U.S. Life and A&H Insurance Industries

Life and A&H Industry Overview

Table 1 provides the industry's aggregate financial results for the life insurers that file with the NAIC on the Life/A&H quarterly blank for the first six months of 2019.

- Overall, the life industry reported $28 billion of net income, a 36% increase compared to the first six months of 2018.
- Net premiums and deposits increased 14% to $437 billion, mainly due to a 26% decrease in ceded premiums to $122 billion. Total direct premiums increased 5% to $472 billion and assumed premiums decreased 12% to $87 billion.
- Life industry cash and invested assets increased 5% to $4 trillion.
- The industry's total capital and surplus increased 5% to $419 billion compared to prior year-end, mainly driven by the $28 billion net income.
- Net cash from operations for the life industry increased by 8% to $91 billion.
- Total separate account assets increased 2% to $3 trillion.

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Table 1—Financial Synopsis: June 30, 2019-2015
Life and Accident & Health Insurance Industry

($ In Millions)	Change	2Q 2019	2Q 2018	2Q 2017	2Q 2016	2Q 2015
Direct Written Premium and Deposits	5%	$472,168	$449,895	$429,850	$414,432	$395,285
Life Direct Written Premium	3%	$94,244	$91,789	$91,726	$88,375	$86,725
A&H Direct Written Premium	1%	$102,961	$101,870	$95,836	$88,974	$85,053
Annuities	10%	$142,270	$129,770	$122,818	$128,035	$127,533
Deposits & Other DPW	5%	$132,693	$126,466	$119,470	$109,049	$95,974
Net Earned Premium	22%	$345,943	$284,618	$285,063	$315,365	$305,634
Net Investment Income	(2)%	$96,466	$98,324	$95,709	$93,416	$90,666
General Expenses	2%	$33,907	$33,208	$32,491	$30,824	$29,995
Operating Income	19%	$32,491	$27,372	$30,639	$5,957	$27,869
Realized Gains/(Losses)	35%	($4,442)	($6,811)	($1,682)	($4,279)	$848
Net Income/(Loss)	36%	$28,049	$20,561	$28,957	$1,678	$28,718
Unrealized Gains/(Losses)	372%	$10,676	($3,930)	$4,203	$8,542	($6,093)
ROA (Annualized)	0.2 pts	0.8%	0.6%	0.9%	0.1%	0.9%
Net Investment Yield	(0.4) pts	4.3%	4.7%	4.6%	4.7%	4.9%
	6-mo. Chg	**2Q 2019**	**2018**	**2017**	**2016**	**2015**
Capital & Surplus	5%	$418,942	$399,177	$393,169	$380,799	$367,045

Note: Adjustments to exclude affiliated amounts were made where appropriate.
Fraternal societies are included in the Life/A&H totals.

Premium

The life industry reported a 5% ($22 billion) increase in direct written premiums and deposits to $472 billion for the first six months of 2019. Net written premiums and deposits increased 14% ($53 billion) to $437 billion due to a 26% ($43 billion) decrease in ceded premiums. **Table 2** illustrates total direct, assumed, ceded, and net written premiums broken out by line of business for a year over year comparison.

Table 2—Total Written Premium by LOB

Direct Premiums	% Chg.	2Q'19	2Q'18
Life Insurance	3%	$94.2	$91.8
Annuity Considerations	10%	$142.3	$129.8
A&H Insurance	1%	$103.0	$101.9
Deposit-type Contracts	8%	$92.2	$85.1
Other Considerations	(2)%	$40.5	$41.3
Total	**5%**	**$472.2**	**$449.9**

Assumed Premium	% Chg.	2Q'19	2Q'18
Life Insurance	35%	$49.1	$36.3
Annuity Considerations	(49)%	$21.3	$42.0
A&H Insurance	(22)%	$14.8	$19.1
Deposit-type Contracts	(7)%	$1.0	$1.1
Other Considerations	5%	$0.7	$0.7
Total	**(12)%**	**$86.9**	**$99.3**

Ceded Premium	% Chg.	2Q'19	2Q'18
Life Insurance	15%	$61.2	$53.1
Annuity Considerations	(58)%	$32.8	$77.8
A&H Insurance	(3)%	$23.7	$24.6
Deposit-type Contracts	(80)%	$1.4	$7.1
Other Considerations	15%	$3.1	$2.7
Total	**(26)%**	**$122.3**	**$165.4**

