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An exclusive club

High prices and tight terms could attract new entrants to the North American life reinsurance market. But getting in can be tough. By Michael Loney

Property/casualty reinsurance buyers in North America have been complaining recently about the poor choice of reinsurers. Because of falling financial strength ratings, fewer reinsurers make it onto their approved lists. They should spare a thought for their counterparts at life insurers, who have even fewer reinsurers to choose from.

In the past five years, life insurers have looked on with alarm as the choices available to them have rapidly shrunk. This concern was heightened during 2003. That year, Reinsurance Group of America (RGA) bought Allianz's North American life reinsurance business, Scottish Re bought Employers Re's life reinsurance book and Annuity & Life Re went into run-off.

Buyers now have little choice of who they do business with. According to rating agency Standard & Poor's (S&P), 90% of new North American business was written by only eight companies. This is down from more than 15 a few years earlier. To make matters worse for life reinsurance buyers, Scottish Re bought ING Re's North American life reinsurance book in October last year, taking another big-hitter out of the market.

Rating agency AM Best says Swiss Re, Munich Re and RGA combined have more than a 50% share of the North American market. In Canada, these three companies are pretty much the only choices available. Similarly, S&P says that some niche markets, including group life insurance and accident and health cover, only have about three committed players.

The frenzied consolidation in the North American life reinsurance market appears to have ended. AM Best does

Top 10 global life reinsurance groups Ranked by 2003 gross written premiums

Rank	Group	Country	Gross premiums written 2003 (\$m)	Gross premiums written 2002 (\$m)
1	Swiss Re	Switzerland	9,392.5	8,833.8
2	Munich Re	Germany	6,854.6	5,530.9
3	Employers Re	US	3,367.0	2,574.0
4	Reinsurance Group of America	US	2,922.5	2,330.4
5	Hannover Re	Germany	2,857.2	2,590.4
6	Berkshire Hathaway Re ¹	US	1,839.0	1,899.0
7	Revios Re	Germany	1,641.0	1,522.3
8	Scor	France	1,271.5	1,054.4
9	Transamerica Re (Aegon)	US	1,253.0	1,160.0
10	Allianz	Germany	1,114.3	891.4

1. Premium figures relate to net premiums written.

Source: Standard & Poor's

not foresee many more big acquisitions soon.

"ING Re was the last big acquisition and there are now five or six major players who will be there for at least the next 12 months," says William Pargeans, senior financial analyst at rating agency AM Best.

Although there is now less scope for big mergers, rating analysts believe that there may be further withdrawals from the market. "You might see some of the smaller players wanting to exit," says Pargeans. "There are some second-tier players that may not be committed long term, such as Revios and Scor."

Rodney Clark, analyst at S&P, agrees that more players may choose to sell their life reinsurance businesses. For example, he says Dutch insurer Aegon could decide life reinsurance is not a core business and sell its Transamerica Re subsidiary.

Another big player could also be put on the market. When MetLife bought Travelers Life & Annuity in January, it said it may sell its 52% share in RGA to help fund the purchase. MetLife eventually decided to keep the stake, but the company's admission that it was considering selling RGA showed it does not consider life reinsurance a core business.

"Keeping RGA was MetLife's short-term decision but I expect that is not permanent," says Clark. "It underscored that if the right offer came along, it would be very willing to get out."

An enjoyable time

The few remaining players are reaping the benefits of less competition and improved pricing.

"People in the market are saying it is a good place to be," says Pargeans. "In general the market is rationalising and we see stability. Prices have increased and due diligence is better. Claims had got away from life reinsurers a bit two or three years ago."

Robert Adams, vice-president at AM Best, says life reinsurance rates went up 10% last year. The consolidation has removed a lot of competition for business.

"ING was by far the most aggressive reinsurer in terms of pricing and it had large treaty shares of between 60% and 70%," says Adams. "This has been redistributed among the players left. This further shows how the market is rationalising."

In addition, Pargeans says Scottish Re, which was set up in the late 1990s but is now the third-largest US life reinsurer, no longer needs to price as aggressively to establish itself.

And not all life reinsurers are competing for the same business. Paul Rutledge, president of Transamerica Re, says smaller companies are less able to operate in more capital-intensive areas, such as reinsuring Regulation XXX reserves.

