (ACLI) show 2000 U.S. ordinary individual life insurance purchases increasing 26.2% from 1999. If this preliminary estimate holds true, the direct market has not experienced such a rate of growth since 1983 — almost 20 years ago. One of the driving forces behind the large growth in 2000 is believed to be the increased activity in the COLI/BOLI market.

Direct writers continue to reinsure on a first dollar quota share basis. If we compare life purchases data from the ACLI to the reinsurance survey production numbers, we can see the impact that first dollar quota share arrangements have had over the years. In just a 10-year span, the percentage of life sales reinsured has grown from 14.4% in 1990 to 55.7% in 2000. However, if we look only at the last three previous years (1998-2000), we see that the percentage has stayed relatively stable — around the mid-50% range. We shall see if the percentage-reinsured level has reached a plateau and, perhaps, even approached its limit.

The following graph compares ordinary life new business totals with the recurring life reinsurance totals for the United States.

**U.S. Ordinary Individual Life Insurance Sales**



**Life Reinsurance in Force**

The increases in both US and Canadian life reinsurance in force business resulted in a total increase of 21.6% for 2000. This follows increases of 19.4% in 1999 and 25.1% in 1998. The U.S. total life in force increased 21.7% and the Canadian market in force grew by 20.3% in 2000. The in force survey results for 1999 and 2000 are summarized on page 5.

Life Reinsurance In Force (\$U.S. Millions)

	U.S.			Canadian			Total		
	1999	2000	Change	1999	2000	Change	1999	2000	Change
Ordinary Life									
Recurring	2,627,555	3,274,158	24.6%	169,279	218,824	29.3%	2,796,834	3,492,982	24.9%
Portfolio	305,075	364,337	19.4%	20,881	17,399	-16.7%	325,956	381,736	17.1%
Retrocession	246,014	253,442	3.0%	12,029	10,456	-13.1%	258,043	263,898	2.3%
Total Ordinary	3,178,644	3,891,937	22.4%	202,189	246,679	22.0%	3,380,833	4,138,616	22.4%
Total Group	110,966	110,737	-0.2%	26,692	28,559	7.0%	137,658	139,296	1.2%
Total Life	3,289,610	4,002,674	21.7%	228,881	275,238	20.3%	3,518,491	4,277,912	21.6%

**Conclusion**

The small increase in reinsurance production reported in 1999 may have just been a slight aberration as the U.S. reinsurance market returned to its mid to late 1990s form. The Canadian reinsurance market has begun to experience exceptional growth, as first dollar quota share arrangements become more commonplace.

While Guideline XXX was thought to have slowed direct term life sales in 2000, preliminary reports indicate that the total direct market still experienced impressive growth. Given that recurring production in 2000 recorded similar growth, and that the percentage reinsured level remained stable from the previous year, one could conclude that the reinsurance market shared proportionally in the growth of direct sales.

We would expect the need for reinsurance to continue to be strong as direct companies: (1) seek relief from the financial strain of the new reserve regulations, and (2) take advantage of the attractive reinsurance prices being offered to secure and stabilize their profit results.

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