Net Premium	% Chg.	2Q'19	2Q'18
Life Insurance	10%	$82.1	$75.0
Annuity Considerations	39%	$130.7	$94.0
A&H Insurance	(2)%	$94.0	$96.4
Deposit-type Contracts	16%	$91.8	$79.1
Other Considerations	(3)%	$38.2	$39.4
Total	**14%**	**$436.8**	**$383.8**

Life Insurance

Gross premiums for life insurance increased 12% ($15 billion) to $143 billion, primarily due to the 35% increase in assumed premiums, while ceded premiums increased 15% ($8 billion) to $61 billion, all compared to second quarter 2018. Net life insurance premiums increased 10% ($7 billion) to $82 billion. The industry retention rate on life insurance premiums decreased 1 percentage point to 57%.

Annuities

Gross premiums for annuities decreased 5% ($8 billion) to $164 billion, primarily from the decrease in assumed premiums of 49% ($21 billion). Ceded reinsurance decreased 58% ($33 billion) compared to second quarter of 2018. Total net premiums for annuities increased 39% ($37 billion) to $131 billion for second quarter 2019. The industry retention rate on annuities increased 25 percentage points to 80%.

A&H

Gross A&H premiums decreased by 3% ($3 billion) to $118 billion Ceded premiums also decreased 3% ($833 million) to $24 billion. Total net A&H premiums decreased 3% ($2 billion) to $94 billion and the industry retention rate was relatively unchanged at 80%.

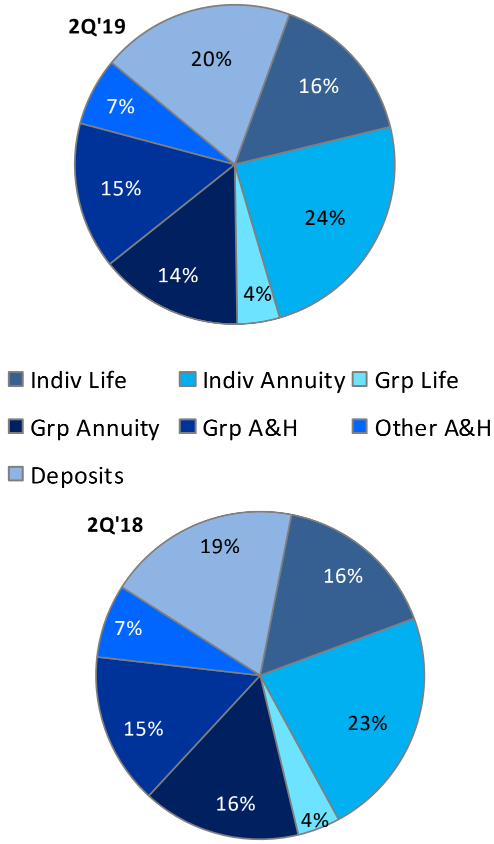
Deposit-Type Contracts

Gross deposits increased 8% ($7 billion) to $93 billion driven by a 9% ($110 million) decrease in assumed premiums. Ceded premiums decreased significantly by 80% ($6 billion) to $1 billion. Total net deposits increased 16% ($13 billion) to $92 billion. The industry retention rate on deposits increased 7 percentage points to 99%.

Other Considerations

Gross premiums decreased 2% ($763 million) to $41 billion. Ceded premiums increased 15% ($396 million) for a total net premiums increase of 3% ($1 billion) to $38 billion.

Figure 1—Direct Earned Premiums & Deposits by Sector



On an earned basis, the industry reported a 22% ($61 billion) increase in net premiums and deposits to $346 billion. As shown in **Figure 1**, there were no significant changes in the industry's direct earned premium allocation, by sector, from mid-year 2018 to 2019.

Table 3 shows in total and by line of business, the top five states reporting the greatest dollar amount of increases and decreases in total direct written premiums and deposits for the first half of 2019 when compared to the same period in 2018.

New York reported the largest increase on a total basis followed by Ohio, both primarily driven by an increase in deposit-type contracts. Delaware reported the largest decrease on a total basis followed by Texas, both were driven by the decrease in deposit-type contracts.