"The market is still fairly competitive, though we don't have extreme overcapacity today," says Rutledge. "We're seeing market segmentation because not all players can participate in the XXX market. We see a separation with small to mid-sized reinsurers playing in the purely risk transfer market, and the larger players focusing on the more complex parts of the business that have higher labour and infrastructure costs."

But Rutledge warns that the price increases for life reinsurance are not as good as they seem. He believes most price rises are based on higher costs of doing business. For example, reinsurers are increasingly passing on cedants' risk to the capital markets.

"There is a misconception in the market about consolidation – that there are only a few life reinsurers left so they can charge predatory prices. This is not the case," he says. "Most price increases are based on additional costs from multiple sources. We are not seeing the availability of extraordinary returns as a result of the consolidation."

New kid on the block

The attractive pricing in the life reinsurance market may entice new entrants, which should cheer life reinsurance buyers. One company has already entered the market. Wilton Re was set up at the end of last year to take advantage of the lack of capacity, and is now open for business.

Chris Stroup, its chairman, is pleased with the company's progress so far. "Every client we have spoken to has been glad to see a new credible player in the marketplace," he says. "We have been well received in that just about everyone is willing to talk to Wilton Re. They are saying that it is good to see a new player after all the consolidation in the past five years."

One advantage Wilton Re had in setting up was experienced management. Stroup is the former head of Swiss Re Life & Health North America and its chief executive of US operations is John Tiller, the former head of ERC Life Re. The company is rated A- by AM Best.



Chris Stroup, chairman of Wilton Re

Pargeans expects Wilton Re to do well. "It has seasoned management, and in this industry half the game is relationships," he says. "It also has a good rating and good capital support. We think over the next two years it is going to get a sizeable amount of business."

Clark at S&P says Wilton Re has had a better reception from clients than previous life reinsurance start-ups because there are so few players left.

"It is too early to say what effect Wilton Re is having but it is definitely finding market acceptance, which a few years ago was a significant barrier for start-ups," says Clark. "That has now changed. It is difficult for one company to change the shape of the market but if others follow you could see a return to strong competition and tighter pricing."

A hard act to follow

It may be hard for others to follow Wilton Re into the market. Getting membership to the exclusive club of life reinsurers is not easy. Pargeans says many people have looked at entering the life reinsurance market recently but only Wilton Re has managed it.

"The capacity is there for new entrants and there is lots of interest," he says. "But if you can't raise the capital, you can't get in. Life reinsurance is extremely capital intensive and that's the biggest barrier.

"To enter the market a company has to be rated, so we get the advantage of companies coming to us before it gets into the public domain. We have been contacted a number of times in the past three years but no one other than Wilton Re has been able to get financing. Investors haven't backed the others, and there have been about a dozen of them."

Despite this, Stroup believes it is possible more companies will enter. He says some established property/casualty companies want to get into the life industry. He notes, however, that it can be hard for them to find enough money to put into the capital-intensive life reinsurance market.

Stroup also questions the ability of any would-be entrants to put together an experienced team. Without one, he says, cedants may be reluctant to accept them.

"As a buyer, I would ask whether the team is experienced, and whether the company will be a long-term provider or whether it is there to make quick money," says Stroup. "It is such a small industry that it is hard to find people experienced and willing to leave their companies. John Tiller and I were available at the same time and that is two obvious candidates gone. There are other talented managers in the business – such as Greig Woodring at RGA, Weldon Wilson at Swiss Re and Scott Willkomm at Scottish Re – but they have good jobs right now."

But Clark at S&P believes it is possible to put together a credible management team. He says there are experienced executives available because so many companies have dropped out of the market.

"Given all the consolidation, there is experienced management about so you could put together a team. I expect to see some new entrants. A start-up is possible but it is more

likely that property/casualty companies will come in." He says two possible entrants are Bermudians Max Re and XL.

This will be music to the ears of life reinsurance buyers. After watching their options get ever slimmer, they would jump at the chance to add some more names to their list of reinsurers.

Rutledge at Transamerica Re also expects a few new players in the market. But he warns that the life reinsurance market is now a far more complex business.