Table 3—Top Five States - Change in Direct Written Premiums by Line of Business *(Based on $ Change in Millions)*

TOTAL

	Increases				Decreases		
	% Chg	$ Chg	2Q'19		% Chg	$ Chg	2Q'19
NY	18%	$7,704	$49,805	DE	(9%)	($3,236)	$30,851
OH	27%	$5,232	$24,643	TX	(6%)	($1,660)	$27,602
PA	15%	$2,557	$19,345	MO	(8%)	($713)	$8,029
NJ	15%	$2,229	$16,977	TN	(9%)	($707)	$7,036
IN	27%	$2,210	$10,314	NH	(21%)	($503)	$1,883

LIFE

	Increases				Decreases		
	% Chg	$ Chg	2Q'19		% Chg	$ Chg	2Q'19
IL	16%	$588	$4,171	LA	(6%)	($76)	$1,224
CA	6%	$512	$9,229	MP	(94%)	($71)	$4
IA	37%	$353	$1,305	OH	(2%)	($60)	$2,580
FL	6%	$270	$5,155	AR	(8%)	($50)	$553
TX	4%	$225	$6,368	OK	(5%)	($38)	$730

ANNUITIES

	Increases				Decreases		
	% Chg	$ Chg	2Q'19		% Chg	$ Chg	2Q'19
OH	30%	$1,532	$6,571	TN	(21%)	($641)	$2,424
CT	56%	$1,308	$3,646	ID	(20%)	($129)	$525
FL	10%	$890	$10,219	WY	(37%)	($119)	$199
PA	12%	$786	$7,403	MS	(8%)	($71)	$873
TX	9%	$718	$8,885	AK	(13%)	($30)	$195

A&H

	Increases				Decreases		
	% Chg	$ Chg	2Q'19		% Chg	$ Chg	2Q'19
FL	8%	$630	$8,364	OH	(3%)	($115)	$4,165
NJ	17%	$579	$4,024	WY	(27%)	($72)	$193
TX	4%	$324	$9,467	NM	(11%)	($70)	$571
PA	8%	$308	$4,292	MO	(3%)	($67)	$2,435
WI	11%	$210	$2,070	OK	(4%)	($40)	$882

OTHER

	Increases				Decreases		
	% Chg	$ Chg	2Q'19		% Chg	$ Chg	2Q'19
NJ	85%	$1,038	$2,257	NY	(23%)	($1,024)	$3,380
IA	27%	$443	$2,090	MO	(51%)	($773)	$733
CA	5%	$258	$5,295	NH	(80%)	($565)	$143
MN	24%	$245	$1,248	NC	(34%)	($503)	$988
MD	33%	$207	$833	FL	(15%)	($338)	$1,888

DEPOSIT-TYPE CONTRACTS

	Increases				Decreases		
	% Chg	$ Chg	2Q'19		% Chg	$ Chg	2Q'19
NY	48%	$8,099	$24,882	DE	(11%)	($3,393)	$28,171
OH	62%	$3,874	$10,134	TX	(72%)	($3,015)	$1,172
IN	172%	$1,713	$2,710	IA	(24%)	($1,189)	$3,750
PA	117%	$1,370	$2,546	KS	(49%)	($444)	$458
IL	145%	$845	$1,428	GA	(30%)	($412)	$974

Investment Income

Net investment income decreased 2% ($2 billion) to $96 billion through the first half of 2019. Concurrently, the industry's annualized net investment yield decreased 0.4 percentage point to 4% as seen in **Figure 2**.

The Federal Reserve raised the federal funds interest rate seven times between 2017 and 2018. In 2019, the rate has been lowered twice, once on July 31, 2019 from 2.5% to 2.25% and once on September 18, 2019 from 2.25% to 2.0%.

Figure 2—Net Investment Income and Yield

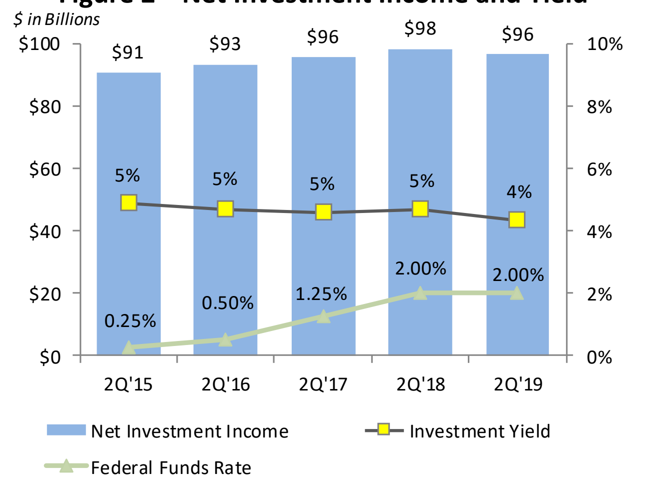


Table 4—Asset Concentration

($ Change in Billions)	% Chg. Over 5 Years	% Chg from PYE	2Q'19	YE'18	2Q'18	2Q'17	2Q'16	2Q'15
Bonds*	13%	2%	$3,129	$3,075	$3,025	$2,997	$2,909	$2,761
Preferred Stock*	29%	(1)%	$12	$12	$11	$10	$9	$9
Common Stock*	10%	6%	$38	$36	$41	$38	$33	$34
Mortgages*	42%	3%	$549	$531	$507	$470	$427	$388
Real Estate	(16)%	(0)%	$21	$21	$23	$24	$24	$25
BA Assets	(23)%	(11)%	$156	$175	$162	$166	$180	$203
Cash	193%	10%	$86	$78	$79	$51	$65	$29
Short-term Investments	(41)%	16%	$35	$30	$30	$61	$63	$59

**adjusted to exclude affiliated amounts*

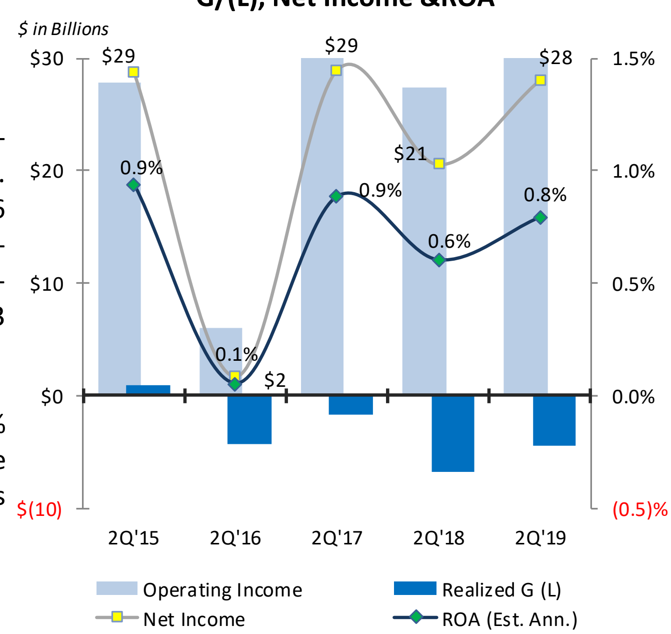
The industry's cash and adjusted invested asset portfolio has increased steadily over the past ten years, increasing 5% from the prior year-end to $4 trillion at June 30, 2019. **Table 4** provides a breakdown of the industry's asset concentration and trend over the previous five years. The five-year increase was due primarily to an 13% ($368 billion) increase in adjusted bonds and a 42% ($162 billion) increase in adjusted mortgages. Short-term investments have declined over 40% over the past five years.

Operations

Net earnings increased 36% ($7 billion) as the industry reported net income of $28 billion for the first six months of 2019. Premiums and annuity considerations increased 19% to $346 billion while reserve adjustment on reinsurance ceded decreased 349% to $(13) billion. Aggregate reserves also increased $53 billion in the first six months, compared to $63 billion at second quarter 2018.

As illustrated in **Figure 3**, the industry's ROA increased to 0.8% at June 30, 2019, from 0.6% at the prior mid-year date. The ROA has been around 1% for four of the past five years, as seen on the **Figure 3**.