"The life reinsurance market is still not well understood. Ten years ago, you could get into the market with \$200m. The market has evolved. It's a lot less easy to do today. People are drawn to it because they compare it to the property/casualty market, but this is a very different business."

Top 50 US life insurers Ranked by 2004 assets

2004 Rank	Company	Total admitted assets 2004 (\$bn)	Total admitted assets 2003 (\$bn)	S&P rating as of May 09 2005	2003 Rank
1	Metropolitan Life Insurance Company	244.24	229.13	AA	1
2	Prudential Insurance Company of America	207.01	194.97	AA-	2
3	Teachers Insurance & Annuity Association of America	163.56	151.25	AAA	3
4	Northwestern Mutual Life Insurance Company	123.91	113.77	AAA	4
5	Hartford Life Insurance Company	112.86	99.88	AA-	5
6	Equitable Life Assurance Society of the US	105.31	95.87	AA-	6

7	Principal Life Insurance Company	101.50	90.55	AA	7
8	New York Life Insurance Company	101.30	90.51	AA+	8
9	Massachusetts Mutual Life Insurance Company	95.59	85.74	AAA	10
10	Nationwide Life Insurance Company	90.74	86.29	AA-	9
11	Lincoln National Life Insurance Company	87.08	78.18	AA-	11
12	Manufacturers Life Insurance Company USA	73.78	59.79	AA+	16
13	John Hancock Life Insurance Company	73.28	74.41	AA+	12
14	Allstate Life Insurance Company	72.00	62.74	AA	14
15	Hartford Life & Annuity Insurance Company	69.73	59.19	AA-	18
16	Pacific Life Insurance Company	68.47	59.67	AA	17
17	Sunamerica Life Insurance Company	68.08	54.51	AA+	19
18	Travelers Insurance Company	67.96	61.35	AA	15
19	American Life Insurance Company	56.39	39.63	AA+	28

	(Delaware)				
20	New York Life Insurance & Annuity Corporation	56.28	48.07	AA+	24
21	Variable Annuity Life Insurance Company	55.77	51.53	AA+	20
22	Jackson National Life Insurance Company	53.72	49.32	AA	22
23	ING Life Insurance & Annuity Company	53.11	51.04	AA	21
24	IDS Life Insurance Company	53.11	49.27	NR	23
25	AIG Annuity Insurance Company	50.84	43.24	AA+	26
26	Connecticut General Life Insurance Company	50.67	69.53	A-	13
27	Thrivent Financial for Lutherans	49.32	45.30	NR	25
28	American Family Life Assurance of Columbus, Georgia	49.28	41.79	AA	27
29	ING USA Annuity & Life Insurance Company	48.01	23.24	AA	41
30	Transamerica Life Insurance Company	44.08	37.94	AA	29
31	Allianz Life Insurance Company North America	41.68	30.97	AA-	34
32	Sun Life Assurance	39.17	37.13	AA+	30

Company of Canada US					
33	State Farm Life Insurance Company	37.5	34.90	AA	31
34	Great-West Life & Annuity Insurance Company	32.16	31.17	AA	33
35	GE Capital Assurance Company	31.49	33.67	AA-	32
36	AIG SunAmerica National Life Insurance Company	29.75	26.17	AA+	37
37	American Skandia Life Assurance Corporation	29.30	26.4	AA-	36
38	American General Life Insurance Company	28.39	25.51	AA+	40
39	Transamerica Occidental Life Insurance Company	28.20	26.57	AA	35
40	Aetna Life Insurance Company	27.02	26.16	A	38
41	Transamerica Life Insurance & Annuity Company	25.54	25.58	AA	39
42	Guardian Life Insurance Company of America	23.34	21.67	AA	42
43	Prudential Retirement Insurance & Annuity Company	22.88	0.04	AA-	

44	Pruco Life Insurance Company	22.25	20.3	AA-	44
45	Reliastar Life Insurance Company	21.56	20.58	AA	43
46	Security Life of Denver Insurance Company	21.15	18.86	AA	48
47	Minnesota Life Insurance Company	20.01	19.10	AA-	46
48	Union Fidelity Life Insurance Company	19.30	1.27	NR	
49	Monumental Life Insurance Company	19.26	18.36	AA	49
50	Travelers Life & Annuity Company	19.06	15.91	AA	

Source: Standard & Poor's