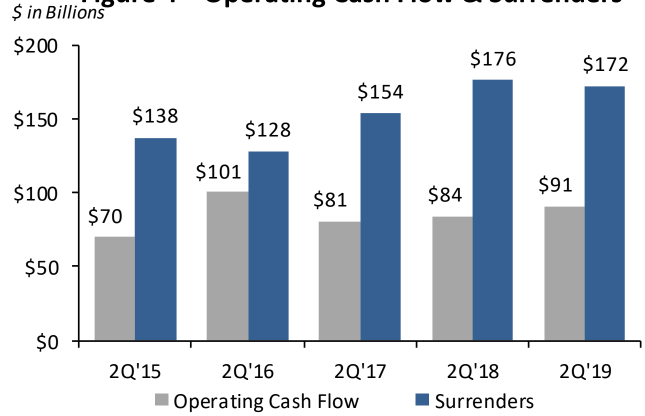
Figure 3—Operating Income, Realized G/(L), Net Income &ROA



Liquidity

The life industry reported an 8% ($6 billion) increase in operating cash flow to $91 billion in the first half of 2019 from $84 billion in the comparable period of 2018. The largest contributing factors to the increase was a 9% ($28 billion) increase in premiums collected net of reinsurance and a 3% ($9 billion) decrease in benefits and loss related payments, largely offset by a 46% ($27 billion) decrease in miscellaneous income.

Figure 4—Operating Cash Flow & Surrenders



Surrender benefits through June 30, 2019, decreased 2% ($4 billion) to $172 billion compared to $176 billion in the prior mid-year date. Surrenders have shown an increasing trend over the past five years from $138 billion for the same period in 2015, a 34% increase. See **Figure 4.**

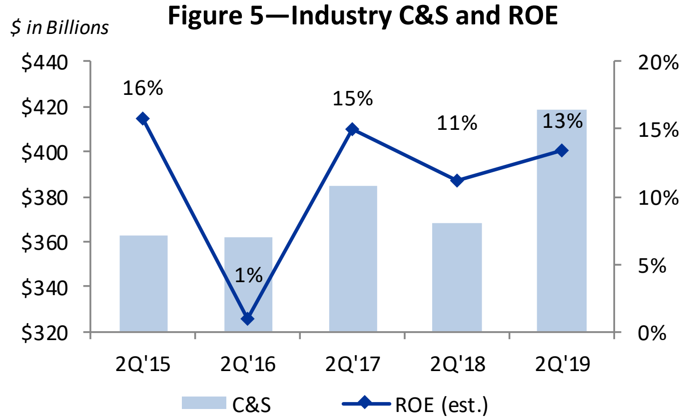
Net cash from investments decreased 1% ($1 billion) remaining negative, for a net cash outflow of $75 billion compared to net out-flow of $74 billion in the same period of 2018. The decrease was attributed to an 9% ($36 billion) decrease in investment proceeds, offset by a 7% ($35 billion) increase in acquisition of investments. The largest decreases were in bonds for both acquisitions and proceeds.

The life industry reported a net cash from financing activities cash out-flow of $3 billion in the first half of 2019 compared to a net out-flow of $11 billion in the first six months of 2018. The $8 billion increase was mainly due to an $18 billion increase in other cash applied to $10 billion.

Capital and Surplus

The life industry's capital and surplus increased 5% ($20 billion) to $419 billion at June 30, 2019, from $393 billion at December 31, 2018, due primarily to net income of $28 billion and unrealized capital losses of $11 billion, partially offset by stockholder dividends of $17 billion.

Figure 5—Industry C&S and ROE



As illustrated in **Figure 5**, estimated annualized return on equity (ROE) increased 2 percentage points to 13% through the second quarter of 2019 compared to 11% for the same period of 2018. The increase was driven by the increase in net income, as previously mentioned.

Separate Accounts

The industry's separate account assets increased 10% ($249 billion) to approximately $3 trillion at June 30, 2019, compared to year-end 2018. Looking on a year-end basis, separate account assets have steadily climbed over the past five years from $2 trillion at year-end 2015, a 13% increase. Separate account fee income decreased 3% ($502 million) to $18 billion in the first six months of 2019 compared to the prior-year period. The ratio of separate account fee income to separate account assets decreased slightly to 1.3%.

CARVM
An insurer's CARVM allowance is generally negative as it represents primarily the difference between the fund balance and the CARVM reserve. The CARVM allowance is generally an indicator of how the market is performing. As the market deteriorates or becomes stagnant, fund balances decline, thereby decreasing the CARVM allowance and vice versa. This degree of negative impact generally results in losses on the general account.

The life industry's CARVM allowance increased by 24% from negative $28 billion at second quarter 2018 to negative $21 billion at June 30, 2019.

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